FIRST HALF OF 2026 - REVIEW

JULY 2026 ARIF HIRJI & DAVID RATCLIFFE

The first half of 2026 has reminded investors that markets rarely move in a straight line. Ongoing geopolitical tensions, evolving trade policies, and continued uncertainty surrounding inflation and interest rates have all contributed to periods of heightened volatility. At the same time, advances in artificial intelligence, resilient corporate earnings, and improving inflation trends have continued to support longer-term investor confidence.

Market Summary

The first six months of 2026 have been characterized by resilient markets despite an increasingly complex global backdrop. Investors have navigated geopolitical tensions in the Middle East, ongoing trade uncertainty, fluctuating energy prices, and changing expectations surrounding central bank policy.

Canadian equities have continued to demonstrate relative strength, supported by higher energy prices and the resource sector, while U.S. markets have been driven largely by continued investment in artificial intelligence and technology infrastructure. Although periods of volatility have occurred throughout the year, corporate earnings have generally remained healthy and economic conditions have proven more resilient than many expected.

While uncertainty remains elevated, the overall investment environment continues to favour disciplined, diversified portfolios focused on long-term growth rather than short-term market movements. Looking ahead to the second half of the year, we remain cautiously optimistic that continued economic resilience and improving inflation trends can support positive investment returns through year-end.

Index (as of June 30th)	1-month	3-month	6-month	1-year
S&P/TSX Composite Index	0.25%	6.38%	9.91%	29.79%
Dow Jones Industrial Avg	2.52%	12.90%	8.85%	18.65%
S&P 500 Index	-1.06%	14.87%	9.55%	20.86%
NASDAQ Composite Index	-2.81%	21.41%	12.79%	28.69%

Geopolitics and Oil

Geopolitical developments have remained one of the largest drivers of market volatility throughout the first half of the year. Ongoing conflict in the Middle East has periodically raised concerns regarding global energy supplies, shipping routes, and broader economic growth. Higher oil prices have created both opportunities and challenges. For Canada, stronger energy prices have generally supported the resource sector and the broader Canadian economy. At the same time, higher energy costs contribute to inflationary pressures that central banks continue to monitor closely.

While geopolitical events are impossible to predict, markets have historically adapted as uncertainty becomes better understood. Although volatility may continue in the near term, long-term investment fundamentals remain intact.

US Dollar

The U.S. dollar has remained relatively strong throughout much of the year as investors continue to view it as a global safe-haven currency during periods of uncertainty.

For Canadian investors, a stronger U.S. dollar has continued to provide an additional benefit on U.S. investments when converted back into Canadian dollars. At the same time, it has contributed to somewhat higher costs for imported goods and international travel.

Currency movements are a normal part of investing globally, and maintaining geographic diversification remains an important component of long-term portfolio construction.

Inflation and Interest Rates

Inflation has continued to improve significantly compared to the highs experienced over the past several years, although recent increases in energy prices have temporarily slowed progress. Encouragingly, measures of underlying inflation have remained relatively well contained.

The Bank of Canada has maintained its overnight interest rate at 2.25%, reflecting a balanced approach between supporting economic growth and ensuring inflation remains under control. While additional interest rate cuts appear less likely in the immediate future, monetary policy remains flexible should economic conditions change.

For investors, a more stable interest rate environment provides greater visibility for businesses and consumers and should continue to support longer-term investment opportunities.

Gold and Silver

After an exceptionally strong start to the year, both gold and silver experienced a notable pullback during the second quarter. While precious metals have traditionally been viewed as safe-haven assets during periods of geopolitical uncertainty, recent market behaviour has demonstrated that their performance can be influenced by several competing factors.

The escalation of tensions in the Middle East initially supported precious metal prices. However, as concerns shifted toward higher energy prices, persistent inflation, and the possibility that central banks may keep interest rates elevated for longer, both gold and silver came under pressure. Rising bond yields and a stronger U.S. dollar also reduced the relative appeal of non-yielding assets such as precious metals, contributing to increased volatility throughout the quarter.

Although the recent decline has created some uncertainty among investors, we continue to view precious metals as an important long-term portfolio diversifier rather than a short-term trading vehicle. Gold and silver have historically experienced periods of significant volatility, particularly when markets reassess inflation expectations and monetary policy. Despite the recent weakness, geopolitical risks remain elevated and central banks around the world continue to hold meaningful gold reserves, supporting the longer-term investment case.

Canadian Economy & Recession Outlook

Canada's economy faced increased headwinds during the first half of 2026, with real GDP contracting for a second consecutive quarter. By the traditional definition, this placed Canada in a technical recession—a term used to describe two successive quarters of negative economic growth. However, economists have generally viewed this downturn as relatively mild, driven largely by trade uncertainty, weaker business investment, and slower consumer spending rather than widespread structural weakness.

More encouragingly, recent economic data suggests that the worst of the slowdown may already be behind us. Statistics Canada reported that economic activity rebounded strongly in April, with GDP increasing by 0.5%, while preliminary estimates indicated modest additional growth in May. Employment has also shown signs of stabilization, and many economists now expect economic activity to remain relatively flat or gradually improve over the remainder of the year rather than continue contracting.

The Bank of Canada has maintained a cautious approach by keeping its policy interest rate unchanged at 2.25%, recognizing that while inflation pressures have eased considerably, economic growth remains modest and uncertainty surrounding global trade and geopolitical developments continues to warrant careful monitoring.

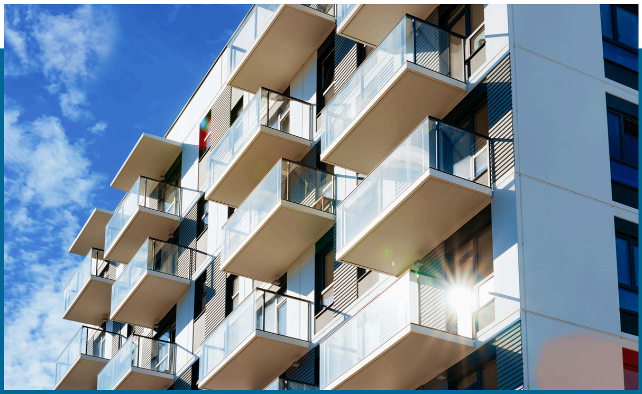
Although recession headlines can understandably create concern, technical recessions have historically varied significantly in both depth and duration. The current environment appears more consistent with a temporary economic slowdown than a prolonged contraction. With inflation becoming better contained, interest rates stabilizing, and labour markets showing resilience, we remain cautiously optimistic that Canada's economy will continue to improve through the second half of 2026 and support a positive environment for long-term investors.

Artificial Intelligence

Artificial intelligence continues to be one of the most significant long-term investment themes shaping global markets. Companies involved in semiconductors, cloud computing, data centres, and AI software continue to attract substantial investment as businesses increasingly adopt AI technologies to improve productivity and efficiency.

Although technology stocks have experienced periods of volatility throughout the year, the long-term outlook remains highly constructive. Much like previous technological revolutions, AI is expected to influence nearly every sector of the global economy over the coming decade.

We continue to believe that maintaining exposure to high-quality companies positioned to benefit from this structural trend remains an important component of long-term portfolio growth.



Real Estate and Housing

Canada's housing market has shown signs of gradually stabilizing after several challenging years. Condominium markets in many urban centres continue to face elevated supply, while detached housing has remained comparatively resilient.

Higher borrowing costs have moderated buyer demand; however, the stabilization of interest rates has improved confidence for both buyers and sellers. Affordability remains a challenge in many regions, but conditions are slowly moving toward a healthier balance between supply and demand.

While housing is unlikely to experience the rapid appreciation seen during previous years, a more balanced market should provide greater stability going forward.

Cryptocurrencies

Cryptocurrency markets have remained volatile throughout the first half of the year, reflecting changing investor sentiment, evolving regulation, and broader market conditions.

While institutional participation in digital assets continues to expand, cryptocurrencies remain speculative investments that should represent only a modest allocation within appropriately diversified portfolios.

As always, our focus remains on ensuring that any exposure to higher-risk assets aligns with each client's investment objectives, time horizon, and overall risk tolerance.

Final Thoughts

The first half of 2026 has once again demonstrated that uncertainty is a normal part of investing. Whether driven by geopolitical events, changing economic conditions, or evolving market expectations, periods of volatility are inevitable. What history consistently reminds us, however, is that investors who remain disciplined and focused on their long-term objectives are often best positioned to benefit as markets recover and continue to grow.

While we expect market volatility to remain with us through the second half of the year, the underlying fundamentals of the global economy remain constructive. Inflation has moderated considerably, interest rates have stabilized, corporate earnings continue to be generally resilient, and innovation—particularly in artificial intelligence—continues to create exciting long-term investment opportunities.

Although no one can predict short-term market movements with certainty, we remain cautiously optimistic that diversified portfolios and disciplined investing will continue to be rewarded over time. Our expectation is that, despite the challenges we have faced throughout the first half of the year, investors are well positioned for a positive finish to 2026.

Thank you, as always, for your continued trust and confidence. If you have any questions or would like to review your portfolio and financial plan, please don't hesitate to contact us.

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