## Q2 2026 Newsletter

If we had known at the beginning of the year that the world would experience the largest oil shock ever, as the U.S. declared war on Iran, which shut down the Strait of Hormuz and caused 4.1% inflation in America, we would have expressed caution. Furthermore, if we had known that the expectations for interest rate cuts by the U.S. Federal Reserve (FED) would be reduced from three in early 2026 to perhaps none at all, we might have expected negative returns during the first half of 2026. Instead, the markets put on a magnificent performance with the S&P/TSX recording 12 record closes as of June 30, 2026, and recording positive returns for the last 8 consecutive quarters - its longest streak since 1996. The S&P/TSX returned 6.4% in the Second Quarter for a year-to-date return of 11.2%. The S&P 500 in the U.S. has recorded 24 all-time-high closes so far in 2026 and returned 10.2% until June 30th. (Absent Technology Stocks, the S&P 500 returned only 3.4%.) The Nasdaq, which comprises mostly Technology Stocks, returned 12.69% in the first two quarters of the year, and the Dow Jones Industrial Average made 11.06% while recording 20 record closes along the way.

Keeping this pace in the second half of the year won't be easy, but the fact that markets performed so well in the face of so many challenges - the largest oil shock, worries about the sustainability of the Artificial Intelligence boom, and the prospect of higher interest rates - is remarkable. Aside from the high-flying computer chip stocks, it has been the rising profits of U.S. corporations that has, in general, powered these markets. Earnings during the second half of 2026 are also expected to rise and many analysts believe the upward trend of the market will continue during the rest of the year.

The North American Indices have defied expectations for some time, but keeping up this pace would mean overcoming certain challenges. Many investors remain skeptical that the billions of dollars funneled into AI will produce blockbuster profits that justify such spending. And although the U.S. and Iran recently agreed to end fighting around the Strait of Hormuz, it is unclear when or if shipping will return to normal. (As we write this on July 8, the war is on again, at least for today!) There is also the prospect of higher interest rates later this year. New Federal Reserve Chairman Kevin Warsh surprised investors in his debut by signaling more concern about inflation than many had expected. The possibility of rising rates has weighed on the price of Gold, with it falling 13% to near $4,000 over the past three months.

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The fact that some clients are expressing worry is in fact a good sign, in that we are not seeing the unbridled enthusiasm typically associated with a bubble such as in the year 2000. In our view, stocks are the better place to be until we see some evidence of overheating and Central Banks potentially crashing the party by embarking on a term of rising interest rates.

We believe that we continue to be in a structural (long-term) bull market that could extend until 2030, although we recognize that a cyclical (short-term) correction could occur at any time, and likely sometime before the U.S. midterm elections. Such a correction of up to 10% would actually be a good thing for the longevity of the current long-term bull market.

In this Newsletter, we will as usual outline the trades that were made in the Second Quarter and relay the average returns in Managed Portfolio Accounts. Your Portfolio and Performance Report(s) are attached.

## Q2 and Year-to-Date Returns in MPA Accounts[1]

Every quarter, we use a representative sample of Managed Portfolio Accounts (that have not had substantial deposits or withdrawals during the period) to show average returns. For Growth Mandated Non-Registered Accounts, the average return was between +10.89% and +12.49% for the 2nd Quarter, bringing the year-to-date returns to between +9.24% and +10.55%. For Growth Mandated Registered Accounts, the 2nd Quarter return varied between +11.18% and +11.71%, bringing those year-to-date returns to between +9.84% and +10.93%.

Balanced Non-Registered Accounts returned between +8.25% and +10.24% for the 2nd Quarter making the year-to-date returns between +6.96% and 8.63%. The equivalent returns for Balanced Registered accounts varied from +9.25% to 9.46% for the 2nd Quarter and from +7.50% to +8.17% year-to-date. All numbers are reported after fees.

These results are summarized as follows:

Accounts over $250K:

| | Q2 2026 | Year-to-Date 2026 |
|---|---|---|
| MPA Growth (Non-Registered) | +10.89% to +12.49% | +9.24% to +10.55% |
| MPA Growth (Registered) | +11.18% to +11.71% | +9.84% to +10.93% |
| MPA Balanced (Non-Registered) | +8.25% to +10.24% | +6.96% to +8.63% |
| MPA Balanced (Registered) | +9.25% to +9.46% | +7.50% to +8.17% |

[1] The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

## Quarterly Trades in Managed Accounts

We are always reluctant to make changes to portfolios when sensational and conflicting headlines are occurring on a daily basis. Consequently, we made no changes to MPA accounts in the past three months.

## Inflation, The Canadian Dollar, and the TSX

Firstly, a mea culpa. We stated in our last Newsletter that we believed the Canadian Dollar would rise in 2026. Now we find the Loonie hovering around $0.70 to the U.S. dollar. What's going on?

At first, we thought that this was a Canada problem. After all, in the past month oil prices have declined from US$92 to $70/bbl, and the Canadian Loonie is considered a “Petro” currency. We now think that it is not Canadian dollar weakness, but U.S. dollar strength that is affecting currencies. For example, the Japanese Yen is currently trading at its lowest value against the U.S. dollar since the early 80’s, and the Euro has also suffered substantial losses against the U.S. dollar recently. In fact, since the New Federal Reserve Chair Kevin Warsh was confirmed, the U.S. dollar has been on a tear against all currencies. (A separate note on Kevin Warsh, follows later in this Newsletter). In 2025 and the first few months of 2026, the U.S. dollar was declining due to an erosion of trust in U.S. leadership as well as the unpopular tariff policies. Furthermore, despite the U.S. economy doing well, the budget deficits continued to run as if the country was in a recession. Perhaps the biggest concern was President Trump's meddling with the independence of the FED in his desire for lower interest rates. The good news is that Warsh appears to have a backbone and has little interest in reducing rates in the current environment. Earlier this year the market had expected three rate cuts from the U.S. FED in 2026, and no cuts in Canada. This thesis had supported the Canadian dollar against the U.S. dollar, but although this trend was reversed with the appointment of Warsh, the sudden optimism around U.S. FED independence could prove short-lived. We are only a couple of data points that President Trump doesn't like, and he could very well crank up the pressure for the U.S. to cut rates and torpedo the U.S. dollar at the same time.

While no one wants inflationary forces to run too hot, global inflation favours Canada, and it is during these periods that our market outperforms. There are several inflationary forces at play today, none the least of which is oil. Prior to the Iran war, oil was trading at $60/bbl. No one expects it to trade at that level going forward, and oil analysts have speculated that it will trade around $80/bbl in the future. Secondly, U.S. tariffs are a source of inflation because the consumer always pays for them. Finally, the current AI investment cycle is driving up interest rates due to the sheer amount of investment involved in the building of data centers. It would only cease to be inflationary if and when these investments pay off in terms of corporate earnings for the likes of Google, Microsoft, and Amazon, among others.

Aside from our Loonie being a Petro currency and rising when oil rises, Oil and Materials are hard assets that appreciate in inflationary times. A third sector that also appreciates as rates rise is Financials, partially due to the interest rate differentials between bank deposit rates and lending rates. Why inflation favours Canada is because of the make-up of the S&P/TSX and the S&P 500. The three sectors mentioned above (Energy, Materials and Financials), form 60% of the Canadian market, but less than 20% of the U.S. market.

| Sectors | Canadian S&P/TSX | U.S. S&P 500 |
|---|---|---|
| Materials | 11 % | 2.5% |
| Energy | 17% | 4% |
| Financials | 31% | 13 % |
| **Total** | **60%** | **19.5 %** |

We believe that the Canadian dollar is hitting bottom now and we stand by our belief that it will begin to rise against the U.S. dollar over the next year, although this could be tempered by our free trade negotiations. Because we believe that the Materials and Energy Sectors will outperform in the next 12 months, we believe that our market will continue to outperform the S&P 500 as it has for the past 18 months.

## A Most Unloved Bull Market

As we have already mentioned, equity markets navigated a minefield of potentially damaging disruptions during the Second Quarter of 2026 to advance by double digits in many parts of the world. We continue to take issue with the fear held by some investors that the robust markets that we have experienced automatically imply a bubble about to burst. Bull markets don't expire due to longevity. There is always a catalyst, usually in the form of rising interest rates by Central Banks.

However, we can easily understand the anxiety of clients of the "bubble-burst" persuasion. After all, the S&P 500 and Russell 1000 (both proxies for large-cap, blue-chip companies) were up 15% for the three months ending June 30, as was the MSCI All Country World Index - an index representing all global stocks. Indices that are heavily skewed to Semiconductor Stocks such as the South Korean KOSPI and Philadelphia Semiconductor Index were up far more than 15%.

It is heartening for us to see that there appear to be legitimate reasons for the rich returns in the markets. Firstly, and foremost has been the blockbuster earnings and solid profit margins of corporate America. This will naturally move markets, but it is important to understand the background of why profits are so high. We see four factors that may be underpinning earnings:

### Consumer Resilience

The AI trade gets much of the credit for driving markets, but consistent consumption has also played an important role in supporting economic activity. Consumption accounts for almost two-thirds of U.S. Gross Domestic Product (GDP), and over half of Canada's. Household finances, a harbinger of spending, are in fact currently in solid shape. For many in the "K-shaped" economy (a term used to describe how the “rich” are spending and the “poor” are struggling), it admittedly doesn't feel that way since prices on nearly all goods are substantially higher than they were at the decade's outset. This disconnect between what the aggregate consumer spending numbers imply for Wall/Bay Street ("all's well, nothing to see here”), and Main Street ("I can't afford gas, daycare, a house or eggs”) is only partially explained by Trump's "Big Beautiful Bill". This bill has cushioned part of the shock of higher energy prices and escalating food prices by the reduction of taxes (to all) and by the larger tax refunds in 2026 due to the retroactive tax reductions in the bill. (Of course, this disparity of wealth will be a key issue at the ballot box in the U.S. in a few months.) Meanwhile, if employment stays steady, consumers will continue to spend and those fundamentals continue to augur well from an investor standpoint.

Monetary Policy
We have a new FED chair in Kevin Warsh (discussed later in this Newsletter), but we currently enjoy relatively low interest rates which provide fuel to equities unless markets go too far creating "irrational exuberance". Alan Greenspan, who died in June, is credited with coining the term “irrational exuberance” in 1996. His prophecy turned out to be correct, but it was over four years early. Between Dec 5, 1996, when he made that statement, and March 10, 2000, when the markets finally peaked, the Nasdaq had returned 292%. Any investors who were scared by his statement in 1996 to the point of selling stocks, missed out on an almost 300% gain. At this point, we don't believe that we are experiencing irrational exuberance nor increasing interest rates, but we will be vigilantly watching.

Fiscal Policy
We are witnessing outsized fiscal stimulus in both the U.S. and in Canada, but for different reasons in each country. U.S. fiscal policy is best described in Trump's Big Beautiful Bill. That bill has retroactively and prospectively reduced income taxes and put money in consumers' pockets. In Canada we haven't witnessed any tax policy changes yet, but the country has announced huge infrastructure projects, many of which are long overdue (such as military spending), and others are the cost of redirecting trade away from the U.S. The fiscal stimulus in both countries will juice the economies and provide short term fodder for the markets. Depending on how these projects are financed (by debt or by taxes) will have longer-term implications. For now, the markets will applaud either way.

Unemployment
Unemployment is relatively low in both Canada and the U.S. Employed consumers keep spending and they can pay their mortgages. In the case of the U.S., unemployment is so low that there is no excess capacity in the labour force. This is worth watching because wage pressures could affect inflation which would affect interest rates. We have heard from several small business owners that they are unable to hire skilled tradespeople. Although Canada has more spare capacity, we have a labour force with mismatched skills, particularly when it comes to trades. To illustrate the challenge of finding skilled workers today, Jim shared a recent experience involving his daughter. Last Friday evening, she called him after her front right tire exploded while exiting the Second Narrows Bridge. Concerned for her safety, Jim advised her not to attempt changing the tire herself and instead to call BCAA. When the BCAA operator arrived, he determined that neither the car's wrench nor the tools in his own service vehicle could fit the wheel nuts. As a result, he concluded that the car would need to be towed. Jim found this surprising, having personally changed tires on that same vehicle several times before. During the approximately 45 minutes it took the operator to prepare the vehicle for towing, Jim's daughter pointed out the reason for the tools not working was because he had neglected to remove the plastic caps that protected the nuts. The operator replied that since he had already secured the car for towing, they should go through with that. Jim's daughter is not experienced in changing tires, but one would think that a BCAA driver would be, and that he would have experienced removing protection caps from wheel nuts! Sorry to rant on, we felt it highlighted a broader issue: the growing difficulty of finding experienced and skilled workers today. This wouldn’t have happened even five years ago.

There may not be a short-term solution for this problem as the Baby Boom generation is retiring and immigration has almost stopped in North America. For all the worry that Artificial Intelligence is coming to steal jobs, it may be that AI is the solution to low unemployment that we are faced with today, and which could be a precursor to inflation.

In summary, we believe that there are solid reasons for this secular bull market to continue, but don't get us wrong. It will not be easy or comfortable, and if past midterm election years are any indication, we could easily experience a short market downturn of 10% sometime before November. We hope that doesn't happen, but it has happened in the past. We are holding some cash to take advantage of a downturn if it should occur in the next few months.

## What Could a New Federal Reserve Chair Mean for Markets?

After serving as Chair of the U.S. Federal Reserve since 2018, Jerome Powell handed the reins to Kevin Warsh in June. During Powell's tenure, the FED cut interest rates sharply to support the economy during the COVID-19 pandemic and later raised rates aggressively to fight inflation. He was also known for being very transparent and giving markets regular updates on the FED's thinking.

With a new Chair in place, many investors are wondering whether the FED's approach will change. While it is still too early to know for certain, Warsh's first press conference offered some early clues about how he may lead the central bank.

Warsh chaired his first Federal Open Market Committee (FOMC) meeting on June 17. Although President Trump had publicly called for lower interest rates, Warsh's comments were more cautious than many investors expected. Rather than signaling an eagerness to cut rates, he emphasized the importance of keeping inflation under control.

Four key themes stood out from his remarks.

### 1. A Stronger Emphasis on Price Stability

Historically, the Federal Reserve operates under a dual mandate: maintaining price stability and supporting maximum employment. In the press conference, Warsh placed noticeably greater emphasis on controlling inflation than on stimulating employment.

This suggests the FED may be less inclined to cut interest rates too soon. It may be willing to accept slower economic growth if that's needed to keep inflation under control. For investors, this could mean that future rate cuts may be less likely and could take longer to happen.

### 2. Less Forward Guidance, Greater Uncertainty

One of the more notable changes may be the FED's approach to communication. Warsh was the only FOMC participant who chose not to provide a "dot plot" projection in the last meeting.  Also, the post-meeting statement was also noticeably short and contained significantly less forward guidance than investors have become accustomed to receiving. The “dot plot”, which summarizes policymakers' expectations for future interest rates, has long served as an important guidepost for markets.

By providing less guidance than in the past, the FED may leave markets with more uncertainty between meetings. This means investors will likely rely more heavily on economic data for clues about future policy moves, which could lead to larger market reactions when the FED makes announcements.

### 3. Increased Focus on the Federal Reserve's Balance Sheet

Warsh also announced five new working groups to review several areas, including FED communications, artificial intelligence, inflation, labour market trends, and the FED's balance sheet.

Of these, the review of the FED's balance sheet could be especially important for financial markets. Investors will be watching closely for any signs that the FED plans to reduce its balance sheet more quickly.
During the Global Financial Crisis and the COVID-19 pandemic, the FED bought large amounts of U.S. government bonds and mortgage-backed securities to support the economy. These purchases injected a significant amount of money into the financial system and helped keep interest rates low.

Now, the FED is gradually reducing those holdings in a process known as quantitative tightening. Put simply, this means the FED is slowly removing some of the extra money it previously added to the financial system.

As that money is withdrawn, financial conditions can become tighter. This can lead to higher borrowing costs, slower economic growth, and increased pressure on stock and bond prices. As a result, any changes to the FED's plans for reducing its balance sheet could have an important impact on financial markets.

4. Confidence in the Economic Outlook

Warsh described the economy as being in good shape, with steady growth, healthy business investment, improving productivity, and a stable job market. Because of this, he suggested there is currently little need for the FED to lower interest rates.

Looking ahead, he also pointed to artificial intelligence (AI) as a potential driver of stronger productivity and economic growth. If AI helps businesses become more efficient, the economy could grow faster without causing inflation to rise. In that scenario, the FED may feel less pressure to lower interest rates to support growth.

Investment Implications

In summary, Chair Warsh appears to be slightly more focused on controlling inflation and less inclined to lower interest rates than investors had expected. While it is still early in his tenure, some important themes are beginning to emerge.

Investors should anticipate less forward guidance from the Federal Reserve and a greater emphasis on incoming economic data. Consequently, financial markets may become more sensitive to economic releases and policy developments, potentially leading to increased short-term volatility. In addition, the prospect of higher interest rates for longer may remain a meaningful consideration for both equity and fixed-income investors.

As always, the FED's decisions will depend on how the economy evolves. For long-term investors, staying focused on their investment plan and avoiding reactions to short-term market movements remains the best approach.

## Summary

Markets handled the many and varied challenges of the Second Quarter in fine form - rewarding individual issues in sectors such as Semiconductors and punishing other sections such as Software. Much of the market movement in the last few years has been dictated by a narrow cast of characters. The top 10 companies now represent 41% of the S&P 500, and the U.S. represents 64% of global equities. The Magnificent 7 has finally begun to underperform the market in general, yet markets continue to rise due to shifting investments into other Sectors. This recent broadening in participating Sectors is promising, and it is necessary for continued market advancement.

The future mix of shocks - growth, inflation, geopolitics, and technology - is unknowable and causes headlines to swing from fear to greed and back again. Sitting on the sidelines is a decision, and historically, the wrong one. Once again so far in 2026, cash has underperformed a diversified portfolio. In an environment defined by crosscurrents, the instinct to wait for clarity is understandable, but costly. The prescription is not to chase performance but to rebalance into some lagging sectors by harvesting tax losses and restoring true diversification. We will take our time to do this while acknowledging that the stocks that have dominated the past three years will likely not lead tomorrow. In one of our recent conferences, a leading analyst posed a bet. He believed that Suncor would solidly outperform Nvidia in the next five years. Only time will tell.

We wish everyone a wonderful and safe summer, and as always, feel free to reach out anytime.

Best regards,


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