RJL PCS: INSIGHTS & STRATEGIES

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July 2026 Insights & Strategies: Earnings growth continues to drive optimism in the markets, despite geopolitical backdrop

Macro Highlights for June

- Canadian GDP rebounded 0.5% from March to April, easing concerns about the very modest declines in 4Q25 and 1Q26 that were labeled as a “technical recession”. Preliminary data for May suggests modest growth continuing, while uncertainty around potential USMCA revisions and further escalation in U.S. sector tariffs is keeping business sentiment subdued. The consensus forecast is for modest growth, of around 0.9%, in Canada in 2026, while the U.S. is expected to post stronger GDP growth of approximately 2.2%.
- Updated Canadian employment data will be released after this report is published, but expectations are for a slight increase in the unemployment rate, to 6.7% in June, from 6.6% in May. So far in 2026, Canada has lost 25k jobs, although with a slightly declining population, we haven’t seen a surge in the unemployment rate. The U.S. unemployment rate declined slightly in June, from 4.3% to 4.2%, although with a notable drop in the participation rate. Overall, the U.S. labour market remains stable.
- Until recently, the easing of tensions between the U.S. and Iran, with the partial opening of the Strait of Hormuz resulted in the price of oil retreating, and inflation pressures easing. This has pushed expectations for U.S. Fed rate hikes to later in 2026, but with inflation expectations still elevated. The BoC remains on hold with its policy rate, with lower inflation in Canada, weaker economic growth, and a higher unemployment rate.

Financial Markets in June

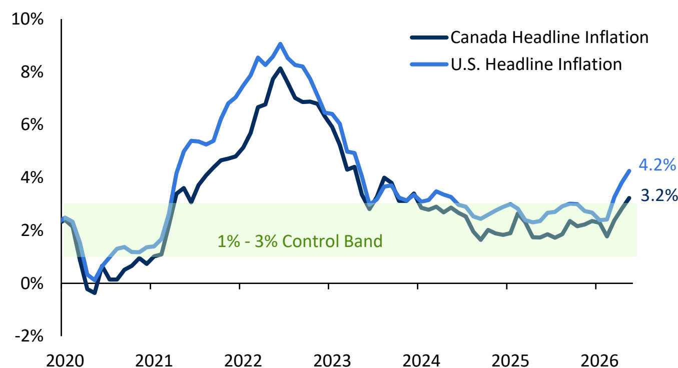
- The S&P 500 declined modestly, falling 1.1% on a price-return basis and 1.0% on a total-return basis in June. Despite the softer performance, the index’s 2Q26 gains remained impressive, with price and total returns of 14.9% and 15.2%, respectively, lifting year-to-date returns to 9.6% and 10.2%. Importantly, leadership showed more meaningful signs of broadening in the second half of the quarter.
- We expect this broadening trend to have further room to run, supported by resilient economic fundamentals and more attractive opportunities in lower-valuation areas of the market outside the crowded A.I. infrastructure trade. Within technology, however, performance is likely to remain shaped by two key tensions: A.I. infrastructure strength versus the capex burden for the Magnificent Seven, and traditional software companies versus A.I.-native challengers.
- The S&P/TSX Composite advanced modestly in June, gaining 0.3% in price and 0.5% on a total-return basis, while reaching a new high during the month. Despite Energy weakness following the reopening of the Strait of Hormuz and pressure on Materials from higher Fed policy rate expectations, cyclical leadership remained strong in 2Q26, led by Financials and Industrials. This lifted 2Q26 price and total returns to 6.4% and 7.0%, respectively, bringing year-to-date gains to 9.9% and 11.2%.

Upcoming

- Reigniting tensions in the U.S.-Iran conflict leave uncertainty about further escalating military actions, which could bring back oil supply and pricing concerns. A return to spiking oil prices could put upward pressure on inflation and increase the likelihood of interest rate hikes, primarily in the U.S.
- As the Section 122 tariffs expire on July 24, we expect a slew of country and industry-specific tariffs to come into force to maintain the protectionist platform and revenue generation that was disrupted as the IEEPA tariffs were struck down. While the USMCA agreement continues to allow ~85% of Canadian products to cross the border tariff-free, further tariffs could pose risks to multiple industries.
- While earnings growth expectations remain strong as we kick off 2Q26 earnings season, we will be watching A.I. capex related spending for any signs of cautiousness or scaling back in forecasts that could lower earnings expectations for tech companies.

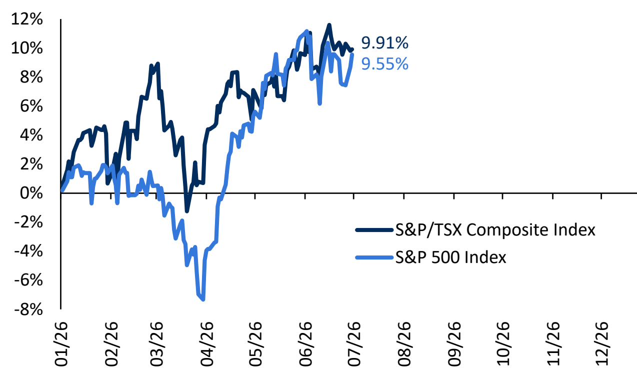
Please read domestic and foreign disclosure/risk information beginning on page 18

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of May 31, 2026. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 YTD Performance



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026. Price return in local currency.

Executive Summary

Through the later half of 2Q26, concern mostly shifted away from the US-Iran conflict, as a ceasefire looked to be taking hold and traffic started flowing through the Strait of Hormuz. With oil prices in decline, concerns over inflation and interest hikes eased somewhat. However, new military strikes and escalating rhetoric in July have threatened to reignite concerns and uncertainty. For investors, this likely means more volatility, which could be further amplified as 2Q26 earnings and forward guidance are revealed in coming weeks.

Equity markets have been roiled by shifting sentiment towards the A.I. trade, the back-and-forth on the Iran conflict and Strait of Hormuz, and varying expectations on the likelihood and timing of Fed rate hikes. Overall, we see the A.I. trade and broader advances in the equity markets, supported by continuing capex and strong earnings growth, but tempered by uncertainty about the rate of earnings growth keeping up to elevated expectations and discount rates that may be pressured in a rising interest rate environment. Ultimately, we remain positive, yet selective, and cautious about near-term volatility.

In June, the S&P 500 declined modestly, falling 1.0% on a total-return basis, with the underperformance of the Magnificent Seven. Excluding those stocks, the S&P 500 delivered a much stronger return, with the remaining S&P 493 gaining 3.0% (total return). Despite the softer June performance, the S&P 500's 2Q26 performance remained impressive, with total return of 15.2% in 2Q26, and 10.2% YTD. U.S. equity market leadership showed more meaningful signs of broadening towards the end of 2Q26, as a resilient economic backdrop and de-escalation in the Iran conflict, encouraged investors to rotate away from crowded A.I. trades and toward previously lagging, lower-valuation areas of the market.

Canadian equities, represented by the S&P/TSX Composite, advanced modestly in June, with a total return of 0.5%, while reaching a new high during the month. Despite the reopening of the Strait of Hormuz weighing on the Energy sector and higher expected policy rates dragging on the Materials sector, cyclical sectors performed strongly in 2Q26, led by Financials and Industrials. This brought the S&P/TSX Composite's 2Q26 total return to 7.0% in the quarter, and 11.2% YTD.

On the economic front, Canadian GDP is expected to grow 0.9% for 2026, about half the rate of 2025, with headwinds from the overall population decline and uncertainty in trade as the USMCA renewal, and any revisions, remain pending. Despite this, the unemployment rate remains slightly elevated but stable and inflation seems to be generally within the comfort band of the BoC, likely leaving interest rates unchanged. The U.S. is expected to achieve better economic growth, of approximately 2.2% this year, with a relatively low and stable unemployment rate, currently at 4.2%, yet is still tackling higher inflation and could be facing a hike in interest rates by year-end.

USMCA Renewal

In line with expectations, the July 1 review deadline passed without Canada, the U.S., and Mexico agreeing to extend the expiry of the USMCA from 2036 to 2042. As outlined in our previous Market Perspectives report, this outcome does not alter the existing agreement or its current tariff exemptions. Instead, the renewal process is now shifted to annual reviews, while remaining in force until its currently scheduled expiry in 2036 unless the parties agree to revisions that trigger a new 16-year term.

Our expectation

Negotiations have continued following the July 1 deadline, with discussions focusing primarily on tighter rules of origin, particularly for the automotive sector, as well as steel, aluminum, and other strategic supply chains. Our base case remains that the USMCA framework will ultimately be preserved with targeted revisions, rather than fundamental changes. We see a complete withdrawal (which requires a six-month notice), being extremely unlikely, as the basic foundation of USMCA provides benefits to all parties, with just a few annoyances around the edges. The transition to annual reviews is nevertheless likely to prolong uncertainty, even as negotiations continue, which may continue to weigh on business sentiment until a longer-term agreement is reached.

Tariffs

With IEEPA-based tariffs struck down by the U.S. Supreme Court, the President shifted to Section 122 tariffs, that allowed rates of up to 15% for up to 150 days, as a stop-gap, while advancing more enduring Section 301 (country-specific) and Section 232 (industry-specific) tariffs to entrench protectionist policies and revenue generation for the U.S. government. The Supreme Court's decision also triggered substantial refunds of previously collected IEEPA-based duties, with the U.S. Treasury reporting US$21.97 billion in customs duty refunds paid during the month of May. The current Section 122 tariffs, which were set at 10%, expire later this month on July 24.

On June 3, the President launched a fresh wave of Section 301 tariff threats of 10-12.5% on dozens of countries, including Canada, citing concerns that they had failed to adequately address the importing of goods produced with forced labour. The measures follow investigations launched in March covering roughly 60 trading partners and are intended to provide a more durable legal basis for tariffs. However, the proposed tariffs remain subject to a public consultation process taking place from July 7 to July 9, with a final determination expected by July 24, as the temporary Section 122 tariffs are set to expire. Goods qualifying under the USMCA would remain exempt from the newly proposed Section 301 measures.

Earlier, the administration had also continued refining previously implemented Section 232 tariffs on steel and aluminum products. Recent adjustments include relief for certain mobile agricultural and industrial equipment, as well as HVAC systems, while allowing some imported products containing steel or aluminum to qualify for a reduced 10% tariff if at least 85% of their metal content was produced in the U.S. At the same time, new 25% tariffs were imposed on certain steel racks and aluminum lithographic plates. Overall, these revisions appear aimed at correcting unintended consequences of earlier tariff measures, distinguishing more clearly between national security-sensitive and non-sensitive products, and reducing the impact on U.S. businesses, while leaving the broader protectionist strategy intact.

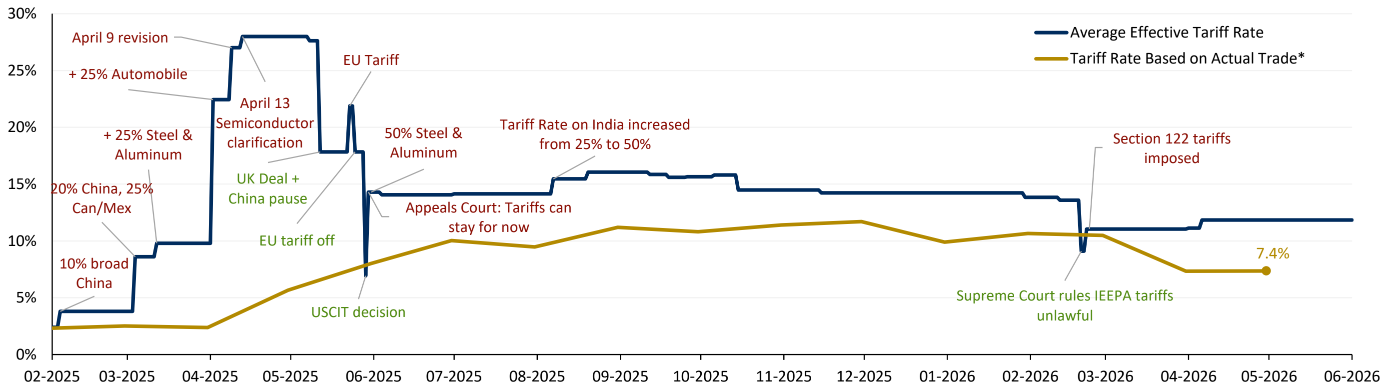
Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal. Below, in Table 1, we include brief updates on key tariff-related items. We continue to expect more intensive use of Section 232 tariffs now that the IEEPA tariffs have been struck down.

Table 1 - Section 232 Tariffs Summary, as of July 6, 2026

Sector	Effective Date	Tariff Rate
Automobiles and auto parts	May 3, 2025	25%
Steel/aluminum and copper (including derivatives)	Jun 4, 2025 (Steel/alum.); Aug 1, 2025 (Copper)	10-50%
Primary steel/aluminum and most copper products		*50%*
Certain derivative articles substantially made of steel, aluminum, or copper		*25%*
Certain metal-intensive industrial, grid, agricultural, HVAC, and mobile industrial equipment through Dec. 2027		*15% transitional rate*
Derivative articles manufactured with at least 85% U.S.-melted/poured steel, U.S.-smelted/cast aluminum/copper		*10%*
Softwood timber and lumber	October 14, 2025	10%
Wooden furniture, kitchen cabinets and vanities	October 14, 2025	25%
Medium/heavy duty trucks & buses	November 1, 2025	25% on trucks/parts; 10% on buses
Specific semiconductors and related products	January 15, 2026	25%
Certain patented pharmaceuticals and ingredients	July 31, 2026	100% (20% for companies with onshoring plans)
Processed critical minerals and derivative products	Investigation initiated April 22, 2025	-
Commercial aircraft and jet engines	Investigation initiated May 1, 2025	-
Polysilicon and its derivatives	Investigation initiated July 1, 2025	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1, 2025	-
Wind turbines	Investigation initiated August 13, 2025	-
Robotics and industrial machinery	Investigation initiated September 2, 2025	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2, 2025	-

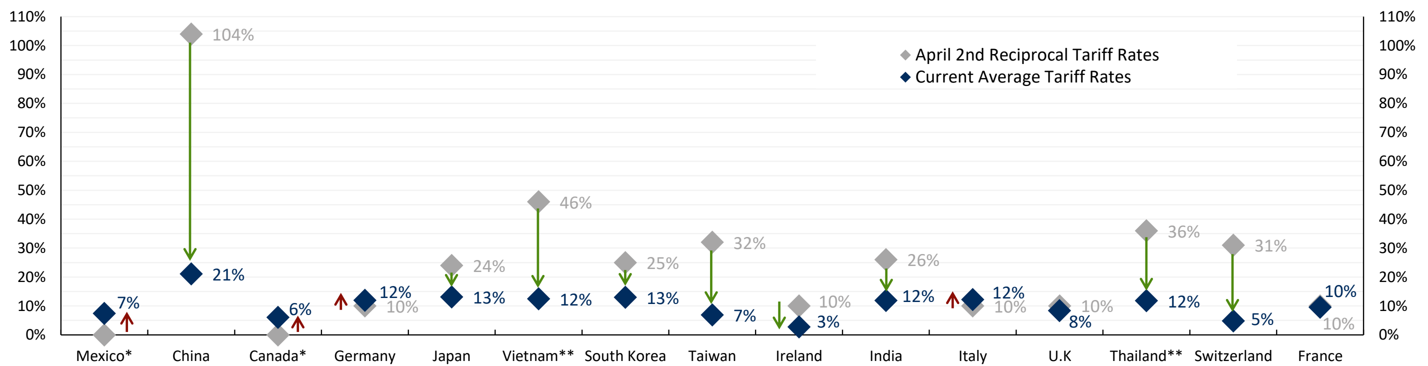
Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate



Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Average Tariff Rates, as of July 6, 2026



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Economics

Canadian GDP — Broad-based rebound following temporary weakness

Monthly real GDP increased 0.5% m/m in April, rebounding from a 0.1% decline in March (Chart 5). The recovery was broad-based, with 14 of 20 industries posting gains. Goods-producing industries led the advance, supported by a rebound in oil and gas extraction following temporary production disruptions in March, while manufacturing and construction also contributed positively. Services-producing industries continued to expand, reflecting gains across public administration, transportation, and real estate. Overall, the April data reinforce the view that the weakness observed in the first quarter was driven largely by temporary factors, including trade-related distortions and disruptions to energy production, rather than a deterioration in underlying economic activity.

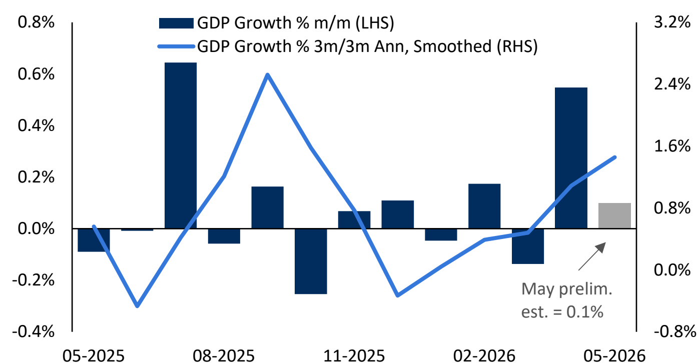
Looking ahead, Statistics Canada's advance estimate points to a further 0.1% m/m increase in May, suggesting economic activity continued to expand into the second quarter, albeit at a more moderate pace. While uncertainty surrounding the ongoing USMCA negotiations continues to cloud the outlook, the latest data remain consistent with the Canadian economy continuing to expand at a modest pace over the coming months.

Gasoline prices lift headline retail sales again

Retail sales increased 0.5% m/m to $73.0 billion in April, broadly in line with expectations. Similar to March, much of the increase was driven by gas stations and fuel vendors, where sales rose 5.1% m/m, reflecting both higher prices and stronger sales volumes. Excluding gas stations and fuel vendors, retail sales were unchanged in April, a slight improvement from the 0.1% m/m decline in March (Chart 6).

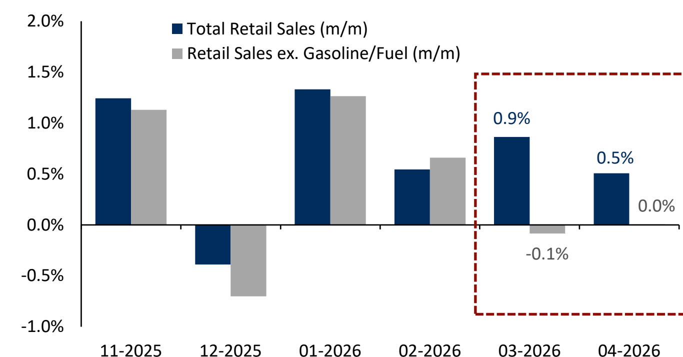
Despite the increase in headline retail sales, total sales volumes were unchanged in April, following a 0.7% m/m decline in March. While underlying consumer spending remained soft, the stabilization in volumes suggests there was no further deterioration in real spending, indicating that the drag from higher gasoline prices may have largely run its course. Statistics Canada's advance estimate points to a 1.0% m/m increase in retail sales in May, indicating that sales volumes likely edged higher. Looking ahead, improving consumer confidence since its March and April lows, together with lower gasoline prices since the latter half of May supporting household purchasing power, should provide a more favourable backdrop for consumer spending in the months ahead.

Chart 5 - GDP Growth Rebounds in April



Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026.

Chart 6 - Retail Sales Growth Driven by Gasoline Prices



Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026.

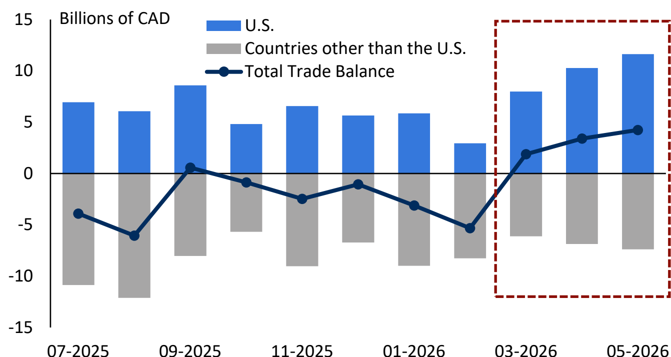
Trade surplus widens for a third consecutive month

Canada's merchandise trade surplus widened from $3.4 billion in April to $4.2 billion in May, marking a third consecutive monthly surplus (Chart 7). Merchandise exports increased 0.9% m/m, while imports edged down 0.2% m/m. Export growth continued to be supported by commodity-related categories, particularly metal ores and non-metallic minerals, although exports of unwrought gold, silver, and platinum group metals declined during the month. While energy exports declined modestly in May (-2.0% m/m), this followed a 43% increase in crude oil exports from $10.2 billion in February to $15.9 billion in April (Chart 8), driven largely by higher oil prices.

Trade with the U.S. continued to improve in May. Exports to the U.S. increased 1.5% m/m, marking a fourth consecutive monthly gain, while imports from the U.S. declined 1.4% m/m. As a result, Canada's merchandise trade surplus with the U.S. widened from $10.3 billion in April to $11.6 billion in May, the largest surplus since January 2025.

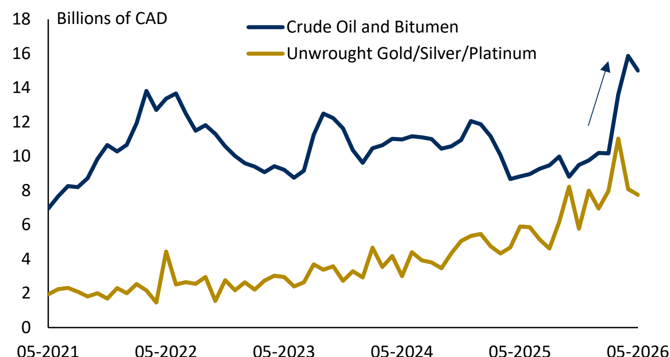
While the headline data remain encouraging, underlying trade volumes painted a more mixed picture. In real terms, export volumes were essentially unchanged in May, suggesting much of the increase in export values reflected higher prices rather than stronger foreign demand. Import volumes, meanwhile, rose 0.4% m/m, supported by a 6.1% m/m increase in industrial machinery and equipment imports. This increase in capital goods imports suggests business investment plans have remained relatively resilient despite ongoing geopolitical and trade uncertainty.

Chart 7 - Trade Surplus Widens in May



Source: Statistics Canada, Raymond James Ltd.; Data as of May 31, 2026.

Chart 8 - Crude Oil and Gold Exports Remain Elevated



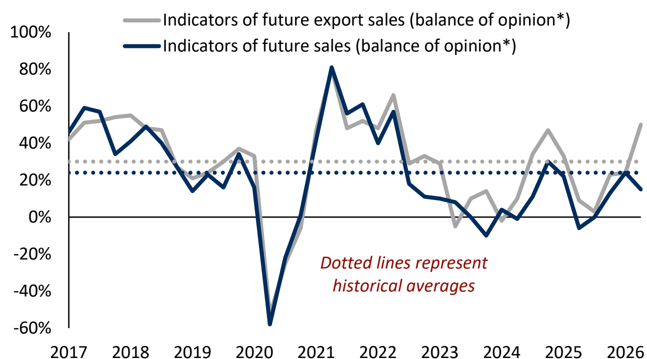
Source: Statistics Canada, Raymond James Ltd.; Data as of May 31, 2026.

Business sentiment softens, but investment plans remain resilient

Results from the Bank of Canada's 2Q26 Business Outlook Survey indicate that business sentiment weakened after improving over the previous three quarters. More firms reported that rising input costs and heightened geopolitical uncertainty stemming from the conflict in the Middle East were weighing on business conditions. Indicators of future sales edged down to just below their historical average, with businesses citing elevated fuel costs, softer consumer discretionary spending, and ongoing trade-related uncertainty as factors dampening domestic demand. At the same time, firms tied to the energy sector reported stronger activity as higher commodity prices supported demand.

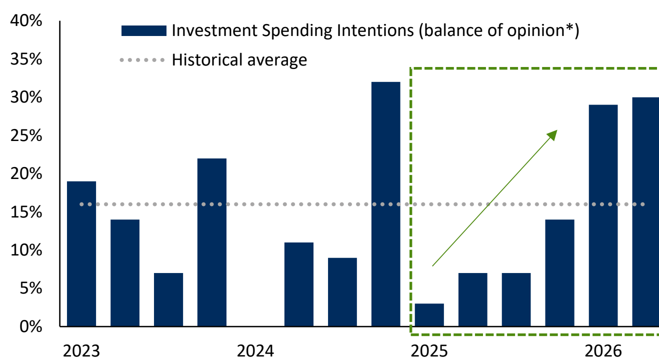
Despite softer domestic sales expectations, firms' outlook for exports improved to well above its historical average (Chart 9). The improvement was supported by stronger commodity exports, fewer reports of U.S. customers delaying orders because of trade policy uncertainty, and growing demand for Canadian goods and services linked to the construction of A.I. data centres in the U.S. Meanwhile, investment intentions remained broadly unchanged and continued to signal resilience (Chart 10). Compared to recent years, firms maintained a relatively strong focus on productivity-enhancing investments, including equipment upgrades and A.I. integration, although soft demand and lingering trade uncertainty continued to weigh on investment plans for some businesses.

Chart 9 - Improved Outlook for Future Export Sales



Source: Business Outlook Survey - 2Q26, Bank of Canada, Raymond James Ltd.; *% of firms reporting that indicators have improved minus the % reporting deterioration.

Chart 10 - Firms' Investment Intentions Remain Strong



Source: Business Outlook Survey - 2Q26, Bank of Canada, Raymond James Ltd.; *% of firms expecting higher investment spending minus the % expecting lower.

Gasoline prices drove headline inflation higher, but the peak may now be behind us

Headline CPI inflation rose to 3.2% y/y in May from 2.8% in April, as consumer prices increased 0.5% m/m. As in the previous month, the acceleration was driven primarily by higher gasoline prices. Excluding gasoline, inflation remained relatively moderate at 2.2% y/y (Chart 11), suggesting that broader price pressures have remained contained despite the recent rise in headline inflation.

The Bank of Canada's preferred core inflation measures remained close to its 2% target. CPI-trim increased 2.0% y/y, while CPI-median rose 2.1% y/y. On a monthly basis, the two measures advanced at an average pace of 0.2%, consistent with inflation remaining broadly in line with the Bank's target. Together with the modest increase in CPI excluding gasoline, the overall data suggest there has been little evidence of meaningful spillover effects from higher energy prices into the broader basket of goods and services.

With oil prices having stabilized since late May and core inflation pressures remaining narrow, the recent increase in headline inflation is likely to prove temporary. As a result, the risk of sizeable second-round inflationary effects appears to have diminished considerably.

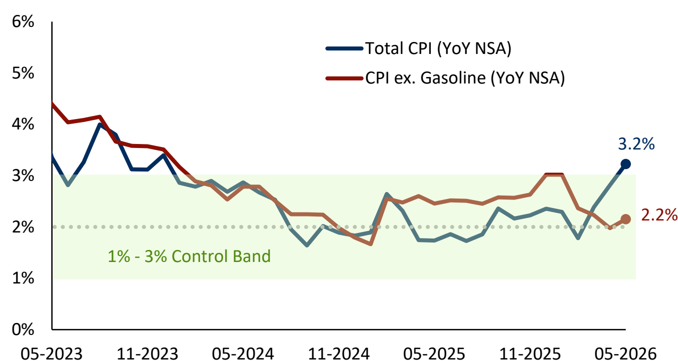
Bank of Canada remains on hold

As widely expected, the Bank of Canada left its policy rate unchanged at 2.25% at its June meeting. The accompanying statement indicated a somewhat more accommodative policy stance compared to April. The Governing Council acknowledged that first-quarter GDP growth was weaker than expected and reiterated that, although growth is expected to resume in the second quarter, the economy remains in excess supply. It was also noted that, despite the rebound in job growth during May, employment has changed little overall since the start of the year.

On inflation, the Bank emphasized that the recent rise in headline CPI has been driven primarily by higher gasoline prices and that there has been limited evidence of broader pass-through into other consumer prices. With oil prices having largely retraced their earlier gains and underlying inflation remaining close to target, concerns that elevated energy prices could trigger more persistent inflationary pressures have eased considerably.

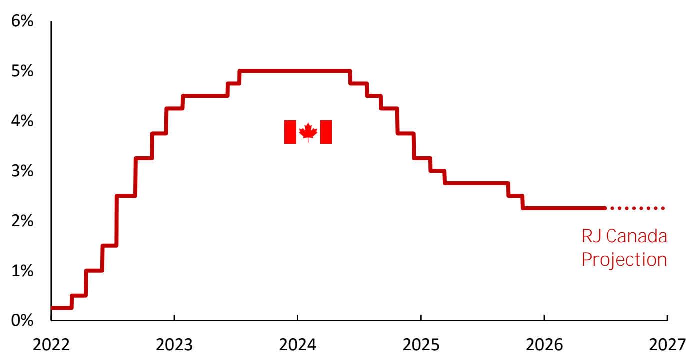
As a result, the Bank's focus is likely shifting away from energy-driven inflation risks and toward downside risks to economic growth. In particular, uncertainty surrounding the ongoing USMCA renegotiations continues to be an important source of risk. While our base case is that the Bank of Canada will leave its policy rate unchanged through the remainder of the year (Chart 12), should trade tensions escalate, the Bank may need to lower the policy rate further to support economic activity.

Chart 11 - Gasoline Prices Lift Headline CPI; Underlying Pressures Remain Moderate



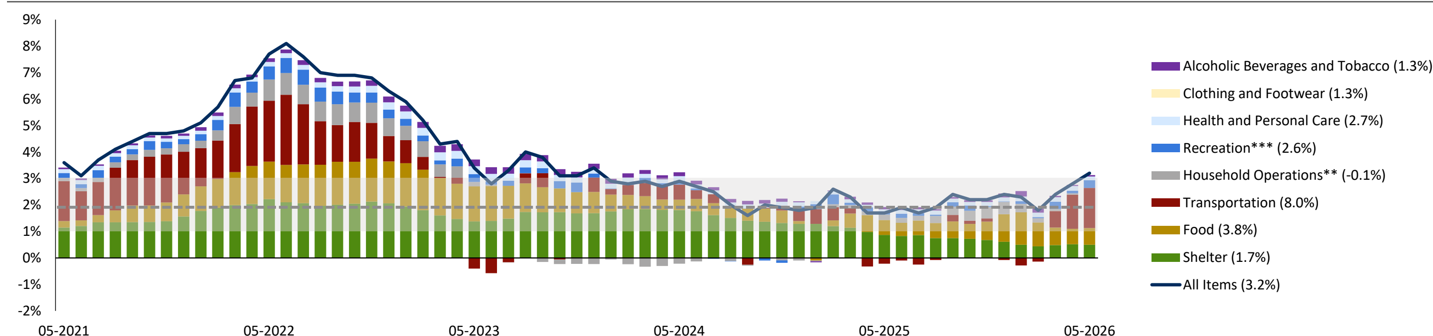
Source: Statistics Canada, Raymond James Ltd.; Data as of May 31, 2026.

Chart 12 - Bank of Canada Likely to Stay on Hold



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

Chart 13 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)



Source: Statistics Canada, Raymond James Ltd.; Data as of May 31, 2026. **Household operations, furnishing and equipment; ***Recreation, education and reading.

The U.S. — 1Q26 GDP growth revised higher, but consumption moderates

The third and final estimate of U.S. real GDP showed the economy grew at a 2.1% q/q annualized pace in 1Q26 (Chart 14), revised up from the second estimate of 1.6%. The upward revision was driven almost entirely by a smaller drag from net exports, as imports were revised lower. Net exports reduced GDP growth by 0.4 percentage points, an improvement from the 1.3 percentage point drag reported in the previous estimate. Government spending and fixed investment contributions were unchanged at 0.7 and 1.1 percentage points, respectively, while inventories contributed 0.2 percentage points, up slightly from 0.1 percentage points.

Despite the stronger headline figure, consumer spending was revised down sharply to a 0.5% q/q annualized pace from 1.4% in the second estimate, lowering its contribution to GDP growth from 1.0 percentage points to 0.4 percentage points. Likewise, real final sales to private domestic purchasers, a key measure of underlying private-sector demand, was revised down to 1.7% q/q annualized from 2.4%.

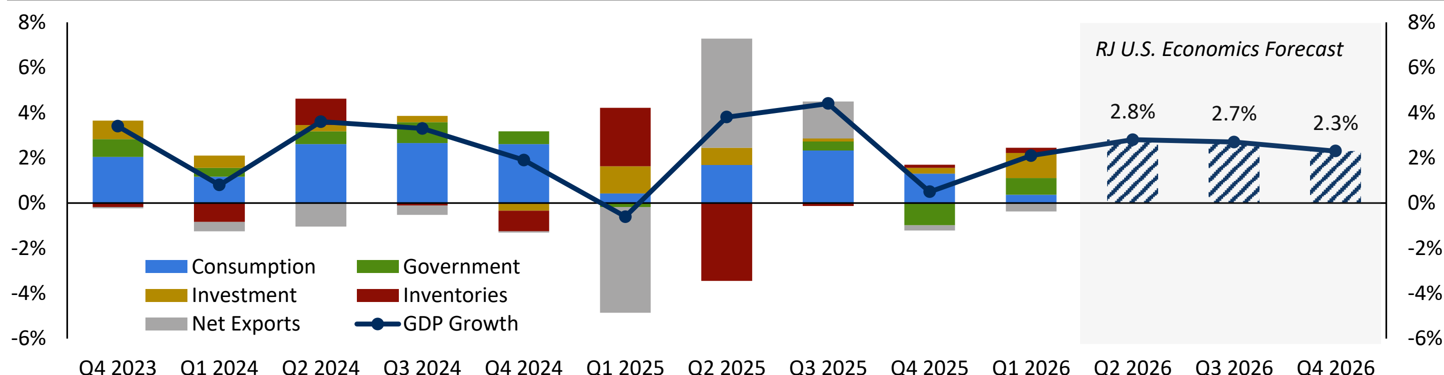
Overall, while weaker imports boosted headline GDP growth, the final estimate suggests domestic demand lost some momentum relative to the previous estimate, although private investment (specifically in the A.I.-related categories) remains strong (Chart 15) and continues to support the overall economic growth.

PMIs remain firmly in expansion

The ISM Manufacturing PMI edged down to 53.3 in June from 54.0 in May but remained above the 50 threshold for a sixth consecutive month, signaling continued expansion in the manufacturing sector (Chart 16). New orders and production softened modestly during the month, while the employment index remained in contraction but continued to improve and is approaching expansion territory.

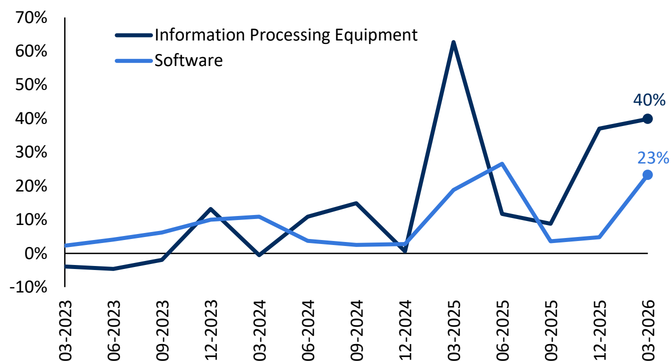
The ISM Services PMI edged down to 54.0 in June from 54.5 in May but remained firmly in expansion territory, marking a 24th consecutive month of growth. Business activity and new orders softened modestly during the month, while the employment index moved back into expansion territory. Meanwhile, the prices index eased from May's elevated level but continued to indicate persistent cost pressures across the services sector. Overall, the PMI surveys suggest economic activity remained resilient through June, with both manufacturing and services continuing to expand.

Chart 14 - Contribution to % Change in U.S. GDP (q/q annualized)



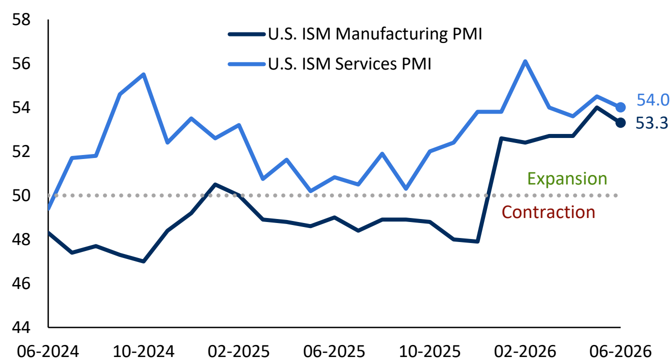
Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Chart 15 - Robust Growth in A.I.-Driven Investment (q/q annualized)



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Chart 16 - PMIs Continue to Signal Expansion



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

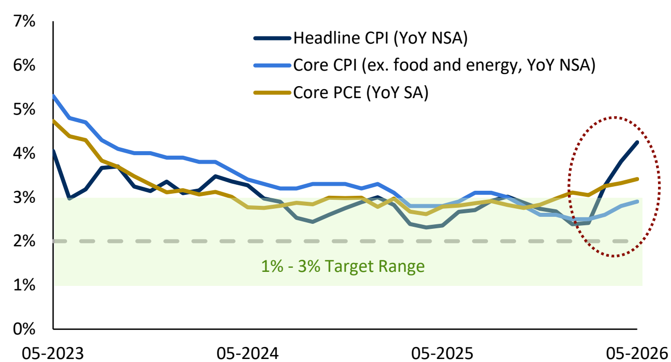
U.S. inflation continues rise, but nearing a peak

U.S. consumer inflation accelerated further in May, although the increase remained largely concentrated in energy prices. The headline Consumer Price Index (CPI) rose 0.5% m/m, lifting the year-over-year inflation rate to 4.2% (Chart 17), its highest level since April 2023. The increase was driven almost entirely by a 7.0% m/m jump in gasoline prices, which pushed energy prices up 3.9% during the month. By contrast, core CPI rose a more modest 0.2% m/m, with the annual rate edging up to 2.9% from 2.8%, suggesting that underlying inflation pressures remain relatively contained.

The Fed's preferred inflation measure painted a similar picture. The headline and core PCE price indices increased 0.4% and 0.3% m/m, respectively, with annual inflation rising to 4.1% for headline PCE and 3.4% for core PCE. While inflation remains above the Federal Reserve's target, easing oil and gasoline prices since late May suggest that headline inflation may be close to its peak for this year, provided energy prices remain near current levels.

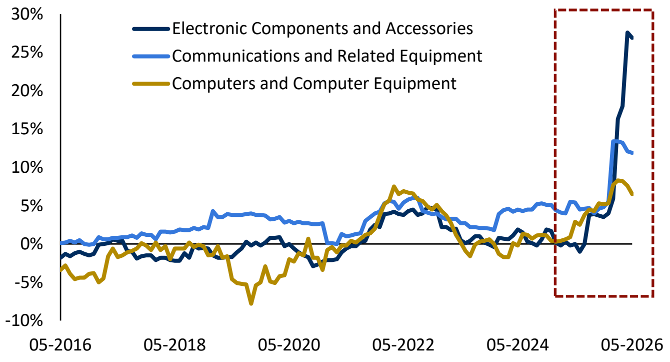
Upstream price pressures, however, remain elevated. Producer prices increased 1.1% m/m in May, pushing the annual PPI inflation rate to 6.5%, while core PPI excluding food, energy, and trade rose 5.1% y/y. Notably, the ongoing investment in A.I. infrastructure is contributing to rising factory-gate prices for A.I.-related equipment and components (Chart 18). As A.I.-related capital spending remains robust, these cost pressures could gradually feed through to consumer prices for technology products in the months ahead.

Chart 17 - Gasoline Prices Continued to Drive Inflation in May



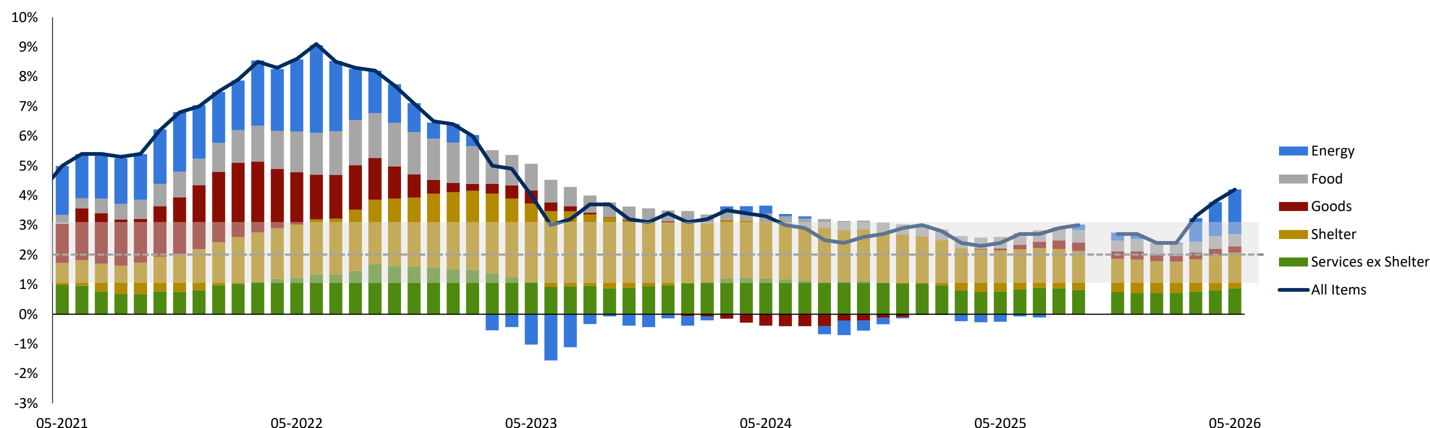
Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of May 31, 2026.

Chart 18 - A.I.-Related Segments See Surging Producer Prices (PPI*)



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of May 31, 2026. *YoY and not seasonally adjusted (NSA).

Chart 19 - Major Components' Contributions to U.S. CPI

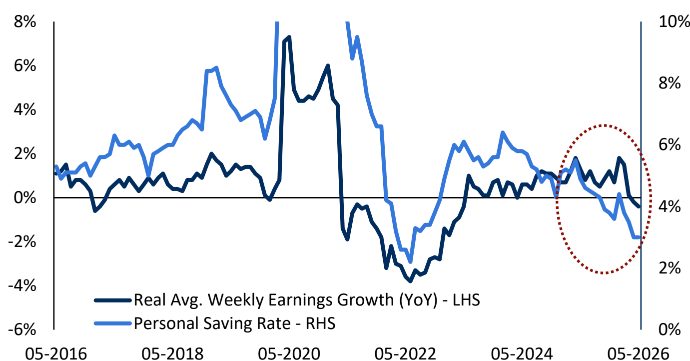


Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of May 31, 2026.

Elevated inflation in the U.S. weighs on household purchasing power

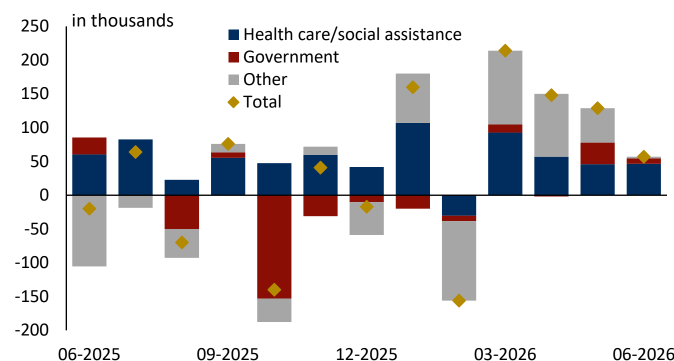
Higher inflation has continued to put pressure on household purchasing power. Real average weekly earnings have declined on a year-over-year basis for two consecutive months, while the personal saving rate has fallen to 3.0%, its lowest level since June 2022 (Chart 20). While consumer spending has moderated in recent months, it has remained relatively resilient, supported by the wealth effect, tax refunds, and households drawing down savings. Looking ahead, the recent improvement in labour market conditions should help support wage growth, while lower gasoline prices would provide some relief as well. Nevertheless, softer real income growth suggests consumer spending is likely to contribute less to GDP growth in the second quarter of this year.

Chart 20 - Savings Rate and Real Wage Growth Trend Lower



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of May 31, 2026.

Chart 21 - Employment Growth Slows and Narrows in June



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of June 30, 2026.

Hiring slows, but labour market conditions remain stable in the U.S.

Non-farm payroll employment increased by 57k in June, well below the consensus expectation of 110k. In addition, employment gains in the prior two months were revised down by a combined 74k. The weakness in June was largely driven by a 55k decline in accommodation and food services employment, which more than reversed the gains recorded in May. At the same time, job growth was narrowly concentrated, with healthcare and social assistance accounting for 47k of the increase and government contributing a further 8k. Beyond these two categories, employment elsewhere rose by just 2k, highlighting the limited breadth of hiring across the economy in June (Chart 21).

The unemployment rate edged down to 4.2% in June, from 4.3% in May, although the decline reflected a sharp 720k drop in the labour force rather than stronger employment growth. As a result, the labour force participation rate fell to 61.5%, its lowest level since March 2021 (Chart 22). Despite the weaker June job creation and participation, broader labour market conditions remain relatively healthy. Average payroll growth over the past three months has remained solid at 111k per month, indicating that while hiring slowed in June, the overall labour market conditions remain stable.

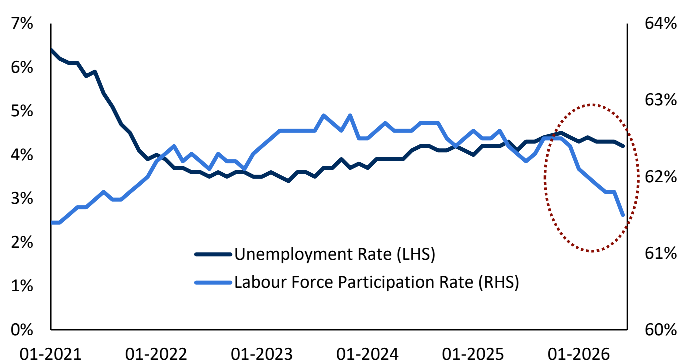
Fed signals a more hawkish stance

At its June meeting, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 3.50–3.75%, as widely expected. The meeting marked the first under new Chair Kevin Warsh and introduced a notable shift in the Fed's communication strategy. Unlike previous statements, the post-meeting release omitted explicit forward guidance, with Chair Warsh explaining during the press conference that such guidance was "not well suited to the current policy conjuncture." He also announced the creation of five task forces focused on key areas of the Fed’s operations, including communications, the balance sheet, the use and reliance on data sources, productivity and labour market dynamics, and the inflation framework.

Regardless of the absence of explicit forward guidance, the June Summary of Economic Projections (SEP) nevertheless conveyed a more hawkish message. Committee members raised their median projection for core PCE inflation to 3.3% by the fourth quarter of 2026, up from 2.7% in the March projections, while the 2027 projection was revised up to 2.5% from 2.2%. Consistent with the higher inflation outlook, the updated dot plot showed that half of the 18 FOMC participants (excluding Chair Warsh, who did not submit a projection) expect between 25 and 75 basis points of policy tightening this year.

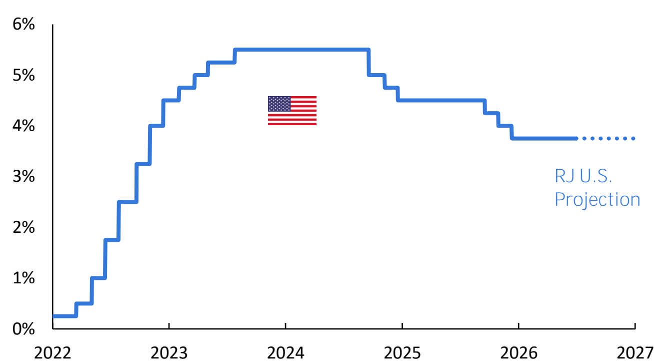
While the updated projections suggest that policymakers remain concerned about persistent inflation, the distribution of the dot plot likely overstates the Committee's hawkish bias, as several of the projections calling for rate increases come from non-voting regional Fed Presidents. Combined with signs that energy-driven inflation may be easing in the coming months, our U.S. Economics team continues to expect the Fed to leave the policy rate unchanged through the remainder of the year (Chart 23).

Chart 22 - Labour Force Participation Continues to Decline



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of June 30, 2026.

Chart 23 - Fed Expected to Remain on Hold



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

Financial Markets

Resilience is perhaps once again the best word to characterize U.S. and Canadian equity market performance in 2Q26. While the Iran conflict remained an overhang through the first half of the quarter, its subsequent 60-day peace agreement represented a temporary de-escalation. Against that backdrop, relatively robust U.S. economic momentum, a Canadian economy that looked better beneath the headline figures, and solid earnings growth across both markets helped support equity performance. U.S. equities also faced headwinds from a more hawkish Fed and reduced policy visibility, but the A.I. theme remained an important source of support, with leadership rotating within the technology complex as the market reassessed the relative beneficiaries of A.I.-driven spending.

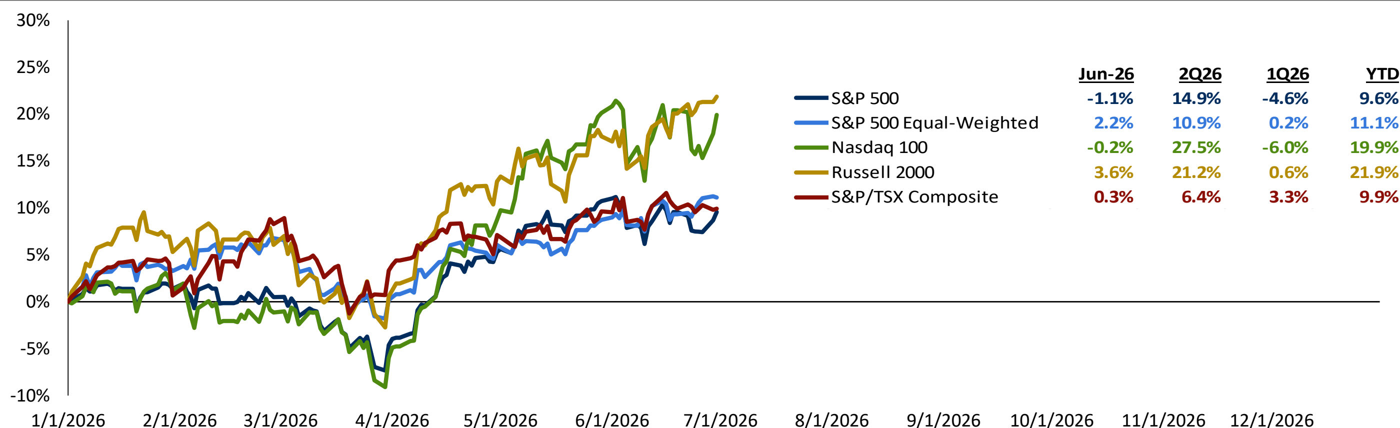
In June, the S&P 500 declined modestly, falling 1.1% on a price-return basis and 1.0% on a total-return basis. The weakness, however, was largely attributable to the underperformance of the Magnificent Seven. Excluding those stocks, the S&P 500 delivered a much stronger return, with the ex-Magnificent Seven index gaining 2.9% in price terms and 3.0% on a total-return basis. Despite the softer June performance, the S&P 500’s 2Q26 performance remained impressive, with price and total returns of 14.9% and 15.2%, respectively, lifting year-to-date returns to 9.6% and 10.2%.

Toward the second half of 2Q26, U.S. equity market leadership showed more meaningful signs of broadening. A resilient economic backdrop, combined with a temporary de-escalation in the Iran conflict, encouraged investors to rotate away from crowded A.I. trades and toward previously lagging, lower-valuation areas of the market. This was reflected in the outperformance of the equal-weighted S&P 500 versus the capitalization-weighted index in June and year-to-date, as well as the strong relative performance of U.S. small caps, represented by the Russell 2000.

The Nasdaq 100 was less directly supported by this broadening trend, given its heavier concentration in mega-cap growth and technology. However, its greater exposure to memory and storage beneficiaries, particularly relative to the S&P 500, helped support performance. As a result, the Nasdaq 100 outperformed the S&P 500 in 2Q26, while its June performance was broadly in line with the S&P 500 as the semiconductor complex consolidated following a strong advance.

Canadian equities, represented by the S&P/TSX Composite, advanced modestly in June, with a price return of 0.3% and a total return of 0.5%, while reaching a new high during the month. Despite the reopening of the Strait of Hormuz weighing on the Energy sector and higher expected policy rates dragging on the Materials sector, cyclical sectors performed strongly in 2Q26, led by Financials and Industrials. This brought the S&P/TSX Composite's 2Q26 price and total returns to 6.4% and 7.0%, respectively, lifting year-to-date returns to 9.9% and 11.2%.

Chart 24 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026. Price return in local currency.

U.S. Equities

2Q26 opened with a V-shaped recovery led by A.I. infrastructure companies, particularly memory, storage, and optical-networking names, and ended with a meaningful improvement in market breadth. This transition occurred against a complex backdrop: strong 1Q26 earnings results, IPO activity and potential listing headlines among major A.I. leaders, gradually normalizing oil prices, and a more hawkish tone from the Fed.

Looking ahead, we expect the market-broadening trend to have further room to run. Investors appear to have gained confidence in the resilience of the underlying U.S. economy, while also recognizing that opportunities extend beyond the most crowded A.I. trades. After the sharp advance in A.I. bottleneck segments, much of the good news appears to be increasingly reflected in prices, and June's performance suggested some profit-taking and position trimming. At the same time, selected areas of Health Care, Industrials and Financials are now being supported by a more constructive macro backdrop.

Markets are now pricing a meaningfully more hawkish path than they did at the beginning of the year, with slightly more than one hike expected by year-end versus roughly two cuts priced earlier in the year. In our view, this leaves greater room for downside surprise in policy rates than upside surprise, particularly given the faster-than-expected normalization in oil prices and recent signs of softer job growth. Meanwhile, productivity growth outpacing wage growth should continue to support margin expansion, and broader adoption of A.I. across sectors could provide an incremental earnings tailwind. Taken together, these factors suggest that the broadening in equity leadership still has scope to continue.

Midterm elections may introduce a layer of near-term volatility. Historically, the months leading into midterm elections have often been associated with more choppy market conditions, but equity markets have typically regained footing once the political outcome is known. Over a longer horizon, elections are usually more of a source of noise than a decisive driver of equity returns. Investors should therefore remain focused on long-term objectives rather than overreacting to election-related volatility.

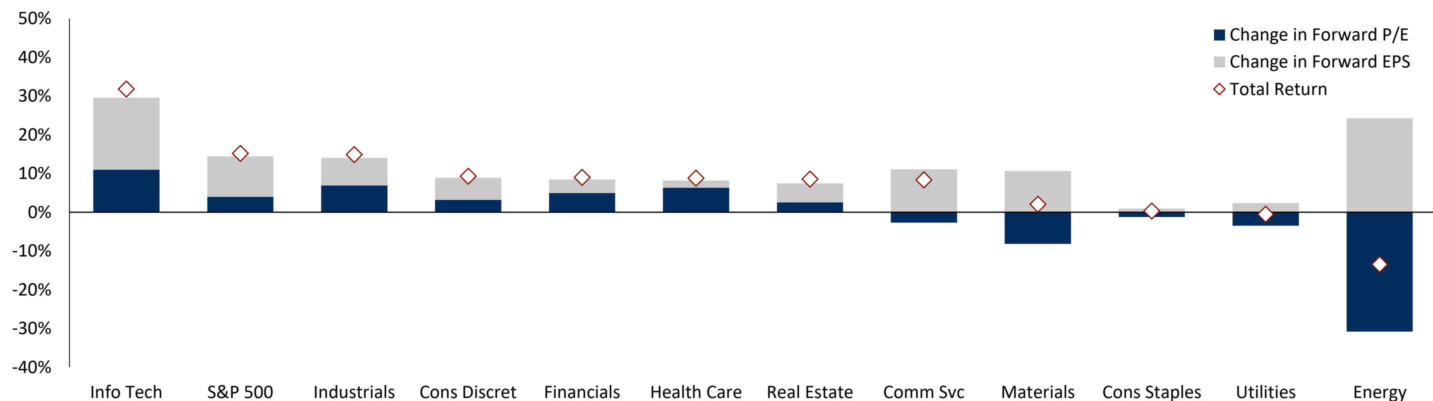
Within the A.I. theme, recent profit-taking should be viewed less as a rejection of the secular trend and more as a reassessment of where value is being captured across the A.I. value chain. For now, the market is increasingly treating parts of the technology complex as a binary trade. Strength in A.I. bottleneck beneficiaries, including memory, storage and other infrastructure enablers, is often viewed as a relative headwind for the Magnificent Seven, particularly the hyperscalers and device platforms, because one company's revenue uplift is another company's capex burden. We expect this dynamic to persist until investors have clearer evidence that end users, particularly enterprises deploying A.I., can convert

adoption into higher sales, new revenue streams, and measurable productivity gains. That proof point would be important in validating the scale of capex being undertaken by the largest technology platforms.

A second binary dynamic is also likely to remain in place between traditional software companies and A.I.-native companies. The market is still assessing how software firms will incorporate A.I., where they may be displaced, and where they can collaborate with A.I. leaders. Questions around distribution, customer access, control of high-value traffic, and defensible competitive advantages remain central to this debate.

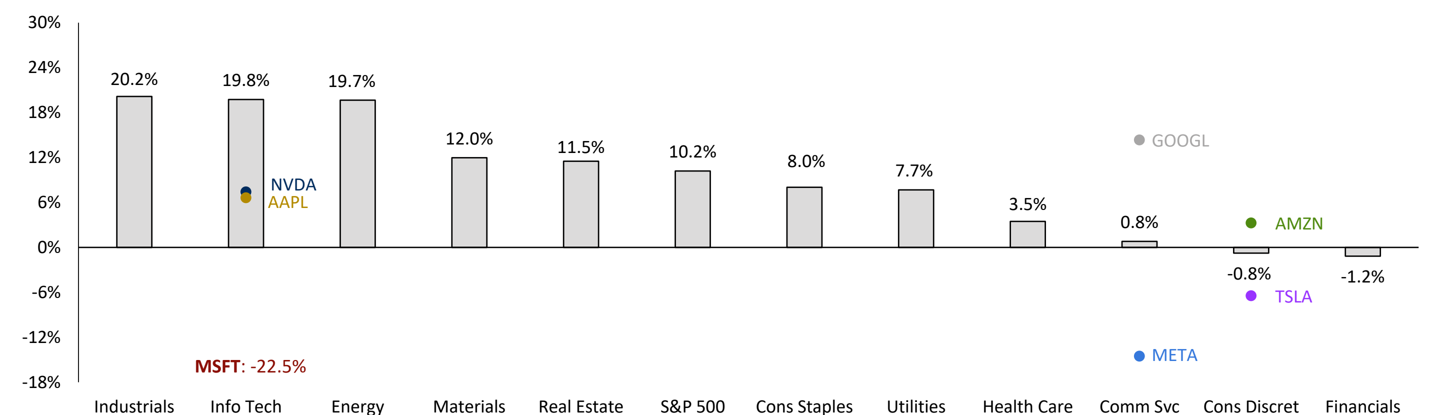
Against this backdrop, we would avoid chasing crowded trades. Selectivity remains critical, with a focus on companies that offer higher quality, stronger earnings visibility, and clearer positioning within their respective segments. Evolving A.I. regulation under the Trump administration has also become an increasingly important factor in assessing future growth prospects.

Chart 25 - S&P 500 Composite Sector 2Q26 Total Return Breakdown



Source: Bloomberg, Raymond James Ltd.; Data as of June 30, 2026.

Chart 26 - S&P 500 Sector and "Magnificent Seven" YTD Total Returns



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

Canadian Equity Markets

Year to date, the S&P/TSX Composite has been less volatile than the S&P 500, supported by rotation across its four largest sectors by index weight. Energy and Materials were strong contributors in 1Q26, with Energy particularly well supported by the surge in oil prices following the shutdown of the Strait of Hormuz. As oil prices subsequently normalized, leadership rotated toward more cyclical areas of the Canadian market, with Financials and Industrials accelerating in 2Q26. Their strength more than offset the weakness in Energy and Materials, helping to stabilize overall index performance.

At the industry level, the recent decline in oil prices has been constructive for broadline, food, and convenience-store retailers, as lower fuel costs should ease cost pressures and support household purchasing power. It should also benefit more fuel-intensive industrial segments, such as commercial services, including waste and fleet services, and transportation, including trucking and airlines.

Looking ahead, while the peace agreement between the U.S. and Iran remains temporary, the faster-than-expected normalization of oil supply conditions is encouraging. The surge in U.S. oil exports, the UAE's exit from OPEC, and the rise in Venezuelan oil exports should continue to exert downward pressure on oil prices, even as countries look to rebuild their strategic reserves. This should provide a tailwind for the broader economy, households, and selected cyclical areas of the market, particularly those less exposed to potential volatility around USMCA negotiations. That said, although Energy equities have recently entered a consolidation phase, the earlier increase in earnings should further strengthen company balance sheets. Alongside improving investment intentions and continued government support, the sector remains well positioned from a longer-term perspective.

Top 3 Sectors (2Q26):

- **Financials:** this sector has delivered consistently strong performance over the past three months, led by banks and insurers. Much of the return, however, has been driven by multiple expansion, lifting the sector's forward P/E to 15.2x, a record-high valuation. The re-rating appears to have been supported by the 1Q26 earnings season, where investors saw solid execution, disciplined capital management, and credit conditions that remained contained. Earnings contributions from capital markets and wealth management are also expected to remain strong, while the broader macro backdrop continues to support cyclical sectors, despite lingering uncertainty around the USMCA renewal. Looking ahead, the earnings setup remains constructive, with year-over-year growth expected to stay in the low-double-digit range over the next two quarters and revisions continuing to move higher. That said, with valuations already stretched, the sector may be vulnerable to some multiple compression if near-term headlines point to renewed macro headwinds.

- **Industrials:** this sector outperformed in 2Q26, supported by a combination of accelerating earnings momentum and multiple expansion. The normalization of the oil supply chain has become a meaningful tailwind for several areas of the sector, including commercial services such as waste and fleet services, as well as fuel-intensive transportation segments such as trucking and airlines. According to the latest BoC Business Outlook Survey, firms' investment intentions strengthened further, suggesting that a recovery in machinery and equipment investment is also gaining traction. In addition, nation-building initiatives across aerospace and infrastructure should provide a longer-term structural tailwind. Earnings momentum has improved recently, and while the outlook for the two largest rail names remains somewhat mixed, margin expansion opportunities and backlog-driven growth in commercial services, construction and engineering, and airlines continue to support the sector's broader earnings profile.

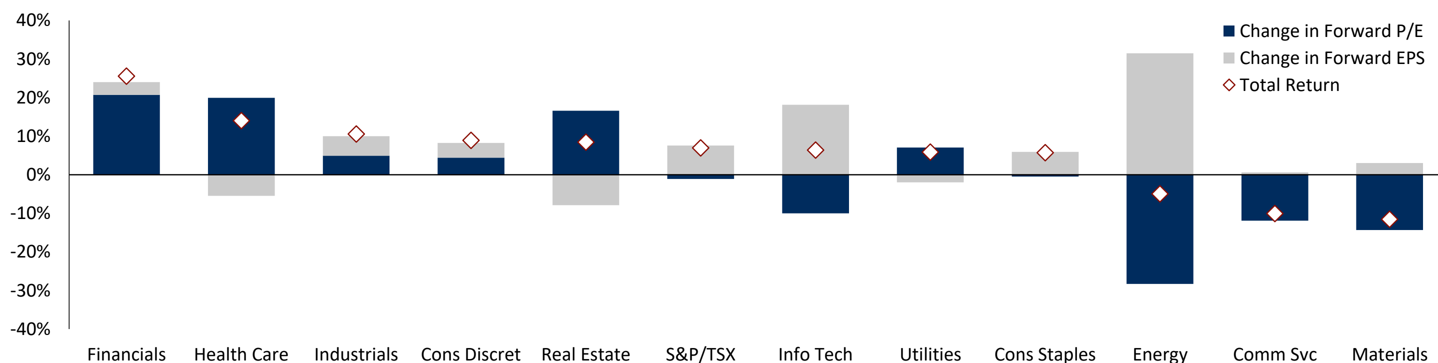
- **Consumer Discretionary:** this sector was one of the main beneficiaries of lower oil prices, which provided a two-sided tailwind for retailers by helping reduce input costs while also improving household disposable income. Positive earnings-growth revisions and moderate multiple expansion both contributed to the sector's outperformance in 2Q26. That said, headwinds remain. The USMCA renewal continues to be an important source of uncertainty, particularly for auto parts and apparel retailers, which have relatively higher U.S. revenue exposure and therefore remain more vulnerable as negotiations progress.

Bottom 3 Sectors (2Q26):

- **Materials:** the decline in oil prices has provided some indirect support to gold by easing inflation concerns, but a more hawkish Fed and a stronger U.S. dollar continue to create meaningful headwinds by increasing the opportunity cost of holding a non-yielding asset. After breaking below its 200-day moving average, gold may enter a more extended consolidation phase, although the current price near US$4,000 appears broadly aligned with prevailing macro expectations. Looking ahead, if our view is correct that there is greater room for downside surprise in policy-rate expectations than upside surprise, gold could receive some support over time. More importantly, the structural case remains intact, underpinned by continued central-bank buying and persistent concerns around the rapid growth in U.S. government debt. For the Materials sector, the 2Q26 weakness was entirely driven by multiple contraction, leaving the sector trading at 11.7x forward earnings, only the 6th historical percentile. We therefore remain constructive on Materials over a medium- to longer-term horizon.
- **Communication Services:** this sector came under pressure early in 2Q26 following the CRTC's move to broaden wholesale access to fibre and wireless networks, allowing smaller providers, including MVNOs and resellers, to lease infrastructure from incumbents such as BCE, Rogers, and Telus without making significant capital investments of their own. After a brief rebound, the sector faced renewed pressure toward the end of the quarter as the macro backdrop again favoured cyclical sectors. Earnings-growth expectations have changed little, with the sector's weakness driven almost entirely by multiple contraction. It now trades at a forward P/E of 12.2x, ranking in only the 8th historical percentile. Looking ahead, structural headwinds remain, including slower immigration and less favourable demographic trends. Absent a renewed risk-off environment, such as a deterioration in USMCA negotiations, the sector's ability to outperform the broader index appears limited.

- **Energy:** the sector has been undergoing a valuation reset, with robust upward earnings revisions largely offsetting the impact of multiple compression. As a result, the sector's forward P/E has normalized from 23.4x, or the 87th historical percentile, to 15.2x, closer to its long-term average at the 54th percentile. Within the sector, performance has been mixed: midstream names have held up relatively well, while upstream producers and integrated energy companies have faced greater pressure as oil prices have declined. We remain constructive on the sector. Importantly, the investment case is no longer dependent on oil-price appreciation alone. Free-cash-flow generation, balance-sheet strength, and shareholder returns have become more central to the equity story, while the earlier improvement in earnings should further reinforce company balance sheets. At the same time, the outlook for investment and production in oil and gas has improved, supported by a more favourable investment climate and the potential to attract greater foreign direct investment. Overall, while near-term performance may remain sensitive to oil-price consolidation, the sector's longer-term fundamentals remain constructive.

Chart 27 - S&P/TSX Composite Sector 2Q26 Total Return Breakdown



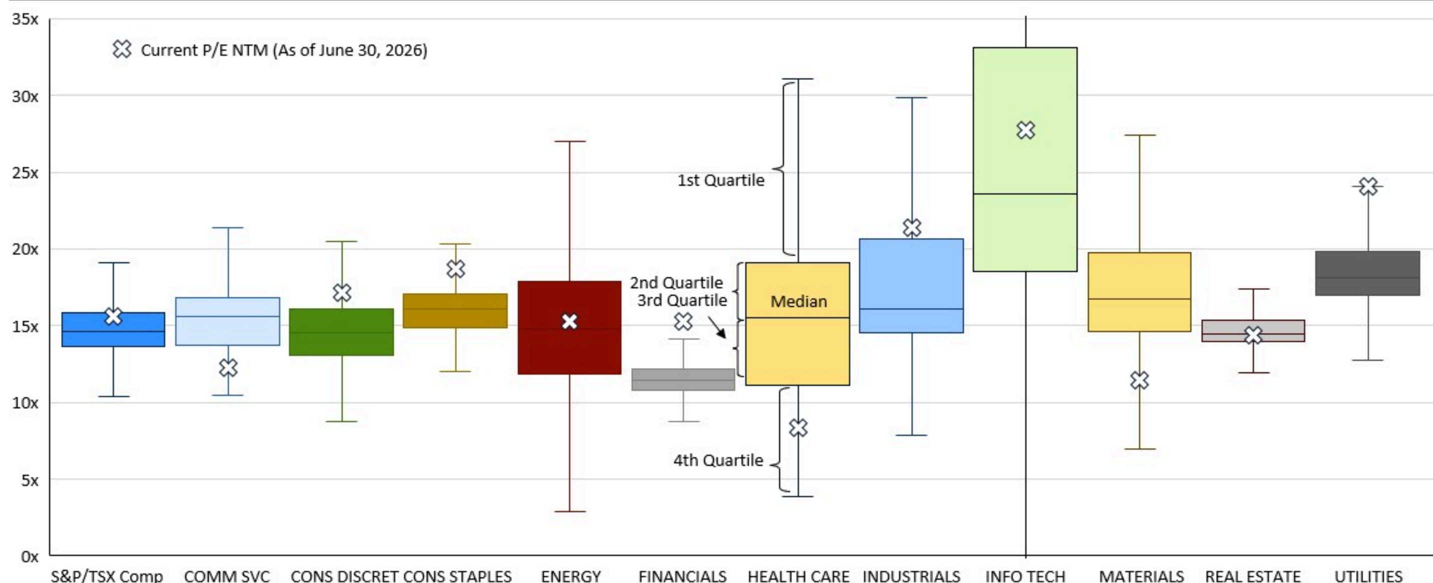
Source: Bloomberg, Raymond James Ltd.; Data as of June 30, 2026.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by 2Q26 Total Return)

Sector Name	Sector Weight	YTD Total Return	2Q26 Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Financials	35.9%	23.2%	25.6%	8.8%	15.2	11.5
Health Care	0.3%	8.9%	14.0%	6.0%	8.3	15.5
Industrials	10.6%	10.3%	10.6%	3.1%	21.7	16.1
Consumer Discretionary	3.1%	4.6%	8.9%	2.3%	17.2	14.5
Real Estate	1.4%	3.8%	8.4%	3.1%	14.3	14.5
S&P/TSX Composite	--	11.2%	7.0%	0.5%	15.7	14.6
Information Technology	7.3%	-17.6%	6.4%	-1.6%	27.8	23.6
Utilities	3.6%	17.8%	5.9%	2.1%	24.1	18.1
Consumer Staples	3.2%	9.0%	5.7%	8.0%	19.0	16.1
Energy	16.3%	23.6%	-5.0%	-4.1%	15.2	14.8
Communication Services	1.6%	-4.8%	-10.0%	-9.9%	12.2	15.6
Materials	16.6%	-2.1%	-11.5%	-12.1%	11.7	16.8

Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 28 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026. Historical P/E: 1/1/2000 – 6/30/2026. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	Jun (in LCL)	Jun (in USD)	Jun (in CAD)	2Q26 (in LCL)	2Q26 (in USD)	2Q26 (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	-0.6	-0.6	2.4	13.3	13.3	15.2	9.9	9.9	13.8	19.1	16.1	2.9
EAFE (DM ex U.S. & Canada)*	0.6	0.6	3.6	9.0	9.0	10.8	10.1	10.1	13.9	15.6	13.6	1.9
EM (Emerging Markets)*	0.5	0.5	3.5	22.3	22.3	24.4	25.7	25.7	30.2	11.6	11.5	0.1
Selected Developed Markets												
Nikkei 225 (Japan)	5.7	3.6	6.7	37.4	34.4	36.7	40.3	35.0	40.0	23.1	17.4	5.7
Euro STOXX 50 (Europe)	4.7	2.5	5.5	15.7	12.7	14.6	11.7	6.4	10.1	16.0	13.4	2.6
FTSE 100 (U.K.)	1.0	-0.7	2.3	4.0	3.8	5.5	7.6	4.3	7.9	12.4	12.3	0.1
CAC 40 (France)	3.0	0.9	3.9	10.1	9.2	11.1	5.7	2.9	6.5	15.0	13.6	1.5
DAX (Germany)	-0.4	-2.5	0.5	10.2	9.4	11.2	2.1	-0.8	2.9	14.8	12.8	2.0
Hang Seng (Hong Kong)	-8.5	-8.5	-5.8	-6.4	-6.5	-4.9	-9.2	-9.9	-6.7	9.7	11.7	-1.9
Selected Emerging Markets												
CSI 300 (China)	2.3	2.0	5.0	12.8	14.6	16.9	8.6	11.9	15.8	16.0	14.0	2.0
Nifty 50 (India)	1.8	2.1	5.1	7.6	7.4	9.6	-7.9	-12.4	-9.3	19.7	18.7	0.9

Source: FactSet, Raymond James Ltd.; Total returns, data as of June 30, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 06/30/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

In June, stronger-than-expected U.S. economic data, renewed inflation concerns, and a more hawkish Fed under the new Chair pushed the front end of the Treasury curve higher, with the six-month to two-year segment seeing the largest shift relative to the end of May. For 2Q26, the Treasury curve experienced a meaningful bear flattening, with the two-year yield rising 38 bps and the 10-year yield increasing 15 bps.

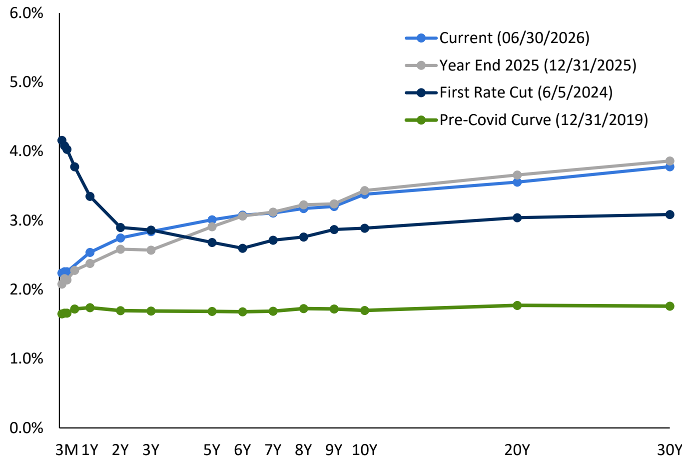
Looking ahead, we continue to expect the 10-year Treasury yield to remain range bound, ending the year around 4.25%–4.50%. The key driver of bond returns is likely to be the starting yield, rather than a significant decline in rates. Economic activity remains robust, while A.I.-related investment, particularly in data centres, is currently creating demand-side price pressures before it can deliver a broader supply-side productivity boost. That productivity improvement may eventually allow the economy to expand without reigniting inflation, but for now, it remains debatable whether the U.S. economy requires materially lower interest rates. In credit, tight spreads leave limited compensation for volatility risk, reinforcing our preference to stay up in quality.

In Canada, the government yield curve shifted modestly lower across most maturities by the end of June compared with the prior month-end, reflecting softer macro indicators and ongoing uncertainty around USMCA renewal negotiations. Over 2Q26, the two-year and 10-year Government of Canada yields declined by 8 bps and 9 bps, respectively.

In credit, investment-grade spreads remain tight. Recently, several U.S. hyperscalers issued sizeable Canadian-dollar bonds, introducing a new technical factor for the domestic credit market. Near term, the scale of this issuance can pressure CAD credit spreads as investors absorb unusually

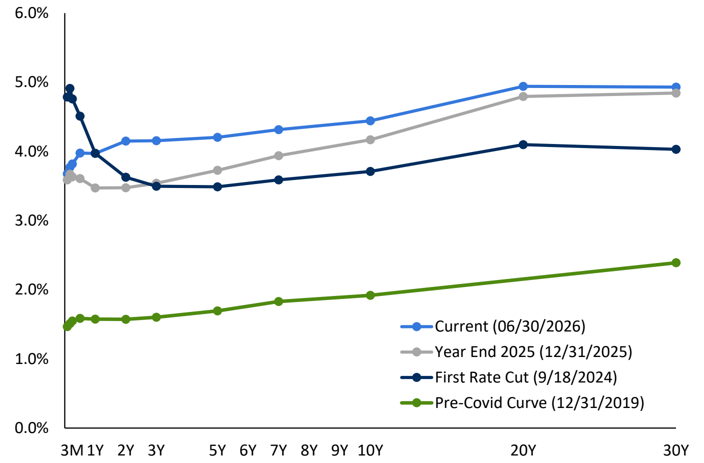
large high-grade supply. Over time, however, it should deepen the Maple-bond market, improve issuer diversification, and broaden the investable universe for Canadian fixed-income portfolios. The key risk is that repeated large U.S. hyperscaler issuance could absorb investor demand and force domestic issuers to offer higher spreads, particularly in longer-dated corporate bonds.

Chart 29 - Canada Government Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

Chart 30 - U.S. Treasury Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026.

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