RJL PCS: INSIGHTS & STRATEGIES

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August 2026 Insights & Strategies: Focus turns from rewarding AI build-outs to its use, discipline, and monetization

Macro Highlights for July

- U.S. GDP growth of 1.5% (annualized) in 2Q26 was lower than expected, although consumer spending was still up 3.2% after a weak Q1, providing confidence in a still strong economy. Our U.S. team's forecast remains at 2.4% growth for the year. The Bank of Canada is expecting more subdued growth in Canada, of only 0.7% growth overall in 2026, although preliminary data since that forecast was given suggests that Canadian GDP rebounded significantly in 2Q26, to 3.4% annualized, which could lead to positive revisions to the full year number, despite the lingering uncertainty over the U.S. trading relationship.
- Canada gained 75k jobs in July, which was much better than the 18k gain expected. The unemployment rate also declined to 6.4% from 6.5% in June, the lowest rate in two years, as the participation rate also inched up from 65.0% to 65.1%. The U.S. lost 23k jobs in July, which was well below the consensus expectations of a 95k gain. The unemployment rate however declined to 4.1%, from 4.2% in June, as the participation rate declined from 61.5% to 61.4%. U.S. revisions also now put June gains at +20k (prev. +57k) and May gains at +63k (prev. +129k).
- The U.S. Fed held its policy rate at 3.75% on July 29, although three dissenters likely reflected a growing pressure towards rate hikes in response to an inflation rate that has been above target for five years now. Some economists are citing easing inflation pressures as a justification for remaining on hold, yet any uptick in inflation in the next two reports before the next rate announcement will further increase pressure to hike in September.

Financial Markets in July

- In July, the S&P 500 declined 0.1%, pulled down by the semiconductor segment, bringing its year-to-date price and total returns to 9.4% and 10.1%, respectively. Leadership continued to broadening, as investors demonstrated greater interest in previously lagging and lower-valuation areas of the market, reflected in the equal-weighted S&P 500 delivering price and total returns of 0.9% and 1.0%, respectively, the second consecutive month of outperformance. Excluding semiconductors, the equal-weighted S&P 500 generated total return of 2.5% in July, versus 2.2% for the capitalization-weighted index.
- The S&P/TSX Composite advanced to a new high in July, with a price return of 1.1% and a total return of 1.2%, delivering year-to-date price and total returns of 11.1% and 12.6%, respectively. Energy was the primary driver of gains, supported by the renewed closure of the Strait of Hormuz during the month. Materials and Communication Services were the weakest sectors, while all other sectors posted modest positive returns.
- The S&P 500 has remained relatively steady despite the underlying segments varying wildly as investors digest both anxiety and excitement about the underlying A.I. theme. The TSX Composite has been somewhat more consistent, despite similar fluctuations in the Energy segment, based on the volatility in crude.

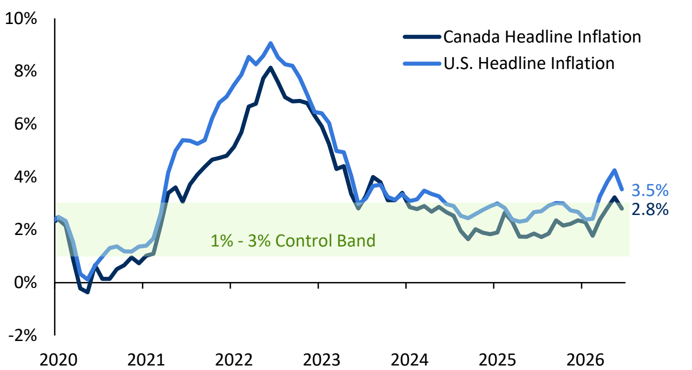
Upcoming

- Despite glimmers of hope for a resolution in Iran, and therefore with the Strait of Hormuz, the supply of crude has been strained for months now, and reserves continue to test minimum acceptable levels. Pressure has been eased by China reducing its daily demand from 11.5 million barrels to just 8 million and Middle Eastern producers have been finding alternate channels to get their oil to market. However, the longer that the conflict persists, the greater the chance of something breaking, resulting in a more dramatic and disruptive spike in oil prices.
- The newest deadline in the evolving tariff environment is the August 19 imposition of new Section 338 tariffs that will be imposed on a variety of Canadian goods. Time will reveal if this threat has been to pressure Canada into more concessions, speed up USMCA negotiations, or if

implementation will be extended, deferred, or come into effect as planned. Undoubtedly, we can expect legal challenges, which the White House will use to determine if Section 338 becomes the new standard tool, replacing IEEPA, from which the President can threaten and unleash further waves of tariffs on other countries.

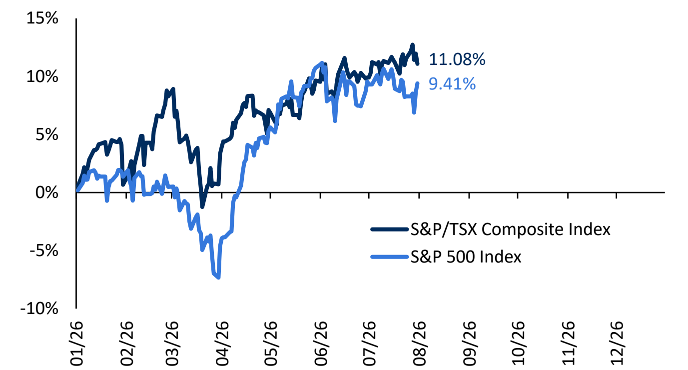
- As we progress through a strong earnings season, we will be watching guidance and forecasts for any revisions required to our target on the TSX Composite. We currently expect the TSX Composite to end 2026 at 37,000, based on an 18x P/E multiple on 2026 earnings of $2,055, which is slightly lower than the current consensus expectation of $2,083. This would also imply a 16x P/E/ multiple on the current consensus of 2027 EPS of $2,314, in-line with recent valuation trends, and close to the longer-term average of 14-15x. Our U.S. team has an S&P 500 year-end target of 7,650, based on EPS of US$326 (consensus is US$355) and 23.5x P/E multiple.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of June 30, 2026. Not seasonally adjusted.

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



Source: FactSet, Raymond James Ltd.; Data as of July 31, 2026. Price return in local currency.

Executive Summary

As we navigate the second half of 2026, investors are contending with a world that seems more geopolitically fractured and dangerous, with anxiety that has fluctuated through concerns of an A.I. bubble, elevated inflation, government debt, pressure on interest rates, and trade uncertainty. Despite all that, equity markets have continued to power ahead, while economic growth has been sometimes surprisingly resilient and unemployment rates have been relatively contained. We continue to have a positive view of the equity markets through the end of the year, although caution, quality, and selectivity will likely been the trends to follow.

Rotation in the financial markets as A.I. trades face more scrutiny

We are now in the midst of 2Q26 earnings season, which has once again surprised to the upside. Despite strong earning growth, however, investors are shifting their focus regarding the A.I. trade, which has driven performance for many quarters. As we came out of the rolling recessions following COVID, earnings surprises came fast and furious, although off depressed levels, and the risk appetite favoured high-growth momentum, which was epitomized by the rapid advancement and build-out of A.I. infrastructure and computing power. As we are seeing in the reaction to 2Q26 earnings results, investors are become less enthused by unbridled capital spending and are more concerned that companies are using that A.I. capacity effectively to reduce costs and gain productivity, and that massive infrastructure spending will yield returns.

Economy continues to grow, but more modestly in Canada

The BoC reduced its forecast for GDP growth to 0.7% (from 0.9%) in 2026, as trade uncertainty, punctuated with the lack of a 16-year renewal of the USMCA, weighs on business sentiment. U.S. GDP growth remains more resilient, with expectations of 2.4% growth this year.

Canada has also continued to benefit from its Materials sector, as gold exports kept the goods trade deficit up in June, despite a drop in oil prices that led to a drop in the value of energy exports. The trade balance increased to $3.9 billion, from $3.7 billion in May, with broad improvement among multiple sectors, offsetting the 10% decline in energy exports due to the 25% decline in oil price.

The latest employment reports were surprisingly strong in Canada, but weaker than expected in the U.S. Despite a decline in the unemployment rate in Canada, to a two-year low of 6.4% with a gain of 75k jobs in July, the U.S. maintains a tighter labour market with an unemployment rate that declined to 4.1% in July, despite the loss of 23k jobs, with negative revisions to the last two months' gains.

Rates on hold as the Fed kicks the can down the road

The BoC seems to be under minimal pressure to either raise or lower its policy rate, as economic growth remains mildly positive, with a more positive outlook 2Q26, and the second half of 2026, after a couple of negative quarters and amidst trade uncertainty. The unemployment rate was surprisingly good in July, while inflation seems under control despite pressures from oil prices, but that could be considered transitory.

In the U.S., the Fed seems to be further delaying making a call on rate hikes, despite persistently above targeted inflation, low unemployment, and resilient economic growth. Financial markets are also questioning the Fed's resolve to step in to tackle inflation, despite tough talk about maintaining price stability. Further rationalizing the July decision to hold rates steady is that the Fed is waiting for advice from various newly assembled task forces on how the Fed should be conducting monetary policy, and the volatility in oil prices caused by the U.S.-Iran conflict that can be somewhat considered a transitory impact to inflation that the Fed can justify overlooking for now.

Higher crude benefited the TSX in July, as S&P 500 leadership shifted

In July, the S&P 500 declined modestly, with both its price and total returns falling 0.1%, bringing its year-to-date price and total returns to 9.4% and 10.1%, respectively. The weakness was largely attributable to underperformance among previously overheated memory stocks. Within U.S. large caps, market leadership continued to show meaningful signs of broadening, as investors demonstrated greater interest in previously lagging and lower-valuation areas of the market. This was reflected in the equal-weighted S&P 500, which delivered price and total returns of 0.9% and 1.0%, respectively, marking the second consecutive month of outperformance relative to the capitalization-weighted index. Excluding the semiconductor industry, the equal-weighted S&P 500 generated an impressive total return of 2.5% in July, still ahead of the 2.2% return for the capitalization-weighted index on the same basis.

Canadian equities, represented by the S&P/TSX Composite, advanced in July, delivering a price return of 1.1% and a total return of 1.2%, while reaching a new high during the month. This brought the index's year-to-date price and total returns to 11.1% and 12.6%, respectively. Energy was the primary driver of gains, supported by higher crude due to the renewed closure of the Strait of Hormuz during the month. Materials and Communication Services were the weakest sectors, while all other sectors posted modest positive returns.

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.

Newly announced Section 338 tariffs, which do not include USMCA-exemptions, are likely partially intended to put additional pressure on the Canadian government to act quickly and make greater concessions before their August 19 implementation date.

Tariffs

With the temporary 10% Section 122 tariffs expiring on July 24, the administration shifted to a more durable tariff framework under Section 301 of the Trade Act. Following investigations launched in March and consultations held earlier this month, the U.S. Trade Representative finalized tariffs of 10-12.5% on imports from 60 economies deemed to have inadequately addressed the importing of goods produced with forced labour. The measures took effect immediately on July 24, replacing the expiring Section 122 tariffs.

Canada received the lower 10% rate under the new Section 301 framework, while goods qualifying under the USMCA remain exempt. However, the more significant development for Canada came on July 20, when the administration invoked Section 338 of the Tariff Act of 1930 for the first time, announcing an additional 50% tariff on a selected range of Canadian imports effective August 19. Citing Canada's treatment of U.S. motor vehicles, dairy products, and alcoholic beverages, the measures represent a notable escalation in bilateral trade tensions and add uncertainty with ongoing USMCA review discussions. Unlike the new Section 301 tariffs, the Section 338 measures apply even to USMCA-qualifying goods, although several key Canadian exports, including energy products, potash, critical minerals, fish products, and goods already subject to Section 232 tariffs, remain exempt.

These developments place greater urgency on ongoing trade negotiations and reinforce the importance of Canada securing a renewed trade agreement with the U.S. The introduction of Section 338 tariffs also demonstrates that USMCA coverage alone may no longer be sufficient to shield Canadian exports from U.S. protectionist actions.

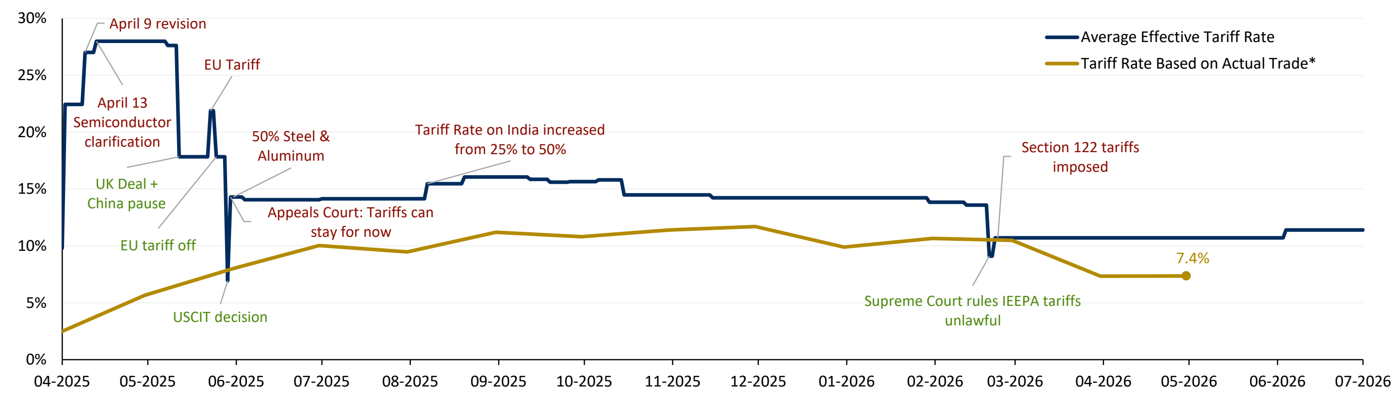
Looking ahead, we continue to expect increasingly intensive use of Section 301, 338, and 232, as the U.S. administration seeks more durable legal mechanisms to advance its trade agenda. Below, in Table 1, we include brief updates on key tariff-related items.

Table 1 - Section 232 Tariffs Summary, as of August 5, 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	-

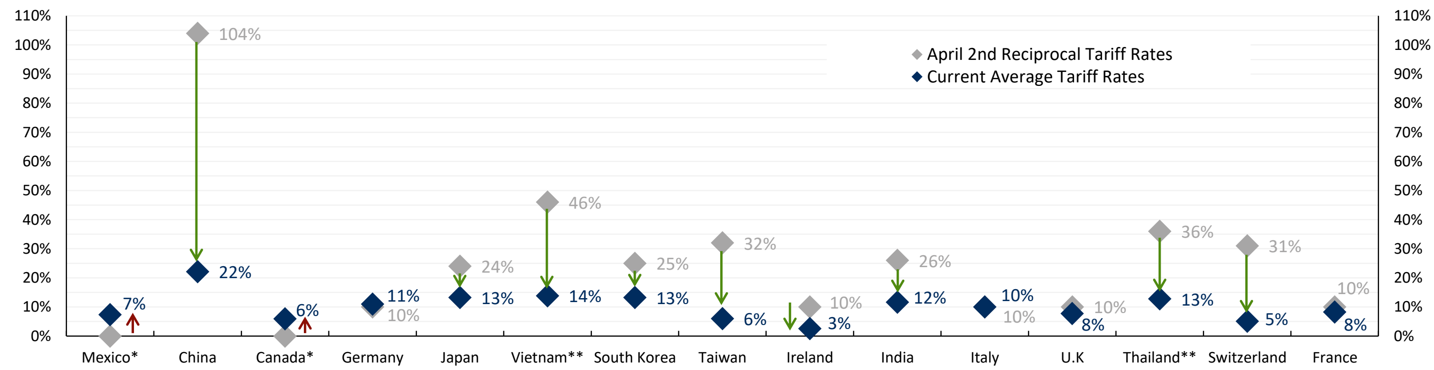
Source: U.S. Department of Commerce, Raymond James Ltd.

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 August 5, 2026



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

Economics

Canadian GDP — Growth remains resilient through the second quarter

Monthly real GDP increased 0.3% m/m in May, exceeding Statistics Canada's preliminary estimate of 0.1% gain and extending the strong momentum from April's 0.6% m/m increase (Chart 6). Growth remained broad-based, with 13 of 20 industries expanding during the month. The mining, quarrying, and oil/gas extraction sectors once again led the gains, supported by stronger extraction activity and oilfield support services as some seasonal maintenance was completed earlier than usual or deferred to capitalize on higher energy prices. Elsewhere, construction, non-durable manufacturing, and accommodation and food services also recorded solid growth, highlighting resilience across the broader economy.

Statistics Canada's advance estimate points to a further 0.2% m/m increase in June. If realized, this would translate into approximately 3.4% annualized GDP growth in the second quarter. While monthly GDP by industry has not been a perfect guide to quarterly expenditure-based GDP, primarily because it does not fully capture swings in net exports, recent trade data suggest that net exports remained strong throughout the second quarter, pointing to higher-than-expected GDP growth. Although the Bank of Canada's July Monetary Policy Report (MPR) projected 2.5% annualized growth in the second quarter, the actual GDP release could come in above that forecast.

Looking ahead, uncertainty surrounding the ongoing USMCA negotiations continues to cloud the economic outlook. Reflecting these risks, the Bank of Canada revised down its forecast for full-year 2026 GDP growth to 0.7% in its July MPR, which could, however, be revised higher if greater certainty is restored through a timely USMCA renewal and recent improvement in growth is sustained.

Manufacturing sales continue to strengthen

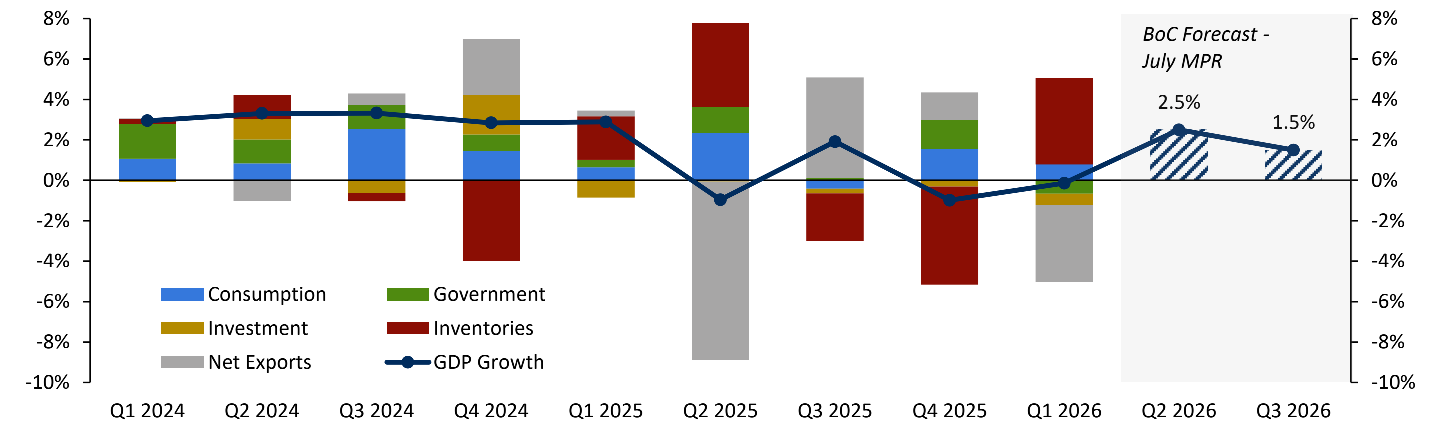
Manufacturing sales increased 1.3% m/m (in nominal terms) in May, marking a fourth consecutive monthly gain with increases across 14 of 20 manufacturing industries. Adjusting for higher industrial prices, sales volumes rose a more modest 0.5% m/m. Encouragingly, the continued strength in manufacturing activity and new orders suggests the sector's recovery still has room to run, providing further support for Canadian economic growth in the months ahead.

Retail sales gain momentum

Retail sales increased 1.0% m/m to $73.7 billion in May, matching Statistics Canada's advance estimate and marking a second consecutive monthly gain. Similar to recent months, gasoline/fuel vendors contributed meaningfully to the increase, with sales rising 3.1% m/m. However, the gain was entirely attributable to higher gasoline prices, as sales volumes at gasoline stations declined during the month. Encouragingly, the strength extended beyond gasoline/fuel vendors in May, with sales increasing across all nine major subsectors. Excluding gasoline/fuel vendors, retail sales rose a solid 0.8% m/m (Chart 7). The total retail sales volume also increased 0.3% m/m, pointing to stronger consumer spending during the month.

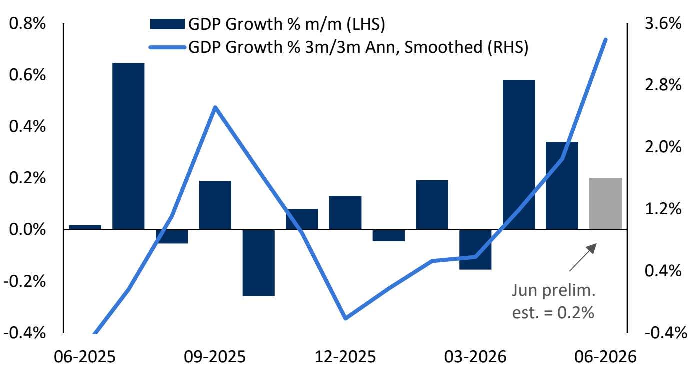
Statistics Canada's advance estimate points to a further 0.4% m/m increase in retail sales in June. Combined with lower gasoline prices during the month, this suggests real consumer spending likely strengthened further towards the end of the second quarter. However, the durability of this momentum remains uncertain, as oil prices moved higher in July, potentially renewing pressure on household purchasing power and consumer spending.

Chart 5 - Contribution to % Change in GDP (q/q annualized)



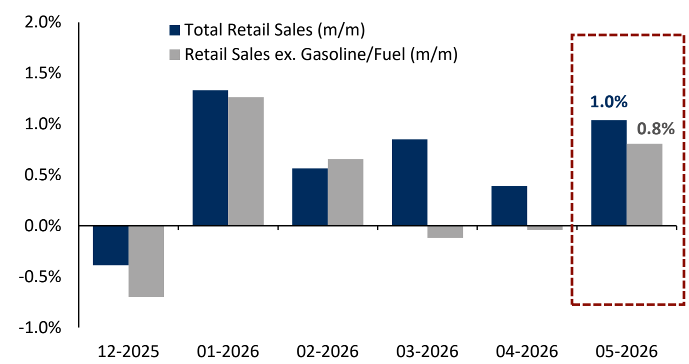
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of March 31, 2026.

Chart 6 - Monthly GDP Data Points to Stronger 2Q26 Growth



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

Chart 7 - Retail Sales ex. Gasoline Rebound in May



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

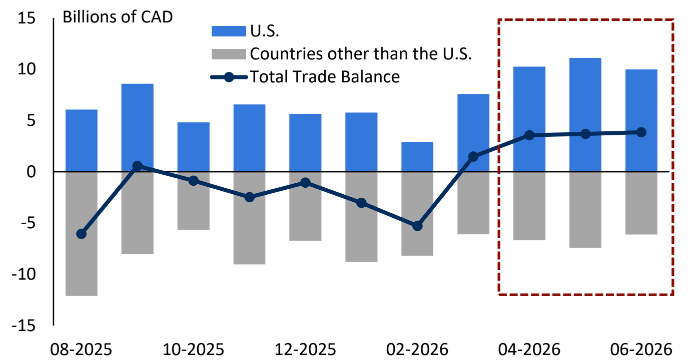
Strong exports support second-quarter growth

Canada's merchandise trade surplus widened slightly from $3.7 billion in May to $3.9 billion in June, marking a fourth consecutive monthly surplus (Chart 8). Merchandise exports increased 0.4% m/m to $77.5 billion, while imports edged up 0.2% m/m to $73.6 billion. Export growth remained broad-based, with gains in six of the eleven major product categories. Stronger exports of gold and motor vehicles more than offset a 10.0% m/m decline in energy exports, as lower crude oil prices weighed on export values (Chart 9). Overall, export volumes rose 1.1% m/m, suggesting the underlying demand remained strong.

Trade with the U.S. remained supportive, with exports increasing 0.3% m/m for a fifth consecutive monthly gain. Although Canada's merchandise trade surplus with the U.S. narrowed from $11.1 billion in May to $10.0 billion in June, this largely reflected a surge in imports of computers and computer peripherals, which pushed imports from the U.S. to a record high.

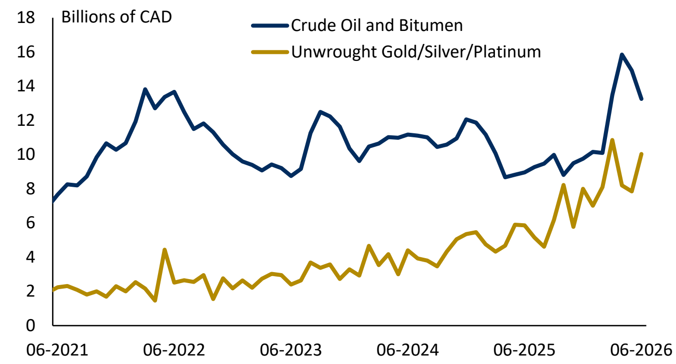
With all the monthly trade data for the second quarter now available, the shift back to a sizeable merchandise trade surplus suggests that net exports are likely to have made a meaningful contribution to overall GDP growth. This is particularly noteworthy because monthly GDP by industry does not fully capture the impact of changes in net trade on the expenditure-based measure of GDP. Combined with the resilience observed in domestic activity, the strength in net exports points to stronger second-quarter GDP growth in Canada.

Chart 8 - Trade Balance Remained in Surplus in 2Q26



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

Chart 9 - Crude Oil and Gold Exports Remain Elevated



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

Labour market conditions strengthened in July

Canadian employment increased by 75.1k in July (Chart 10), substantially exceeding consensus expectations of an 18.5k gain. The increase more than offset a 60.5k rise in the labour force, pushing the unemployment rate down to 6.4% from 6.5% in June (Chart 11). This marked a third consecutive monthly decline in the unemployment rate, which has fallen 0.5 percentage points since April to its lowest level since July 2024.

The underlying details were also encouraging. Employment gains were spread across both full- and part-time positions, and were primarily driven by the private sector. Services accounted for most of the increase, led by wholesale and retail trade (+21k), finance, insurance, and real estate (+18k), and professional, scientific, and technical services (+17k). In contrast, public administration employment declined by 15k during the month.

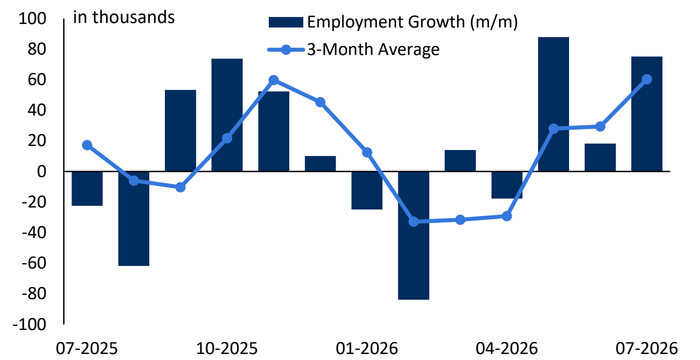
Recent employment gains have strengthened the broader labour market picture, with the three-month average employment increase rising to 60k, its strongest pace since November 2025 (Chart 10). However, looking ahead, uncertainty surrounding the ongoing USMCA negotiations remains an important risk to business confidence and hiring plans, particularly until greater clarity around a longer-term trade agreement is achieved.

Trade uncertainty pushing manufacturers to consider the U.S.

According to a new KPMG survey, 57% of Canadian manufacturer respondents have paused, reduced, or cancelled capital expenditure projects. While Canada has long struggled with creating a competitive environment to attract manufacturers, trade uncertainty, prompted by tariffs, and now lingering USMCA renegotiation, has only amplified the pressures. We could assume that this pause will reverse and lead to a boom in activity once the environment stabilizes, which would hopefully include a new 16-year reset on the USMCA. Unfortunately, the longer the uncertainty persists, more manufacturers will be forced into action. 29% of the respondents reported that they have already moved some or all production to the U.S., and another 13% have not yet moved production, but are considering relocation. 77% of that latter group expect to move within two years, which suggests some urgency in cementing a new deal, and that waiting out the remainder of the current administration's term, in the hopes of a more cooperative U.S. government after the next general election is not going to be a helpful strategy.

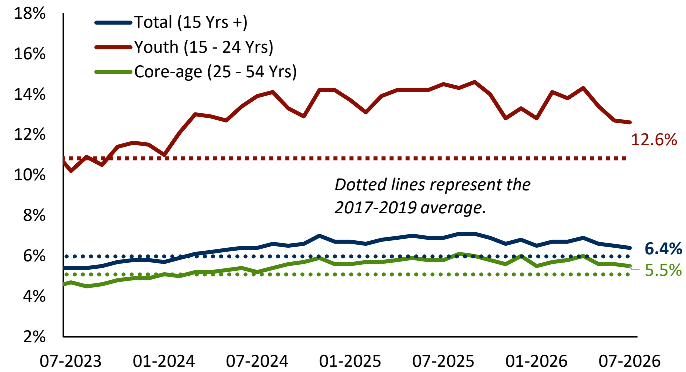
Manufacturing represents over 10% of Canada's GDP and 8-9% of the labour force is directly employed in manufacturing, with approximately 40% of that group being dependent on U.S. demand for exports. Adding in jobs reliant on maintaining those supply chains likely increases the labour force impact to over 10% of Canadians. The above factors could therefore put upward pressure on the Canadian unemployment rate over the next two years, unless a resolution is reached in the ongoing negotiations and a longer-term USMCA framework is renewed, restoring greater certainty for Canadian businesses.

Chart 10 - Employment Growth Regained Momentum



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

Chart 11 - Unemployment Rate Fell to a Two-Year Low



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

Inflation remains well contained

Headline CPI inflation slowed to 2.8% y/y in June from 3.2% in May, as consumer prices declined 0.1% m/m. The moderation was driven primarily by gasoline prices, which fell 10.2% m/m, fully reversing the temporary energy-driven increase in headline inflation seen in the previous month. Excluding gasoline, inflation remained unchanged at 2.2% y/y, suggesting that broader price pressures continue to be well contained (Chart 12).

Price pressures across most categories remained generally subdued, with a notable exception in World Cup–related travel services, including accommodation and vehicle rentals, where prices rose sharply amid stronger domestic demand. However, these increases were largely offset by softer price trends elsewhere. The Bank of Canada's preferred core inflation measures also continued to improve. The average of CPI-trim and CPI-median rose just 0.07% m/m, pulling the three-month annualized pace down to 1.6%, while the year-over-year rate eased to 1.9%.

While oil prices have moved higher again during July and could contribute to some upward pressure in the next inflation release, the broader inflation backdrop continues to point to moderate underlying price pressures.

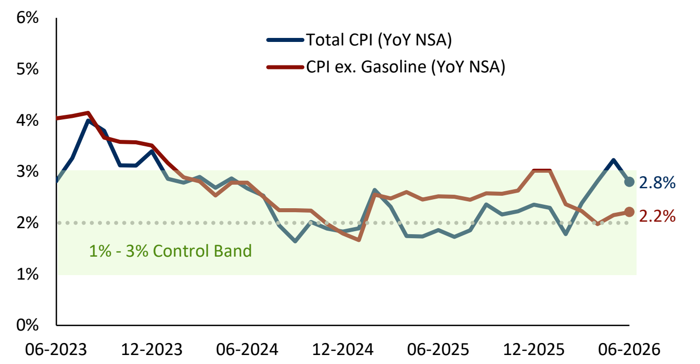
Bank of Canada remains on hold

As widely expected, the Bank of Canada left its policy rate unchanged at 2.25% at its July meeting, marking the sixth consecutive meeting without a change. While the Bank acknowledged that economic activity has evolved somewhat more favourably than anticipated in June, it continued to emphasize that the economy remains in excess supply, with labour market conditions still soft.

On inflation, the Bank reiterated that recent headline strength has been driven primarily by energy prices, while emphasizing that there has been little evidence of broader spillover effects and that core inflation remains close to its 2% target. Overall, its messaging suggests policymakers remain comfortable looking through temporary energy-driven inflation as long as underlying price pressures stay contained, although the recent upward pressure on oil prices could eventually change that assessment.

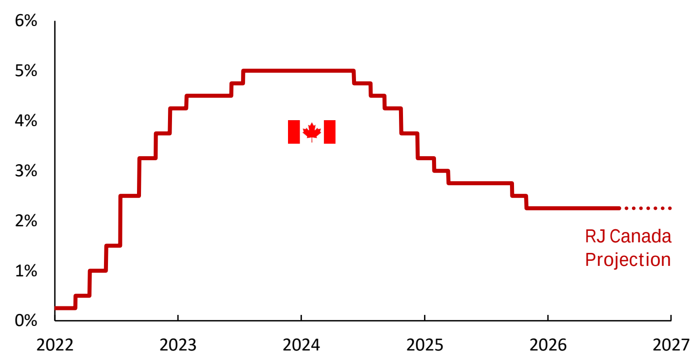
Assuming oil prices gradually normalize, our base case remains that the Bank of Canada will leave its policy rate unchanged through the remainder of the year (Chart 13). However, uncertainty surrounding the ongoing USMCA renegotiations continues to represent an important downside risk to growth. Should trade tensions intensify materially, the Bank may need to lower interest rates further to support economic activity.

Chart 12 - Limited Spillover from Higher Gasoline Prices



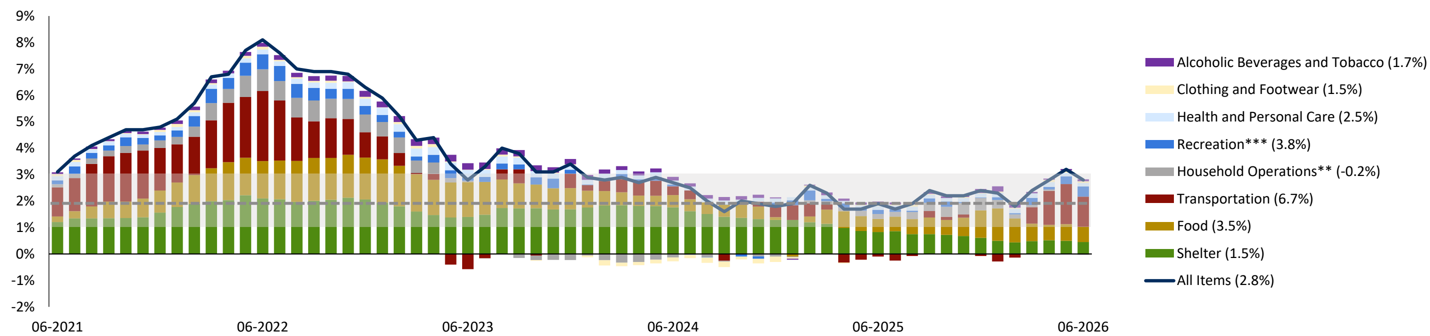
Source: Statistics Canada, Raymond James Ltd.; Data as of June 30, 2026.

Chart 13 - Bank of Canada Likely to Stay on Hold



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

Chart 14 - 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 June 30, 2026. **Household operations, furnishing and equipment; ***Recreation, education and reading.

The U.S. — Domestic demand remained robust despite slower headline GDP growth in 2Q26

U.S. real GDP grew at a 1.5% q/q annualized pace in 2Q26, slowing from 2.1% in 1Q26 (Chart 15). While headline growth moderated, the composition of growth remained constructive. Final sales to private domestic purchasers, a key measure of private-sector demand that excludes government spending and inventories, rose a robust 3.9% q/q annualized, the strongest pace since the first quarter of 2023 (Chart 16). Meanwhile, weaker net exports, primarily reflecting a surge in imports, and a modest drag from government spending weighed on overall GDP growth.

Consumer spending rebounded strongly during the quarter. Personal consumption expenditures (PCE) increased 3.2% q/q annualized, contributing 2.1 percentage points to overall GDP growth after contributing just 0.4 percentage points in the first quarter. Gross private domestic investment also remained supportive, contributing 1.2 percentage points, although the pace moderated from the previous quarter. Equipment investment continued to provide a meaningful boost, but unlike the first quarter, when gains were concentrated in AI-related information technology equipment, the second-quarter increase was more broad-based, with industrial and transportation equipment accounting for a larger share of the growth. This suggests business investment remains resilient beyond AI-related capital spending alone.

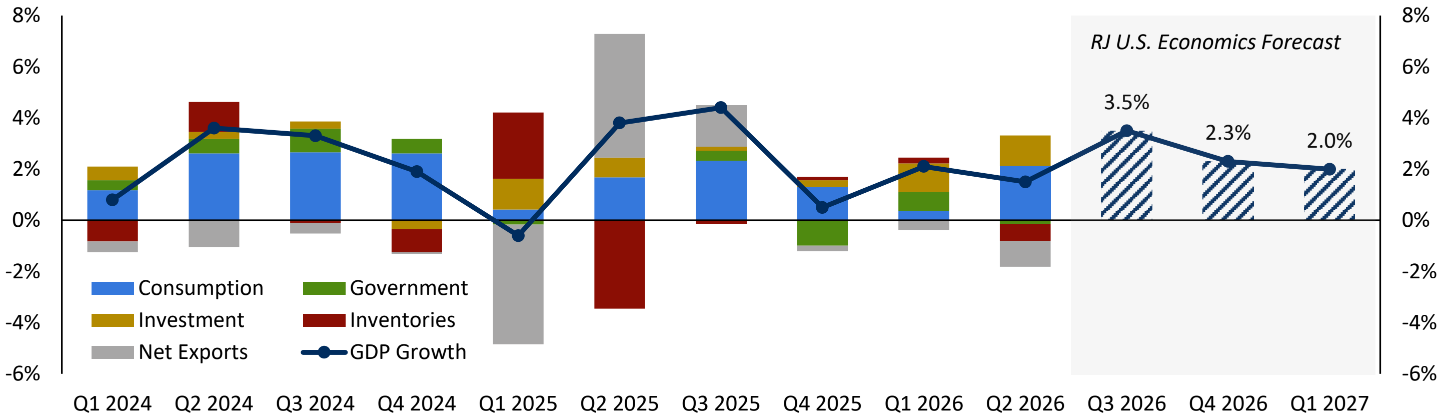
Overall, the second-quarter GDP report suggests that domestic demand remained resilient despite slower headline growth. While net exports and government spending weighed on overall GDP, consumer spending and business investment continued to provide support.

PMIs continue to signal growth

The ISM Manufacturing PMI rose to 55.6 in July from 53.3 in June, its highest reading since May 2022 and marking a seventh consecutive month of expansion (Chart 17). The improvement was broad-based, led by stronger production and new orders, while new export orders returned to expansion. Notably, the employment index also moved back into expansion territory for the first time in nearly three years, suggesting hiring conditions in the manufacturing sector may be improving.

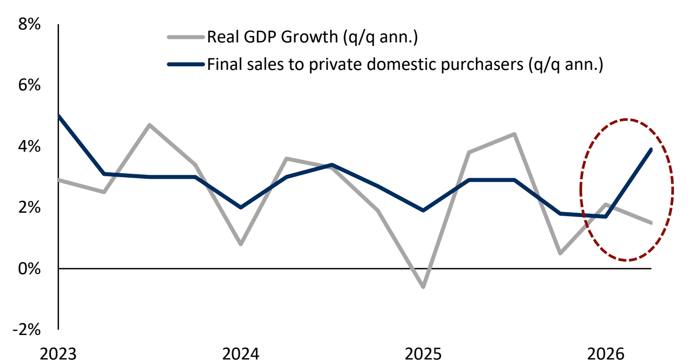
The ISM Services PMI slightly edged up to 54.1 in July from 54.0 in June, remaining firmly in expansion territory. Business activity strengthened notably, with the Business Activity Index rising to 59.1, while the New Orders Index also improved. In contrast to the manufacturing survey, however, the employment index slipped back into contraction, suggesting relatively softer labour demand within the services sector.

Chart 15 - Contribution to % Change in U.S. GDP (q/q annualized)



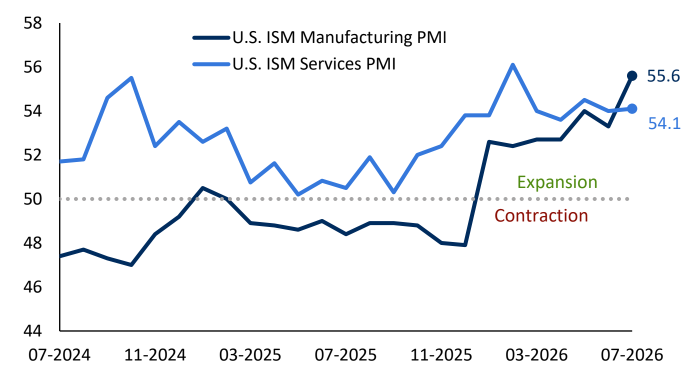
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of June 30, 2026.

Chart 16 - U.S. Domestic Private Demand Remained Strong in 2Q26



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

Chart 17 - PMIs Stay Firm in Expansion Territory



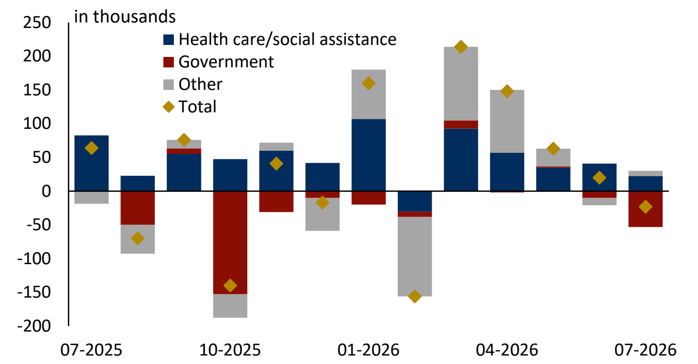
Source: FactSet, Raymond James Ltd.; Data as of July 31, 2026.

Hiring in the U.S. weakened further in July

U.S. non-farm payroll employment declined by 23k in July, well below expectations of a 95k gain, while employment gains in May and June were revised down by a combined 103k. The weakness was largely driven by a 53k decline in government employment (Chart 18), primarily within local government education, while private payrolls increased by a modest 30k. Within the private sector, goods-producing industries added 25k jobs, led by a 22k increase in construction, while services employment rose by just 5k. Leisure and hospitality was a notable drag, with employment declining by 40k during the month. Following the latest revisions, average monthly payroll growth over the first seven months of the year slowed to 61k, while the three-month average fell to 20k.

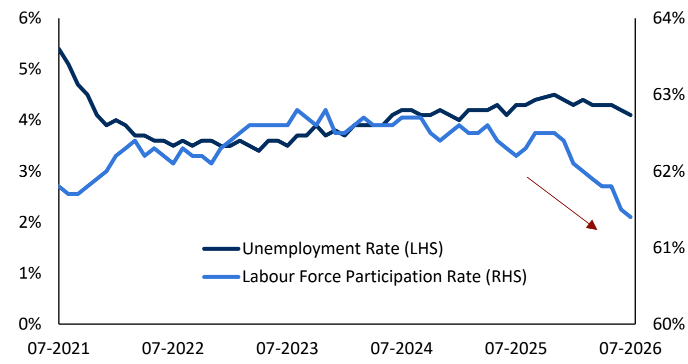
The unemployment rate edged down to 4.1% in July from 4.2% in June, although the decline once again reflected weaker labour force participation rather than stronger employment. The labour force contracted by 264k during the month, pushing the participation rate lower (Chart 19). With the downward trend in labour force participation likely to persist, it could continue to limit upward pressure on the unemployment rate, even as the latest data point to softer labour market conditions.

Chart 18 - U.S. Employment Declined in July



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

Chart 19 - Falling Participation Rate Drove Unemployment Lower



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

U.S. inflation moderates

The headline Consumer Price Index (CPI) fell 0.4% m/m, lowering the year-over-year inflation rate to 3.5% from 4.2% in May (Chart 20). While the decline was led by lower energy prices, underlying inflation also surprised to the downside. Core CPI was unchanged during the month, reducing the annual rate to 2.6% from 2.9%. The Federal Reserve's preferred inflation gauge painted a similar picture. The core PCE price index increased 0.13% m/m in June, nudging the year-over-year rate down to 3.3% from 3.4%. Together with the softer CPI data, the latest readings suggest that higher energy prices have so far had limited spillover effects into broader consumer prices.

Producer prices also surprised to the downside. Headline PPI declined 0.3% m/m in June, lowering the annual rate to 5.5%, while core PPI rose just 0.1% during the month. Although there was little evidence of AI-related price increases feeding through to consumer technology products in June, upstream price pressures remain evident in parts of the supply chain, with prices for electronic computers and computing equipment rising 2.5% m/m alongside continued gains in several machinery and industrial metals categories. While some of these costs may gradually pass through to consumers over time, including some announced price increases for certain technology products, the broader impact on consumer inflation has so far remained limited.

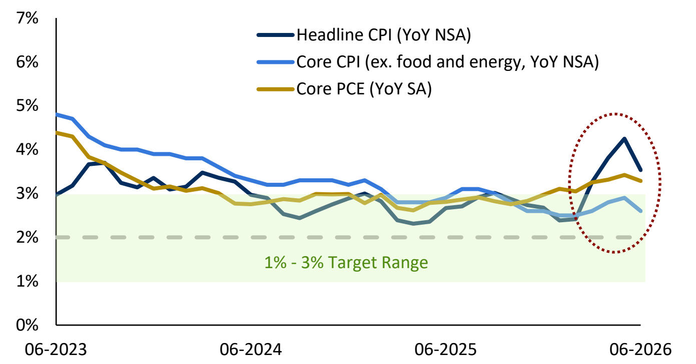
While the recent rebound in oil prices could place some upward pressure on headline inflation in the coming months, the risk to broader inflation would depend on whether persistently elevated energy prices begin to spill over into other categories. Absent such spillovers, any impact on overall inflation is likely to be temporary and limited.

Fed holds rates steady, but markets were not thrilled with Fed’s communication

At its July 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 second under new Chair Kevin Warsh, and the market was not thrilled with his messaging. Warsh has been critical about the abundance of commentary and forward guidance from the Fed, but under his new regime, the sparse commentary from the Chair only amplifies attention to other FOMC members.

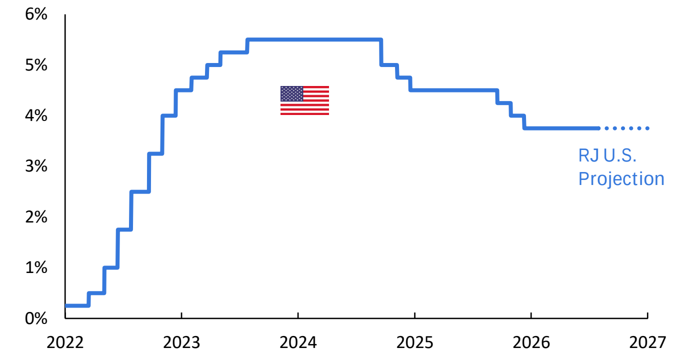
Additionally, what Warsh did say in the July 29 press conference seemed to make market participants less convinced of his commitments to price stability, vis-à-vis bringing inflation back to the 2% target level by hiking the policy rate. With three of the 12 voters dissenting at this meeting, in favour of rate hikes, we see growing pressure building for a hike in September, although the odds of a hike at that meeting dropped to 60% after the press conference. Conversely, a hike in the 30-year yield to 5.21%, its highest level since 2007, suggests that the direction of the policy rate is ultimately up, but that the current Fed might wait too long to start hiking and then end up hiking overly aggressively to rectify the situation. For now, our U.S. Economics team continues to expect the Fed to leave the policy rate unchanged through the remainder of the year (Chart 21).

Chart 20 - Inflation Eased in June But Still Elevated



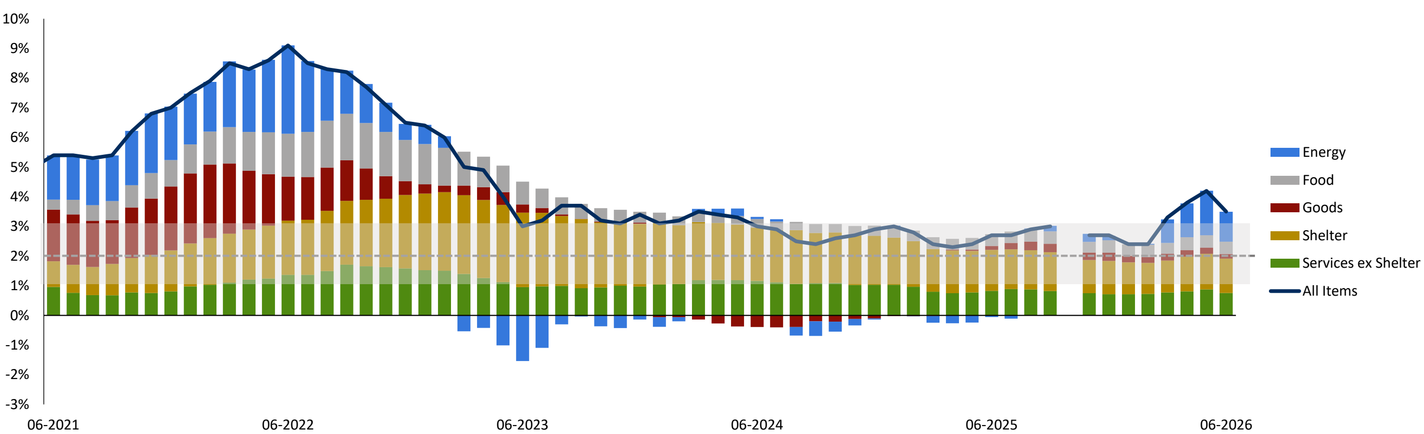
Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of June 30, 2026.

Chart 21 - Fed Expected to Stay on Hold



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

Chart 22 - Major Components' Contributions to U.S. CPI



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

Financial Markets

The temporary de-escalation between the U.S. and Iran, that brought WTI crude back to under US$69/bbl by the end of June, proved short-lived, with renewed strikes prompting another closure of the Strait of Hormuz in July, driving WTI back above US$92, before the latest ceasefire brought us back below US$75 in early-August. Markets have nevertheless shown greater resilience to the conflict itself, absorbing the increase in oil-price expectations and volatility without triggering a broader cross-asset repricing. The key risks remain centered on the inflationary consequences of higher energy prices and the implications for Federal Reserve policy.

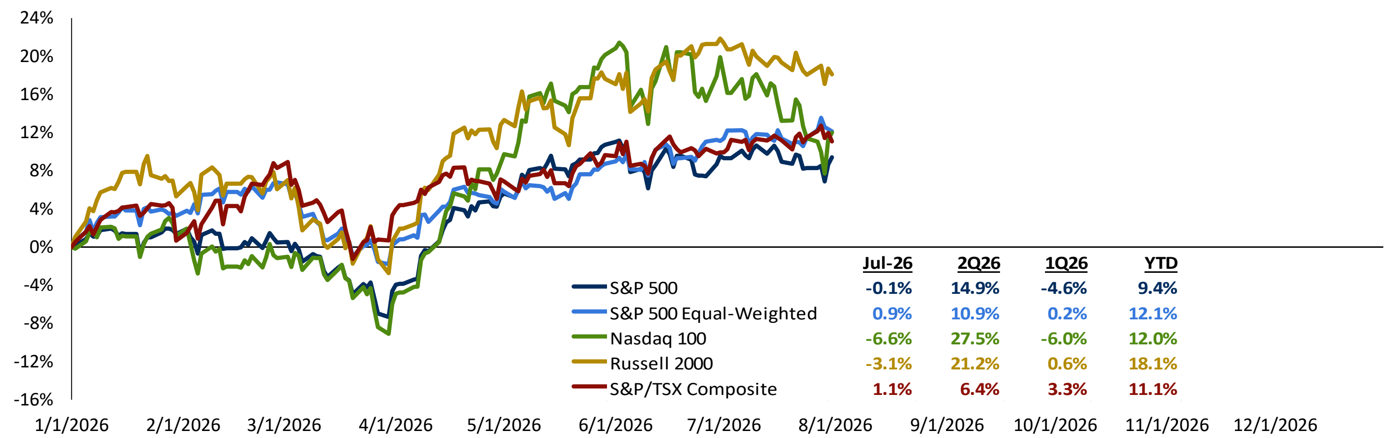
We expect the pattern of on-again/off-again ceasefires to persist over the coming months. However, markets may become increasingly immune to these developments, much as they did to recurring tariff threat headlines last year, particularly given record earnings growth and the continued strength of earnings surprises. Even if inflationary pressures ultimately lead to one or more rate hikes (in the U.S.), this would not necessarily end the equity bull market or derail the A.I. investment cycle. Rather, it would likely reinforce selectivity in the market and increase investor preference for higher-quality companies with strong balance sheets and greater earnings visibility.

In July, the S&P 500 declined modestly, with both its price and total returns falling 0.1%, bringing its year-to-date price and total returns to 9.4% and 10.1%, respectively. The weakness was largely attributable to underperformance among previously overheated memory stocks. Within U.S. large caps, market leadership continued to show meaningful signs of broadening, as investors demonstrated greater interest in previously lagging and lower-valuation areas of the market. This was reflected in the equal-weighted S&P 500, which delivered price and total returns of 0.9% and 1.0%, respectively, marking the second consecutive month of outperformance relative to the capitalization-weighted index. Excluding the semiconductor industry, the equal-weighted S&P 500 generated an impressive total return of 2.5% in July, still ahead of the 2.2% return for the capitalization-weighted index on the same basis.

The Nasdaq 100 was also weighed down in July by weakness among memory and storage beneficiaries. At the same time, concerns that higher energy prices could prompt further rate hikes, alongside an increase in the 10-year Treasury yield amid doubts over the new Fed chair's ability to contain inflation, placed additional pressure on small-cap performance.

Canadian equities, represented by the S&P/TSX Composite, advanced in July, delivering a price return of 1.1% and a total return of 1.2%, while reaching a new high during the month. This brought the index's year-to-date price and total returns to 11.1% and 12.6%, respectively. Energy was the primary driver of gains, supported by the renewed closure of the Strait of Hormuz during the month. Materials and Communication Services were the weakest sectors, while all other sectors posted modest positive returns.

Chart 23 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of July 31, 2026. Price return in local currency.

U.S. Equities

There was significant activity beneath the headline index's near-flat return in July. A sell-off in previously crowded memory stocks weighed on the semiconductor segment, while outperformance in the Energy and Financials sectors helped offset the drag at the broader index level. The month concluded with earnings reports from several Magnificent Seven companies. Market reactions varied, offering greater clarity on the metrics investors are currently prioritizing and on their appetite for continued exposure to the A.I. theme. Overall, market selectivity has become more pronounced, with companies generating healthier free cash flow and maintaining disciplined funding strategies generally being rewarded. Indiscriminate buying and selling have become less evident at this stage of the cycle, particularly against the backdrop of a potential Federal Reserve rate hike.

In our last two reports, we discussed the binary dynamic between A.I. bottleneck beneficiaries, such as memory and semiconductor companies, and the hyperscalers, given that one company's revenue opportunity often represents another company's capital expenditure burden. While this dynamic may persist for some time, robust downstream demand, as reflected in the earnings results of cloud service providers, has strengthened market confidence that A.I. investment can ultimately translate into higher sales, new revenue streams and measurable productivity gains. This improving visibility could support earnings across a broader portion of the A.I. value chain, rather than benefiting only selected segments such as semiconductors in the early stages of the cycle. In turn, this may help reduce the binary nature of the trade and broaden investor interest across the full A.I. ecosystem.

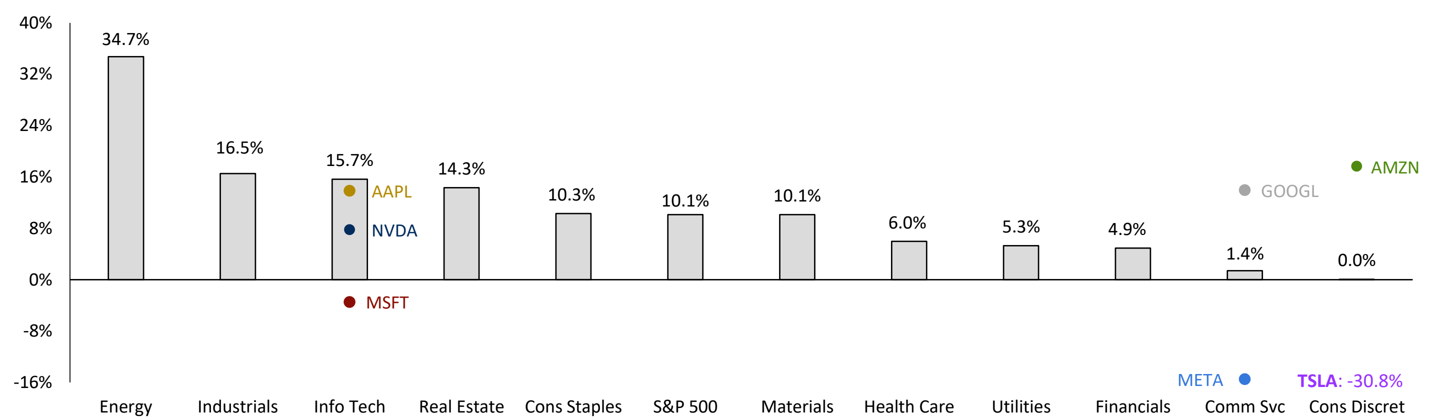
Outside the technology-related sectors, Financials, Real Estate, Health Care and Consumer Staples each delivered total returns of more than 2% in July, reinforcing the ongoing broadening of market leadership. This rotation appears to be supported by several factors. Previously lagging, lower-valuation and lower-beta areas of the market are attracting renewed investor interest, both as diversification from concentrated A.I. exposure and as potential beneficiaries of a broader economic expansion. Certain industries, including railways, utilities, waste management and infrastructure services, may also be viewed as relatively insulated from direct A.I. substitution given their reliance on essential physical assets and localized operations. Meanwhile, Health Care and Financial Services stand to benefit from the wider diffusion of A.I. through productivity improvements. Financials could benefit from stronger capital-markets activity and credit demand as technology companies and startups raise funding and issuance activity improves. Taken together, these developments suggest that the market's advance is becoming less dependent on a narrow group of technology leaders and increasingly supported by a broader range of sectors and earnings drivers.

More than three weeks into the 2Q26 earnings season, 354 of the 503 companies in the index have reported. The 2Q26 EPS estimate has increased from US$76 at the end of last year to US$97 at the time of writing. Year-over-year earnings growth now stands at an exceptionally strong 46.9%, more than double the pre-season estimate, while quarter-over-quarter growth of 21.6% has also been robust. This strength has lifted the CY26 earnings estimate to US$355, from US$334 at the end of the previous earnings season, implying growth of 31.3% from CY25.

Ten of the 11 sectors are on track to deliver positive earnings growth in 2Q26, with Health Care the sole exception. Growth ranges from 7.6% for Consumer Staples to 140.4% for Energy. However, the contribution to overall index earnings growth remains relatively concentrated, with Information Technology, Communication Services and Consumer Discretionary accounting for just under 80% of the growth, broadly in line with the previous quarter.

Looking ahead, we remain constructive on U.S. large-cap equities, with quality remaining the key consideration amid elevated volatility, macro uncertainty and the prospect of tighter monetary policy.

Chart 24 - S&P 500 Sector and "Magnificent Seven" YTD Total Returns



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

Chart 25 - S&P 500 & Sector Performance Quilt

S&P 500 & Sector Performance Quilt

S&P 500	-1.3%	-5.6%	-0.7%	6.3%	5.1%	2.2%	2.0%	3.7%	2.3%	0.2%	0.1%	1.5%	-0.8%	-5.0%	10.5%	5.3%	-1.0%	-0.1%
	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Communication Services	10 -6.3% 20.1x	9 -8.3% 18.2x	3 0.8% 17.9x	2 9.6% 19.4x	2 7.3% 20.4x	6 2.4% 20.2x	4 3.6% 20.7x	2 5.6% 21.9x	5 1.9% 22.1x	2 6.4% 23.2x	7 -1.0% 22.7x	5 5.8% 23.4x	10 -5.1% 21.9x	8 -7.3% 20.1x	1 18.5% 21.5x	6 -0.9% 21.2x	11 -7.8% 19.4x	7 0.6% 17.9x
Consumer Discretionary	11 -9.4% 28.2x	11 -8.9% 25.4x	6 -0.3% 26.3x	3 9.4% 28.8x	7 2.2% 29.1x	5 2.6% 29.6x	5 3.4% 29.5x	4 3.2% 30.4x	3 2.4% 30.6x	10 -2.4% 29.7x	4 0.8% 29.6x	7 1.7% 30.4x	11 -5.4% 28.7x	5 -5.6% 26.8x	3 11.7% 28.6x	2 2.6% 29.0x	9 -4.7% 27.2x	6 0.8% 25.0x
Consumer Staples	1 5.7% 23.9x	5 -2.4% 23.0x	2 1.2% 23.5x	8 1.8% 23.9x	11 -1.9% 23.3x	10 -2.4% 22.5x	8 1.6% 22.7x	10 -1.6% 22.3x	8 -2.3% 21.7x	4 4.0% 22.6x	9 -1.6% 22.1x	3 7.7% 23.6x	4 7.9% 25.5x	9 -7.4% 23.5x	7 3.1% 24.2x	9 -3.2% 22.9x	6 0.5% 22.7x	5 2.1% 22.9x
Energy	3 4.0% 14.6x	1 3.9% 15.1x	11 -13.6% 14.2x	9 1.0% 14.6x	3 4.8% 15.1x	4 2.9% 15.3x	3 3.6% 15.5x	9 -0.4% 15.4x	7 -1.1% 15.6x	5 2.5% 15.6x	5 0.2% 16.0x	1 14.4% 19.2x	2 9.4% 20.8x	1 10.4% 19.4x	11 -3.5% 15.1x	11 -5.6% 13.1x	10 -5.1% 12.5x	1 12.6% 13.6x
Financials	6 1.4% 17.4x	8 -4.2% 16.3x	8 -2.1% 16.0x	5 4.4% 16.7x	5 3.2% 17.1x	7 0.0% 16.6x	6 3.1% 16.9x	8 0.1% 16.7x	10 -2.8% 15.8x	7 1.9% 15.9x	1 3.1% 16.3x	11 -2.4% 15.6x	8 -3.7% 14.8x	3 -3.5% 14.2x	6 5.6% 14.7x	8 -1.1% 14.4x	3 4.4% 14.8x	2 6.2% 15.2x
Health Care	5 1.5% 18.3x	3 -1.7% 17.8x	10 -3.7% 17.3x	11 -5.5% 16.4x	8 2.1% 16.6x	11 -3.3% 16.4x	2 5.4% 16.9x	6 1.8% 17.1x	2 3.6% 17.6x	1 9.3% 19.0x	8 -1.4% 18.6x	9 0.0% 18.8x	7 3.5% 19.2x	10 -8.1% 17.4x	10 -0.4% 17.0x	3 2.5% 17.6x	2 6.6% 18.5x	4 2.4% 18.6x
Industrials	9 -1.4% 22.3x	7 -3.6% 21.4x	4 0.2% 22.0x	4 8.8% 23.5x	4 3.6% 24.2x	3 3.0% 24.6x	10 0.0% 24.3x	5 1.9% 24.5x	6 0.5% 24.5x	9 -0.9% 24.0x	3 1.3% 23.9x	4 6.7% 25.3x	5 7.1% 26.8x	11 -8.4% 24.3x	5 7.9% 25.4x	5 -0.8% 24.6x	1 7.3% 26.2x	10 -3.0% 24.7x
Information Technology	8 -1.3% 27.1x	10 -8.8% 24.3x	1 1.6% 24.6x	1 10.9% 27.0x	1 9.8% 29.2x	1 5.2% 30.0x	9 0.3% 29.1x	1 7.2% 30.3x	1 6.2% 31.1x	11 -4.3% 28.3x	6 -0.3% 26.6x	10 -1.7% 25.2x	9 -3.9% 23.5x	4 -3.8% 20.9x	2 17.5% 23.8x	1 16.0% 25.9x	8 -3.3% 23.3x	11 -3.4% 21.6x
Materials	7 0.0% 21.1x	6 -2.6% 20.1x	9 -2.2% 20.0x	7 3.0% 20.4x	6 2.3% 20.6x	9 -0.4% 20.0x	1 5.8% 21.0x	11 -2.1% 20.6x	11 -5.0% 19.0x	3 4.2% 19.5x	2 2.2% 19.3x	2 8.7% 20.3x	3 8.4% 21.5x	7 -6.9% 19.2x	8 2.7% 18.4x	4 -0.7% 17.7x	7 0.0% 17.5x	8 -1.7% 17.2x
Real Estate	2 4.2% 18.6x	4 -2.4% 18.3x	7 -1.2% 18.0x	10 1.0% 18.0x	10 0.2% 17.8x	8 -0.1% 17.8x	7 2.2% 18.0x	7 0.5% 17.9x	9 -2.6% 17.4x	6 2.0% 17.6x	10 -2.2% 17.1x	6 2.8% 17.6x	6 6.4% 18.7x	6 -6.0% 17.4x	4 8.8% 18.6x	7 -1.1% 18.3x	5 0.8% 18.1x	3 2.5% 18.6x
Utilities	4 1.7% 17.9x	2 0.3% 17.7x	5 0.1% 17.7x	6 3.8% 18.1x	9 0.3% 18.0x	2 4.9% 18.7x	11 -1.6% 18.2x	3 4.2% 18.7x	4 2.1% 19.0x	8 1.8% 19.1x	11 -5.1% 17.9x	8 1.4% 18.0x	1 10.3% 19.6x	2 -3.2% 18.8x	9 2.1% 19.0x	10 -5.1% 17.8x	4 2.7% 18.1x	9 -2.2% 17.5x

Legend
Sector Rank
Total Return
P/E NTM

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

Canadian Equity Markets

In July, the S&P/TSX Composite showed broad-based strength, with nine of the 11 sectors posting positive returns. The upstream energy segment again stood out, supported by the surge in oil prices following another closure of the Strait of Hormuz. The S&P/TSX Composite has been less volatile than the S&P 500 in recent months, reflecting its more limited exposure to technology. Policy communication from the Bank of Canada has also been clearer, and both the economy and markets appear comfortable with the current policy rate and the consensus path for future rates. In addition, industries more vulnerable to U.S. tariffs represent a relatively small weight in the index. With the economy supported by exports and improving manufacturing and retail sales, the outlook for the index remains constructive.

The 2Q26 earnings season kicked off in late July, with 136 of the 220 companies in the S&P/TSX Composite having reported so far. The 2Q26 EPS estimate has increased from $475 at the end of last year to $535 at the time of writing. Year-over-year earnings growth now stands at an impressive 30.6%, while quarter-over-quarter growth of 12.8% has also been solid. The CY26 consensus earnings estimate is currently $2,083, implying growth of 25.4% from CY25.

Nine of the 11 sectors are on track to deliver positive earnings growth in 2Q26, with Real Estate and Communication Services the only exceptions. However, overall index earnings growth remains relatively concentrated, as the heavily weighted sectors with the strongest earnings momentum, Energy, at 17.4% of the index, and Materials, at 15.6%, are expected to account for roughly 80% of the growth.

Top 3 Sectors (July 2026):

- **Energy:** this sector outperformed in July, supported by the surge in oil prices amid renewed tensions between the U.S. and Iran. Valuation multiples have expanded once again, and upstream and integrated names performed particularly well. The sector is likely to remain volatile given the on-again/off-again ceasefire and the periodic reopening and closure of the Strait of Hormuz, but regardless of how the Strait of Hormuz situation evolves, a degree of geopolitical risk premium may remain embedded in oil prices for the remainder of 2026. At the same time, the outlook for oil and gas investment and production 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 further oil-price consolidation, the sector's fundamentals remain constructive.

- **Consumer Staples:** this sector has outperformed for two consecutive months. In July, returns were driven mainly by an improved earnings outlook. Grocers all posted solid gains, while the previously extended Miscellaneous Retail and Gas Stations components underwent some consolidation, and the packaged food industry remained under pressure. The sector is still trading near record-high valuations. With food inflation still elevated, consumers remaining value-oriented, and upside risks from oil prices and U.S. tariff uncertainty still present, further upside for the sector appears limited in the current macro backdrop.

- **Consumer Discretionary:** this sector outperformed in July, supported by a resilient economic backdrop, including strong exports, manufacturing sales and retail sales. Most of the sector performed well, except for specialty retail, which had already meaningfully outperformed the rest of the sector in 1H26. That said, headwinds remain. As a high-beta sector, it remains more sensitive than the broader market to swings in oil prices. In addition, the USMCA renewal continues to be an important source of uncertainty, particularly for auto parts and apparel retailers, which have relatively high U.S. revenue exposure and may be more vulnerable as negotiations progress.

Bottom 3 Sectors (July 2026):

- **Communication Services:** the sector leaders, which together account for 85% of the sector, have been struggling for more than three years, and 2026 appears set to be another transition year. Absent external support such as a risk-off backdrop or rotation back into defensive sectors, the sector continues to face structural macro headwinds that are unlikely to attract meaningful market interest in the near term. Rising competitive pressures, less favourable regulatory changes, price-sensitive consumers, and market saturation are all factors that are unlikely to improve materially in the near term. The sector now trades at 12.4x forward P/E, which is only in the 11th historical percentile.

- **Materials:** the renewed rally in oil prices in July again raised concerns about inflation and upward pressure on yields, weighing on non-yielding assets such as gold and, in turn, on gold miners' performance. However, as gold has moved further into a consolidation phase, it appears to have found a floor, and its price at the end of July, slightly above US$4,000, looks broadly aligned with prevailing macro expectations. Supported by strong earnings growth, the sector trades at 12.1x forward P/E, which is only in the 9th historical percentile. Looking ahead, we remain constructive on Materials, supported by our view that the U.S. dollar is likely to weaken from currently extended levels, our base case for oil prices to gradually normalize toward year-end, and continued physical gold demand from emerging markets such as China.

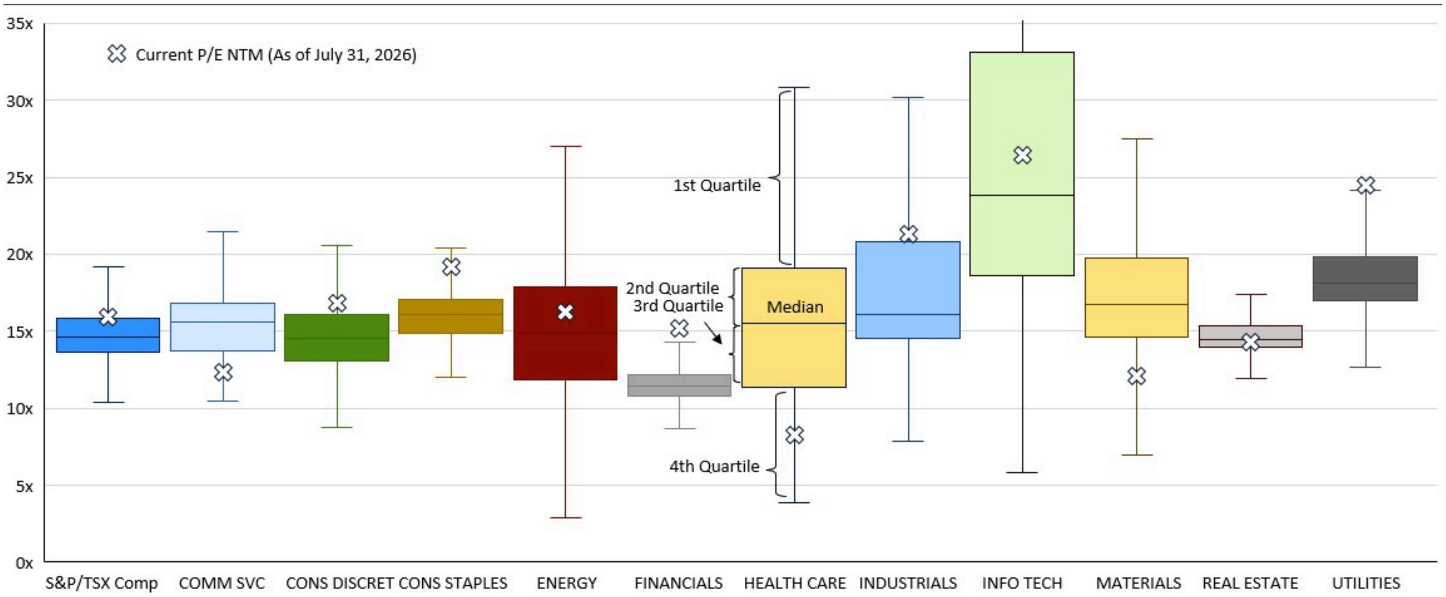
- **Real Estate:** this sector generated a positive return in July, although performance across the subsectors was mixed. Previously leading areas such as Retail and Industrial REITs lost momentum toward the second half of the month, while Residential and Real Estate Services remained relatively subdued. The move higher in long-term government bond yields may have weighed on the sector, as higher yields raise the discount rate applied to future cash flows and increase debt-financing costs. Looking ahead, this divergence in subsector performance is likely to persist, with Retail and Industrial REITs continuing to stand out on a relative basis. At the sector level, however, limited exposure to higher-growth areas such as data centers may constrain the potential for sustained outperformance.

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

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Energy	16.8%	32.2%	6.9%	6.9%	16.3	14.8
Health Care	0.3%	11.5%	2.4%	2.4%	8.2	15.5
Consumer Staples	3.2%	10.7%	1.5%	1.5%	19.3	16.1
S&P/TSX Composite	--	12.5%	1.2%	1.2%	15.9	14.6
Consumer Discretionary	3.1%	5.8%	1.2%	1.2%	16.7	14.5
Financials	35.8%	24.4%	1.0%	1.0%	15.1	11.5
Information Technology	7.6%	-16.7%	1.0%	1.0%	26.4	23.7
Utilities	3.5%	18.8%	0.9%	0.9%	24.8	18.1
Industrials	10.7%	10.9%	0.6%	0.6%	21.4	16.1
Real Estate	1.3%	4.1%	0.4%	0.4%	14.1	14.5
Materials	16.1%	-5.1%	-3.1%	-3.1%	12.1	16.8
Communication Services	1.6%	-7.9%	-3.3%	-3.3%	12.4	15.6

Source: FactSet, Raymond James Ltd.; Data as of July 31, 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 26 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of July 31, 2026. Historical P/E: 1/1/2000 – 7/31/2026. Excluding outliers.

Chart 27 - S&P/TSX Composite & Sector Performance Quilt

TSX Composite & Sector Performance Quilt

TSX Composite	-0.4%	-1.5%	-0.1%	5.6%	2.9%	1.7%	5.0%	5.4%	1.0%
	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Communication Services	4 1.4% 12.9x	6 -1.5% 12.4x	9 -2.5% 12.3x	8 2.2% 12.4x	7 2.9% 12.5x	1 5.0% 13.1x	4 4.4% 13.7x	11 -1.8% 13.3x	6 0.3% 13.2x
Consumer Discretionary	2 2.1% 15.8x	7 -2.4% 15.3x	3 1.8% 16.1x	2 8.1% 17.3x	4 3.7% 17.8x	6 2.1% 17.8x	8 0.7% 17.6x	7 0.9% 17.3x	5 1.6% 17.0x
Consumer Staples	6 -0.3% 16.7x	3 2.6% 17.2x	1 5.6% 18.3x	10 1.2% 18.5x	11 -2.1% 18.3x	7 2.1% 18.4x	11 -0.8% 18.1x	8 0.3% 17.8x	9 -1.2% 17.3x
Energy	9 -1.7% 13.7x	2 4.2% 13.9x	10 -6.3% 13.9x	5 4.5% 15.3x	6 3.4% 16.1x	4 2.6% 16.4x	6 4.0% 16.6x	2 5.6% 17.4x	8 -0.9% 17.6x
Financials	5 -0.2% 11.9x	8 -3.6% 11.3x	5 1.6% 11.4x	4 6.5% 12.0x	5 3.6% 12.4x	8 1.5% 12.4x	5 4.3% 12.6x	3 4.5% 13.0x	4 1.7% 13.0x
Health Care	10 -2.1% 4.8x	9 -4.5% 4.6x	11 -6.8% 5.7x	11 1.1% 5.9x	1 9.4% 4.7x	11 -6.2% 4.5x	2 9.2% 4.9x	5 3.0% 7.2x	2 4.3% 7.3x
Industrials	7 -0.6% 22.0x	10 -4.6% 20.9x	8 -1.0% 21.1x	1 8.9% 22.8x	9 0.3% 22.7x	10 -0.5% 22.5x	10 0.0% 22.2x	9 -0.8% 21.9x	7 -0.7% 21.5x
Information Technology	11 -3.6% 36.8x	11 -12.7% 32.0x	6 0.8% 32.7x	3 8.0% 35.7x	2 4.9% 37.2x	3 4.5% 37.9x	3 6.2% 39.3x	6 2.1% 39.5x	1 13.8% 43.1x
Materials	3 1.9% 16.4x	1 7.2% 17.4x	4 1.7% 16.2x	7 2.5% 16.1x	3 3.7% 16.5x	9 0.0% 14.9x	1 15.9% 16.6x	1 18.9% 18.3x	11 -5.0% 14.8x
Real Estate	8 -0.6% 14.1x	5 -1.4% 13.6x	7 -0.9% 13.4x	6 4.4% 14.0x	8 1.4% 14.1x	2 4.7% 14.6x	7 3.7% 15.0x	10 -1.0% 14.8x	10 -4.0% 14.1x
Utilities	1 3.4% 21.7x	4 1.8% 21.8x	2 2.6% 21.6x	9 1.9% 21.7x	10 0.2% 21.3x	5 2.5% 22.0x	9 0.3% 22.9x	4 3.9% 23.4x	3 4.1% 24.1x

TSX Composite	3.9%	1.3%	0.8%	7.7%	-4.3%	3.8%	2.5%	0.5%	1.2%
	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Communication Services	8 -1.3% 13.0x	7 -0.6% 12.8x	3 3.7% 13.2x	8 2.8% 14.1x	4 -0.7% 13.8x	11 -6.5% 12.9x	1 6.9% 13.7x	10 -9.9% 12.2x	11 -3.3% 11.8x
Consumer Discretionary	3 7.5% 18.0x	4 1.6% 17.9x	10 -5.3% 16.8x	2 10.5% 17.8x	10 -8.2% 16.2x	4 6.2% 17.2x	8 0.3% 17.0x	6 2.3% 17.2x	4 1.2% 16.8x
Consumer Staples	2 8.8% 18.7x	8 -0.7% 18.5x	8 -3.9% 17.8x	3 10.0% 19.3x	5 -2.5% 18.6x	9 -0.8% 18.5x	9 -1.3% 18.1x	2 8.0% 19.0x	3 1.5% 19.3x
Energy	4 4.4% 18.1x	9 -1.7% 17.8x	1 10.6% 21.6x	4 8.8% 23.4x	1 8.2% 23.4x	7 2.0% 17.0x	10 -2.8% 15.7x	9 -4.1% 15.2x	1 6.9% 16.4x
Financials	5 4.1% 13.3x	1 4.4% 13.6x	7 -1.5% 13.2x	9 2.7% 13.2x	6 -3.0% 12.6x	2 10.6% 13.8x	3 4.4% 14.1x	1 8.8% 15.2x	5 1.0% 15.2x
Health Care	10 -4.7% 6.9x	3 2.0% 6.9x	9 -4.2% 6.7x	6 8.6% 7.4x	9 -8.2% 6.6x	1 13.2% 7.6x	11 -5.0% 6.9x	3 6.0% 8.3x	2 2.4% 8.2x
Industrials	7 -1.3% 21.4x	5 0.5% 21.2x	6 0.4% 21.2x	7 6.3% 22.5x	8 -6.5% 20.9x	3 6.3% 21.8x	6 0.9% 21.5x	4 3.1% 21.7x	8 0.6% 21.2x
Information Technology	11 -7.1% 39.4x	11 -2.8% 38.4x	11 -17.6% 31.2x	11 -6.2% 29.0x	3 0.4% 28.7x	5 5.4% 29.1x	5 2.5% 29.0x	8 -1.6% 27.8x	6 1.0% 26.4x
Materials	1 14.6% 16.0x	2 2.7% 15.2x	2 8.9% 15.2x	1 21.7% 17.5x	11 -16.4% 13.9x	10 -5.3% 13.2x	2 6.2% 13.5x	11 -12.1% 11.7x	10 -3.1% 12.1x
Real Estate	9 -1.8% 13.9x	6 -0.5% 13.8x	5 1.7% 13.9x	10 -0.3% 14.2x	7 -5.6% 13.3x	6 4.6% 13.9x	7 0.6% 14.0x	5 3.1% 14.3x	9 0.4% 14.1x
Utilities	6 0.2% 23.6x	10 -2.4% 21.6x	4 2.0% 21.8x	5 8.7% 23.5x	2 0.4% 24.1x	8 0.1% 23.7x	4 3.6% 23.9x	7 2.1% 24.1x	7 0.9% 24.8x

Legend
Sector Rank
Total Return
P/E NTM

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

Table 3 - Global Equities Performance

Select Global Equity Indices	Jul (in LCL)	Jul (in USD)	Jul (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (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)*	0.4	0.4	-0.7	4.2	4.2	7.4	10.4	10.4	13.0	18.5	16.2	2.3
EAFE (DM ex U.S. & Canada)*	1.6	1.6	0.4	4.6	4.6	7.8	11.8	11.8	14.4	15.4	13.8	1.7
EM (Emerging Markets)*	-5.9	-5.9	-7.0	2.0	2.0	5.1	18.3	18.3	21.1	10.5	11.5	-1.0
Selected Developed Markets												
Nikkei 225 (Japan)	-8.1	-6.2	-7.3	8.7	7.0	10.2	28.9	26.6	29.8	20.7	17.4	3.3
Euro STOXX 50 (Europe)	0.6	1.1	0.0	9.4	6.0	9.3	12.3	7.5	10.1	15.6	13.4	2.2
FTSE 100 (U.K.)	3.6	5.0	3.8	5.4	3.7	6.9	11.5	9.5	12.1	12.7	12.3	0.4
CAC 40 (France)	1.3	2.0	0.8	6.8	4.8	8.0	7.1	5.0	7.4	15.1	13.6	1.6
DAX (Germany)	2.5	3.2	2.0	5.5	3.5	6.7	4.7	2.4	5.0	15.1	12.8	2.2
Hang Seng (Hong Kong)	13.5	13.5	12.2	2.0	1.9	5.0	3.0	2.2	4.6	10.9	11.6	-0.7
Selected Emerging Markets												
CSI 300 (China)	-7.4	-6.9	-8.1	-3.4	-2.3	0.7	0.6	4.1	6.5	14.7	14.0	0.7
Nifty 50 (India)	2.4	1.5	0.2	2.5	1.9	5.1	-5.7	-11.1	-9.1	19.6	19.0	0.6

Source: FactSet, Raymond James Ltd.; Total returns, data as of July 31, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 07/31/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

In July, renewed hostilities between the U.S. and Iran, together with another closure of the Strait of Hormuz, pushed oil prices higher and reinforced concerns that inflation could prove more difficult to contain. These concerns were reflected in an upward shift across the U.S. Treasury yield curve ahead of the July 29 FOMC meeting. During his second FOMC press conference as Fed Chair, Kevin Warsh reiterated the objective of returning inflation to 2% but provided limited clarity on how that goal would be achieved. Markets struggled to reconcile the mixed signals, contributing to a credibility wobble in the days that followed. Front-end yields moved modestly lower, expecting the policy rate to stay on-hold longer, while longer-term yields rose, steepening the curve. The U.S. 10-year Treasury yield climbed above 4.7%, its highest level since January 2025, while the 30-year yield exceeded 5.2%, reaching its highest level since 2007.

Perhaps Chair Warsh intended to allow markets to price in higher long-term rates, thereby tightening financial conditions without an immediate policy-rate increase. The question, however, is whether this is the most efficient way to achieve that objective. Businesses are likely to incorporate higher long-term borrowing costs into their expansion and capital-expenditure plans, which could weigh on future investment. This may represent one of the trade-offs associated with reduced forward guidance and greater policy flexibility.

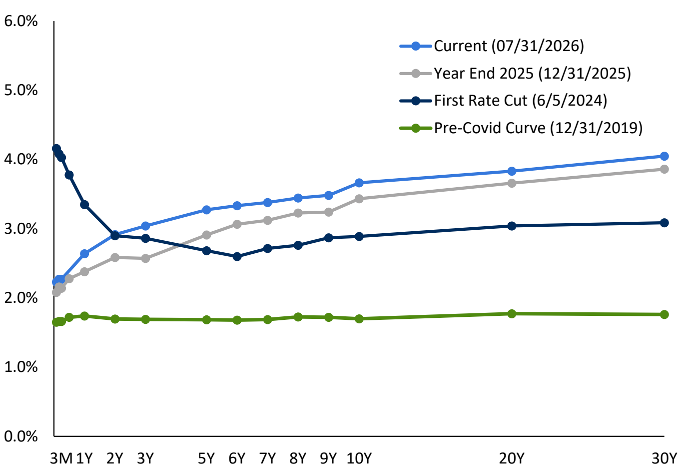
After all, economic data alone cannot tell markets where interest rates are headed. Investors must also understand how the Fed is likely to interpret incoming data and translate that assessment into policy. This is not necessarily the same as providing explicit forward guidance, although the two concepts are closely related. At present, however, the Fed's reaction function appears less clearly communicated, leaving markets to assess the policy outlook with incomplete information. The resulting rise in long-term yields may therefore reflect not only inflation concerns, but also a higher term premium associated with uncertainty around the Fed's policy framework. Providing less forward guidance can preserve policy flexibility, but clearly communicating the underlying decision-making approach remains important for anchoring market expectations and limiting unnecessary volatility.

Yen intervention was another important market event in late July. On July 31, the U.S. Treasury reportedly joined the effort to support the yen by selling euros and buying yen. That helps Japan support its currency without having to liquidate more of its dollar reserve assets, including U.S. Treasuries, which could have put upward pressure on Treasury yields. U.S. Treasury Secretary Bessent has also reportedly suggested expanding the Federal Reserve's FIMA repo facility, which would allow Japan to temporarily pledge Treasuries held at the New York Fed and receive dollars instead of selling those Treasuries outright. Japan could then use those borrowed dollars to buy yen. The conundrum for Warsh is that he has previously criticized the Fed for the size of its balance sheet and for expanding its role in financial markets. This episode underscores how difficult it is for the Fed to keep shrinking its balance sheet when it is also being asked to support market functioning elsewhere in the system. The overall intent in the yen intervention case though, seems to be that the U.S. is trying to avoid having Japan sell U.S. Treasuries, which would drive up longer-term interest rates.

In credit, both investment-grade and high-yield spreads widened in July, but they remain tight by historical standards. Quality remains the key in the current market environment. The area that warrants closer attention is U.S. hyperscaler bond issuance, which has surged sharply since 2024. These jumbo deals have begun to put upward pressure on spreads. There are also signs that market saturation and issuer concentration may become more of a constraint on how easily the market can absorb new issuance as activity picks up, softer coverage ratios and wider spreads suggest investors are already requiring more compensation to absorb the supply.

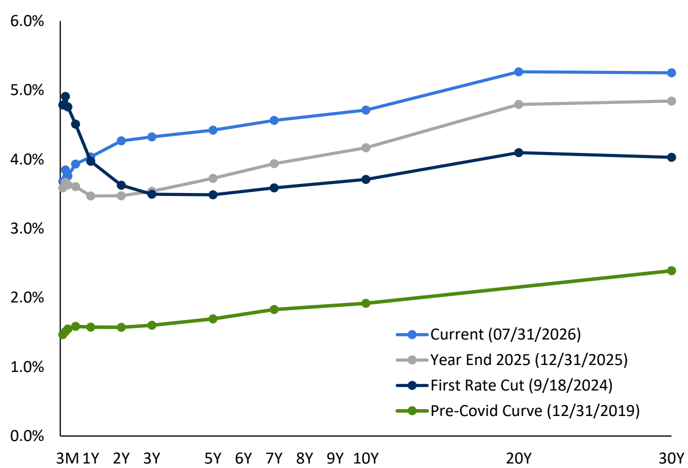
In Canada, the government yield curve steepened during July, with little change at the front end but a shift higher in the belly and long end of the curve. This was driven mainly by renewed inflation concerns following the rebound in oil prices, although the improving economic backdrop likely also reflected stronger real growth expectations. The Canadian 10-year government yield rose 28 bps over the month, from 3.4% to 3.7%. In credit, investment-grade spreads widened modestly in July, with the move more pronounced in maturities under two years, reflecting some concern about the near-term economic slowdown. Here too, quality remains the key in the current market environment.

Chart 28 - Canada Government Yield Curves



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

Chart 29 - U.S. Treasury Yield Curves



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

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