Q2 2026 Market Overview

Market in Review

The second quarter of 2026 marked a decisive turnaround from the volatility of Q1. Equity markets staged one of their strongest quarterly advances in years, as the U.S.-Iran conflict moved toward de-escalation, oil prices retreated from their wartime peaks, and analyst estimates for Q2 S&P500 earnings raised significantly. The quarter was also defined by a historic change at the U.S. Federal Reserve, a repricing of interest rate expectations, and a sharp reversal in precious metals after their extraordinary run through the first quarter.

U.S. equities led the advance. The S&P 500 and Nasdaq-100 each posted their best quarterly gains since the post-pandemic rebound of Q2 2020, with the S&P 500 rallying roughly 14% and small- and mid-cap benchmarks also reaching record highs by quarter-end. Canadian equities likewise advanced, with the S&P/TSX Composite Index climbing to a fresh all-time-high in mid-June, supported by financials and a broadening market rebound, even with energy names giving back some of their early-quarter gains. The quarter was also marked by the historic SpaceX IPO which became the largest IPO in history, attracting upwards of US$250 billion of orders.

Currency markets shifted meaningfully during the quarter. The U.S. dollar strength reasserted itself in the quarter, driven by resilient U.S. economic data and a more cautious tone from the Federal Reserve under new leadership. The Canadian dollar came under renewed pressure in June, weighed down by a softer domestic growth profile, narrower Canada-U.S. yield spreads working against it, and the sharp pullback in gold prices.

Fixed income markets were shaped by a shifting interest rate outlook on both sides of the border. U.S. Treasury yields moved higher through the quarter as strong employment data and above-target inflation readings caused markets to price out Fed rate cuts entirely, with some investors beginning to price in the possibility of a rise later in the year. The Bank of Canada held its policy rate steady through the quarter, stuck between a soft domestic economy and inflation pressure stemming from energy prices.

Economic Indicators, Inflation, and Interest Rates

Canada

Canada's economy sent mixed signals in Q2 2026. GDP edged down in the first quarter, and growth was expected to resume only modestly in Q2. The labour market remained volatile: the unemployment rate fell to 6.6% in May, the first major increase in employment since November 2025. Even so, the Bank of Canada described the labour market as still soft, noting that employment has been little changed on net since the start of the year.

Inflation moved higher over the quarter, with the increase largely driven by energy prices. Headline CPI rose to roughly 3.2% in May, the highest headline reading since December 2023. Core inflation measures, however, remained much better contained, suggesting limited pass-through of energy costs into other consumer prices.

The Bank of Canada held its policy rate at 2.25% at both its April and June meetings, the fourth and fifth consecutive holds, as it balanced a soft labour market against the risk of energy-driven inflation. Governor Tiff Macklem described the situation as a dilemma for monetary policy, noting the Bank was prepared to move in either direction depending on how energy prices, U.S. trade policy, and the broader inflation picture evolve.

During Q2, trade tensions resurfaced as a significant factor influencing the Canadian macroeconomic outlook. Uncertainty surrounding U.S. trade policy, tariffs, CUSMA negotiations, and the broader future of North American trade relationships led businesses to delay investment decisions, adjust supply chains, and navigate weaker export demand, particularly across manufacturing and resource sectors.

United States

The U.S. economy proved more resilient than expected through the quarter. Payrolls grew in May, keeping the unemployment rate steady in the 4.3% range. Inflation, however, continued to run hot: U.S. headline inflation accelerated in May, rising 0.5% month-over-month after a 0.6% increase in April.

The leadership transition at the Federal Reserve was one of the quarter's most significant developments for the U.S. macroeconomic outlook. Kevin Warsh was confirmed by the U.S. Senate on May 13, 2026, and chaired his first FOMC meeting on June 16-17. Under his leadership, market expectations shifted quickly: futures pricing moved from anticipating rate cuts to pricing out any 2026 cut entirely, with some strategists, including Bank of America, forecasting as many as three rate hikes before year-end.

Trade policy remained one of the largest drivers of U.S. economic uncertainty during Q2 2026. Rising tariffs contributed to higher manufacturing input costs, while uncertainty surrounding future import costs weighed on business confidence, investment decisions, and supply-chain planning. Companies continued to reassess sourcing strategies and capital spending plans as they navigated an evolving trade environment.

Corporate earnings remained a bright spot. Following a strong first quarter in which S&P 500 earnings growth reached its strongest pace since 2021, analysts entered Q2 earnings season expecting continued momentum. May projections of S&P 500 earnings growth of approximately 23% year-over-year and revenue growth expected to reach its strongest pace since 2022. The rally was initially led by large-cap technology and semiconductor names, benefiting from continued AI infrastructure spending, before broadening out by quarter-end to include industrials, financials, and healthcare, alongside strong performance from small- and mid-cap stocks.

Global

Global markets were heavily influenced during the quarter by the volatile nature of the U.S.-Iran agreements and their effects on the Strait of Hormuz, through which roughly 20% of the world's oil trade passes. The price of Brent oil, which had spiked in Q1, gradually retreated as diplomatic efforts advanced. A June memorandum of understanding signed by President Trump and Iranian President Masoud Pezeshkian aimed to end the conflict and reopen the strait, and by June 26 crude oil had fallen to its lowest level since before the war began.

Precious metals experienced a dramatic reversal after their extraordinary run in prior quarters. Gold, which had reached an all-time high above US$5,500 per ounce in late January, fell to roughly US$4,000 per ounce by the close of Q2. Silver was hit even harder, tumbling roughly 50% from its highs earlier in the year.

Asian equity markets showed some of the widest performance dispersion seen in years. South Korean and Taiwanese equities surged on strong semiconductor and memory-chip demand tied to AI infrastructure buildout, while markets with less direct exposure to the AI semiconductor cycle, including India, lagged relative to regional peers. European markets participated in the broader global rally as the Middle East conflict eased, though the European Central Bank's own inflation concerns, with eurozone headline inflation reaching roughly 3.2% in May, added a layer of caution to the outlook for European rates.

Portfolio Positioning

Asset Allocation Outlook

Cash
Our cash allocation remains at approximately 1%. We have maintained this modest liquidity position to preserve flexibility for near-term opportunities while keeping the portfolio predominantly invested in higher-returning asset classes.

Fixed Income
Our exposure to fixed income was largely unchanged during the quarter. We continue to emphasize high-quality debt investments that provide reliable income while helping to enhance overall portfolio resilience through diversification.

Equities
Our overall equity allocation remained constant during Q2 2026. We made selective adjustments within the equity portfolio to improve positioning and align exposures with evolving company conditions. We continue to emphasize high-quality businesses with durable cash flows, strong balance sheets, and attractive long-term growth prospects. These changes reflect our ongoing focus on maintaining a resilient portfolio while selectively capitalizing on opportunities as they arise.

Alternatives
Our alternatives allocation remains at 20%. We continue to benefit from the private equity, private credit, private real estate, and private infrastructure positions established in prior quarters. These investments are providing ongoing income distributions while adding an additional layer of diversification and differentiated return potential to the overall portfolio.

Structured Notes
Our structured note allocation remained unchanged through the quarter. These investments continue to provide exposure to equity markets while offering defined risk parameters and enhanced income potential. The structured notes serve as complementary components of the portfolio, helping to diversify sources of return and provide additional resilience across varying market environments.

New Investments

1. Brookfield Renewable Partners LP (BEP-U)

We initiated a position in BIP-U to gain exposure to the long-term growth potential of renewable energy infrastructure and Brookfield's ability to allocate capital across global markets. During the quarter, we rotated out of Northland Power (NPI) and into BIP, viewing the transition as an opportunity to enhance the portfolio's infrastructure exposure through a more diversified platform with broader geographic and sector exposure. The company continues to execute on its acquisition and capital recycling strategy, highlighted by its planned acquisitions and ongoing asset sales that provide additional funding for future growth opportunities.

2. Nvidia Corporation (NVDA)

We initiated a position in NVDA after realizing significant gains from our investment in AMD, given the companies' similar exposure to the semiconductor and AI infrastructure landscape. While we continue to view both as high-quality businesses, we believed NVDA offered the more attractive value opportunity, with technical indicators suggesting it was oversold while AMD appeared overbought.

3. Structured Note: Canada Large Cap Index

We rotated liquidity from the matured U.S. Large Cap structured note into the Canada Large Cap structured note to take advantage of its 19% annualized autocall return schedule. We viewed the enhanced return profile as an attractive opportunity to increase the portfolio's income potential while maintaining the diversification benefits provided by structured notes.

Sold Investments

1. Northland Power Inc. (NPI)

We exited our position in NPI during the quarter as part of a portfolio repositioning within the infrastructure and renewable energy space. We continue to recognize the long-term opportunity in renewable energy, and believe reallocating capital toward BIP-U provided a more attractive risk-reward profile through greater diversification, broader asset exposure, and a more balanced mix of contracted infrastructure cash flows.

2. Advanced Micro Devices Inc. (AMD)

Following a period of significant appreciation in AMD's share price, we took the opportunity to realize gains and reallocate capital within the semiconductor and artificial intelligence landscape. While we continue to view AMD as a high-quality business with strong capabilities in data center and computing markets, we believe NVDA offers a compelling risk-reward profile at current valuations, allowing us to maintain exposure to the long-term growth potential of AI infrastructure.

3. Structured Note: U.S. Large Cap Index

The U.S. Large Cap structured note matured this quarter, generating an annualized return of approximately 12%. We then redeployed the proceeds into the Canada Large Cap structured note, which offers a 19% annualized autocall return.

Looking Ahead

Q3 2026 Outlook

As markets move into the third quarter, the dominant themes are geopolitical shock and interest rate uncertainty. With the Strait of Hormuz situation seemingly dragging on, and a new, notably cautious Federal Reserve chair now at the helm, the key question for the back half of 2026 is whether above-target inflation proves persistent enough to force a rate hike, or whether oil markets normalize and energy-driven price pressures fade. We are prepared for continued volatility in rate expectations as incoming inflation and employment data are parsed for clues to the Fed's next move.

The Bank of Canada remains in a genuine holding pattern, caught between a soft domestic economy and energy-driven inflation pressure. The Bank's next policy rate decision will be an important signal, particularly for guidance on how policymakers are weighing the ongoing CUSMA trade review against the inflation outlook.

Currency markets will continue to be shaped by the interest rate differential between the Bank of Canada and a more cautious Federal Reserve, as well as by the trajectory of gold prices, which has emerged as an increasingly important driver of the Canadian dollar. A sustained recovery in the loonie is likely to depend on improving Canadian growth data and progress on trade certainty with the United States.

We remain focused on maintaining a disciplined investment approach designed to navigate changing market conditions and compound wealth through a range of economic environments. As valuations remain elevated in select areas of the market, we continue to evaluate opportunities selectively while ensuring our portfolios remain aligned with long-term objectives, diversification principles, and appropriate risk management. Our ongoing review of equity valuations, monetary policy developments, earnings trends, and geopolitical factors will remain central to our investment process as we enter the second half of the year. We look forward to providing further updates as we continue to evaluate evolving market conditions.