THE COERENTE VIEW

2ND QUARTER 2026

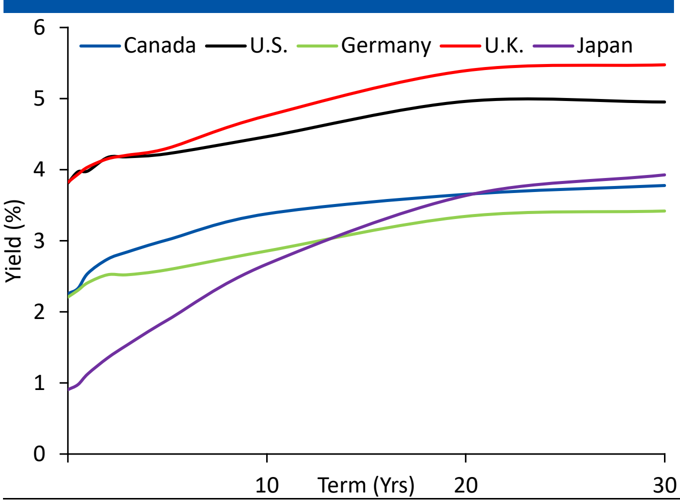
Market Statistics

	Jun/26	Mar/26	Dec/25	Jun/25
Yields (%)				
90 Day T-Bill	2.26	2.31	2.19	2.65
10 Yr. Canada Bond	3.38	3.47	3.43	3.27
30 Yr. Canada Bond	3.78	3.89	3.86	3.56
Rates				
C.P.I. (annual %)	3.20	2.40	2.40	1.90
C$/US$	0.70	0.72	0.73	0.73
C$/Euro	0.62	0.62	0.62	0.62
Prices (US$)				
Crude Oil (bbl.)	70	101	57	65
Natural Gas (mm)	3.30	2.90	3.70	3.50
Gold (oz.)	4,017	4,554	4,308	3,277

Market Returns

	Periods Ending Jun. 30/26			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	7.0	32.9	14.9	12.8
S&P 500 (C$)	17.1	27.1	16.6	16.5
S&P 500 (US$)	15.2	22.3	13.4	15.5
MSCI EAFE Net (C$)	13.0	25.4	12.1	10.6
MSCI EAFE Net (US$)	10.8	20.2	9.1	9.7
MSCI World Net (C$)	16.0	26.5	14.6	14.2
MSCI World Net (US$)	13.8	21.3	11.5	13.1
Bond Universe	2.0	3.5	0.8	1.7
91 Day T-Bills	0.6	2.5	3.1	2.0

Yield Curves



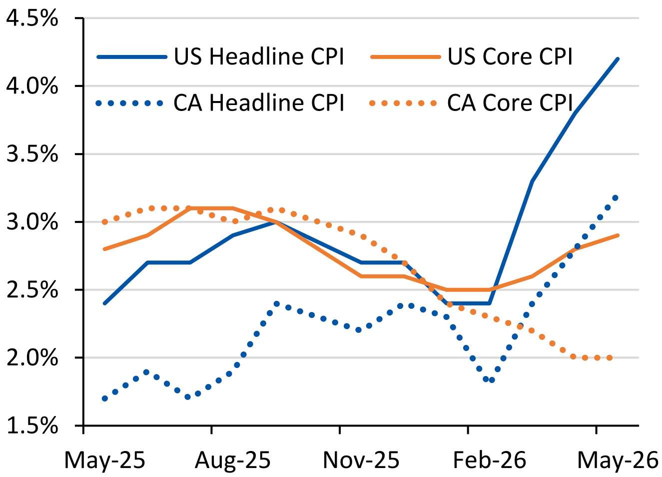
The Economy

We appear to be at an inflection point in terms of North American economic growth and the future direction of interest rates. Canada entered a technical recession after registering negative GDP growth in the fourth quarter 2025 and the first quarter of 2026. April growth was positive at 0.5%, but the bounce was largely expected given the surge in oil and gas prices, which provided a sizable economic benefit to Western Canada. The US economy has also shown signs of weakness but has not contracted with growth rates between 0.5% - 2.0% over the same period. Heavy military spending has stimulated US growth in the short term, despite the political backdrop having rapidly turned negative for President Trump and the Republican party. The war with Iran spiked the prices of oil, gas, and all related derivative products. As the top chart on page two indicates, US inflation has jumped from the 2.5% level to above 4.0% since the start of the war last February. Even the core CPI rate, which excludes food and energy prices, has moved closer to 3.0%. Canada's inflation rate has increased to a lesser extent, partially due to weaker domestic growth and relative self-sufficiency in energy and key food commodities.

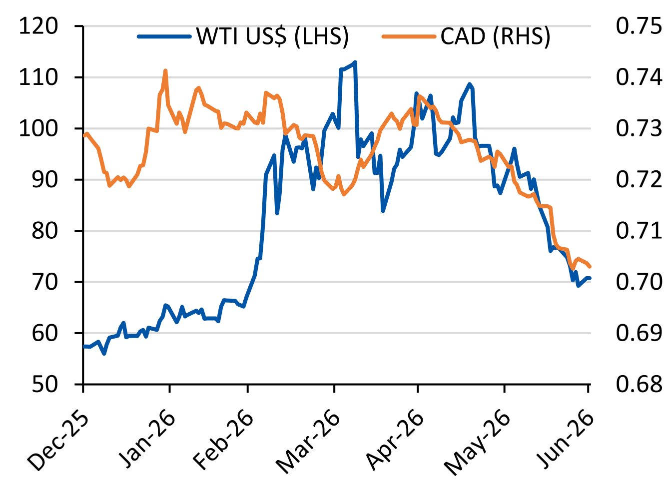
The path forward for economic growth will depend heavily on how central banks choose to manage rising levels of inflation. If inflation appears persistent and embedded, interest rate hikes will inevitably follow. In their most recent decisions, both the US Federal Reserve and the Bank of Canada elected to leave rates unchanged. This was expected in Canada given our weak economic growth, and for the US following Trump's proclamations to his new central bank chief, Kevin Warsh. Overseas, political turmoil and elections have also kept the Bank of England on the sidelines, while the European Union and Japan each increased interest rates by 0.25% at their latest meetings due to mounting inflation concerns.

Historically, inflation driven by supply-side shocks, like oil and gas shortages, can correct quickly. However, central banks are concerned as core inflation remains well above the 2% target and is trending upward. While raising interest rates will eventually cure the inflation problem, it risks further dampening already fragile economic growth. In Canada, our outlook is also plagued by the now official non-renewal of the trade pact between Canada, Mexico and the US. While we appear to have survived the initial tariffs applied by the US, the lack of clarity surrounding trade policy will likely freeze further investment in Canada by multinational companies. Our ramp-up of higher domestic capital spending is showing some signs of early success but nevertheless will take time.

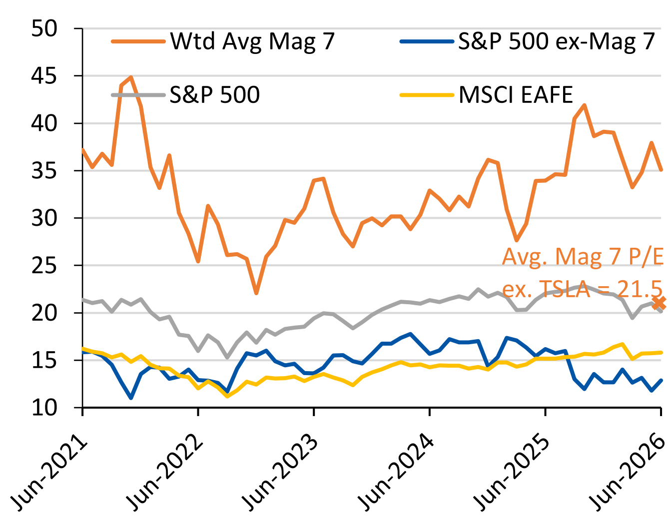
US and Canada CPI Inflation



Oil Price vs. Canadian Dollar



Forward P/E – Magnificent 7



The Markets

Equity returns were exceptionally strong in the second quarter with the S&P 500 returning 17.1% and the World Index 16.0%. However, gains were narrowly sourced, with technology related companies accounting for virtually all the S&P 500's return and three-quarters of the global equity return. The story was similar in Canada where the financial sector outperformed all others, effectively contributing the full 7.0% return of the S&P/TSX. After spiking in March, oil prices weakened considerably in May and June, dragging the energy sector down 5% in the second quarter. The Canadian dollar followed oil prices downward, declining 2.0% versus the U.S. dollar.

While corporate earnings are continuing to rise, soaring valuations of some technology related companies is the primary source of concern. A striking example of the exuberance in this area was the new issue of Elon Musk's SpaceX. Despite analysts' calculations suggesting only one-third of the company generates profits (satellites), while one-third drains cash (rocket launches) and the final one-third exists purely as a future concept (in-space power generation and data storage), the deal sold out at a US$1.8 trillion valuation. As demonstrated by the chart at the bottom of page two, the valuation gap between the largest technology related companies and the remainder of the market has once again widened, and we have therefore further trimmed our technology weight.

In Canada, the performance of the banks has been particularly surprising. Typically, during economic stagnation, loan losses expand and earnings growth slows. While this has not yet occurred, we have proactively reduced our bank holdings. In fixed income, the weaker economic backdrop has bolstered Canadian bond prices, with the Universe Index returning 2.0% for the quarter. The yield curve continues to normalize with longer maturities offering higher yields, as shown in the chart on page one. Nonetheless, the appeal of bonds remains muted, as yields essentially match the rate of inflation, offering very little in the way of a real rate of return.

The heavy concentration plaguing major market indices is a significant risk, as technology related companies now comprise over 50% of the S&P 500 and banks represent in excess of 25% of the S&P/TSX. Diversification across companies and industries remains paramount; unlike the indices, our portfolios remain well-balanced. Equity valuations outside of the technology-related sectors are currently the most attractive to us.

Sources: Bloomberg, National Bank Financial, Statistics Canada