Review and Commentary – 2nd Quarter 2026

Major equity indexes continued to perform well in the second quarter, though there was a significant divergence in leadership this quarter compared to last. Market breadth widened during the last three months. There was a notable migration by investors from the technology sector into resource plays and companies that provide durable financial cash flows.

The S&P/TSX Financial Sector performed well again, posting a more than 20% gain year to date. Consumer staple stocks posted strong quarterly returns as well. Notably, the Canadian S&P/TSX Composite index posted its eighth straight quarterly gain—a milestone not seen for the past 30 years.

The Material and Energy sectors, which enjoyed a stellar first quarter, slipped in the most recent quarter. This pushed the Materials sector to just below breakeven year to date. Energy reversed its strong first-quarter performance, losing just under 5% in Q2, though it remains up over 20% year to date. While the U.S. conflict with Iran pushed crude prices to a peak close to $120 USD per barrel earlier in 2026, recent conciliatory discussions temporarily pulled crude back to pre-war levels below $70 per barrel. Unfortunately, this relief has yet to translate to similar pre-war levels at the pump for consumers. This lag is driven by ongoing concerns that negotiations may not lead to a lasting peace, alongside the fact that worldwide oil inventories (with the exception of China) sit at decade lows. The U.S. Strategic Petroleum Reserve (SPR) has plunged to its lowest level since April 1983, sitting at approximately 45% of full capacity. The demand required to replenish these depleted inventories will likely keep oil prices higher for longer, which is why the energy sector continues to provide decent relative value despite its recent volatility.

The SPTSX material sector, in particular gold and other metal-producing companies such as copper and uranium, lost ground in the second quarter. However, inflation remains stubbornly high and structural constraints on the production of many vital metals suggest that price levels will trend higher.

The market rotation that took place in the first quarter of 2026 reversed in the second quarter. The Magnificent Seven, on average, performed strongly in the most recent quarter. The exception was Microsoft, which returned just 1% for the quarter, lagging significantly behind the broader markets as did many stocks in the software technology space. Concerns that generative AI will undermine software companies' proprietary products continue to weigh on investor enthusiasm for the sub-sector making valuations increasingly attractive.

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Alternatively, capital spending on AI infrastructure—including massive buildouts of data centres and semiconductors—has and will continue to have positive implications for the economic output in Canada and the United States. This unprecedented spend will benefit companies, such as utility companies, that will play a vital role in delivering the massive energy requirements to these centres. Alternatively, this massive spending spree has some investors concerned about immediate impacts on corporate financial measures, such as earnings and cash flows.

Looking forward to the remainder of 2026, several noteworthy events require investor attention. CUSMA (Canada-United States-Mexico Agreement) negotiations, interest rates, and geopolitical concerns will remain highly influential for North American markets. The U.S. administration has stated it is not interested in a straightforward extension of CUSMA. However, given the administration's past negotiating tactics, it is more likely they will look to heavily modify the agreement rather than scrap it altogether. Regardless, the process will create localized market ramifications. As long as our government seeks viable trade alternatives, short-term friction should pave the way for long-term gains by reducing our economic dependence on a single trading partner.

In the U.S., the midterm elections, if allowed to proceed without challenge, are scheduled for November and could significantly change the power dynamic in Washington. Early indications are that the Democrats may gain control of Congress, and possibly the Senate; however, outcomes are far too difficult to predict at this stage. The only fair comment is that the election will be clouded with controversy and may unsettle markets in the short term.

The appointment of Mr. Kevin Warsh as the new Chairman of the Federal Reserve brings new concerns about the future direction of interest rates. Prior to his appointment, he was perceived by many as potentially dovish on interest rates, contrary to his more current restrictive commentary since taking office. To date, the Federal Reserve has adopted a more hawkish stance, indicating a strong possibility of at least one rate increase in 2026 if inflation does not moderate. Meanwhile, the Bank of Canada continues to maintain interest rates at current levels despite recent GDP data showing modest growth.

While there are plenty of uncertainties to concern investors, this is not uncommon. Markets historically climb a "wall of worry" which adequately describes market behavior year to date, if not the past several years. When they occur, corrections are a natural part of the cycle. As we have emphasized in the past, our portfolios remain primarily anchored in high-quality stocks built to weather any potential investment storm. This has been proven for decades,and believe will hold true in decades to come.