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Asset Management Inc.

2nd Quarter North American Market Commentary – 2026

Key Take-aways:

• In June, U.S. Headline CPI rose +3.53% YoY, marking a +27basis point sequential acceleration from March. Core CPI was reported at +2.59% YoY, representing a -1basis point sequential deceleration from March. In Canada, the headline annual inflation rate rose to 3.2% in May 2026, up from 2.8% in April.

• The U.S. economy posted +2.1% GDP growth in Q1(Estimate) whereas in Canada Q1 2026 GDP contracted by 0.1% annualized following a 1.0% decline in Q4 2025.

• The U.S. unemployment rate sits at 4.2%. Full time employment continued to fall in June and the number of people employed part time remains elevated. Payrolls aren't collapsing, but unemployment and underemployment are rising. In Canada, the unemployment rate sits at an alarming 6.5%.

• Neither the FED nor the Bank of Canada made changes to their key benchmark rates in Q2. The next FED interest rate announcement is scheduled for July 29th. On July 15th the Bank of Canada held its policy interest rate steady at 2.25%.

• Monetary policy remained a key pressure point in Q2. The slow pace of disinflation continues to be driven by energy market volatility. Latest U.S payroll figures show that labor market strength was materially overstated. The FED likely does nothing in the near term. FED cuts appear to be a 2027 narrative.

Positioning:

• The market shifted from Q1 panic to Q2 relief, but that relief was built on lower oil price, compressed volatility, and renewed confidence that the Strait of Hormuz could reopen in stages. S&P500 up +10.2% year-to-date, Nasdaq up +13.1%, International Stock Index (ex USA) +13.9% and the TSX Composite Index managed a +11.2% return year-to-date. Gold near $4,000/oz, and Bitcoin near $64,000. Risk is ever-present, even when it is not immediately visible.

• Systematic Strategies, including Vol Control, CTA, and Risk Parity strategies, collectively represent more than $20 trillion, or roughly half of the investable market. These strategies havQe a reflexive response to changes in volatility, increasing exposure to equities when volatility falls and decreasing exposure when volatility rises. When triggered, this reflexive behavior can generate strong directional moves in the market.

• For Q3 2026 positioning will remain dynamic as the situation in Iran continues to evolve. The U.S Treasury and labor markets are not in a position to handle higher long-term interest rates. The labor market is currently not fragile enough to force FED cuts. Either inflation has to fall convincingly and hold, or the labor market has to further weaken so the FED can justify easing without damaging its credibility. In this environment, prioritizing robust risk management focusing on investable volatility, is crucial.

In the U.S., the June Headline CPI was reported at +3.53% YoY, representing a negative 72 basis point sequential deceleration from May and +27basis points acceleration from March. The re-acceleration from March through May was almost entirely an energy shock, and the current deceleration is now largely the same story running in reverse. Energy carries roughly a 7% weight in the CPI basket so unsurprisingly, WTI moving from about $90 range a month ago to $70 range by the end of June absolutely matters for headline inflation prints, freight, insurance, and consumer psychology. Headline CPI measures the total change in the cost of all goods and services purchased by households. In contrast, reported Core CPI excludes food and energy prices. Core CPI was reported at +2.59% YoY in June, representing a -26basis point sequential deceleration from May and negative 1basis point deceleration from March. Whichever measure is used we argue is flawed. **CPI is chronically understated** as it is based on average spending patterns, not the spending patterns of those who are most exposed. As prices of chosen inputs rise, people are inevitably forced to seek cheaper alternatives.

June CPI predates the renewed US and Iran escalation around the Strait of Hormuz. With geopolitical risks re-surfacing, the June inflation deceleration narrative is competing with the rise in crude oil prices, which is also putting renewed upward pressure on yields. The Bond Market, specifically the 10-year gauge of inflation expectations, continues to signal upcoming July and August inflationary measures may come in more elevated than market participants anticipate.

In our view, **inflation is cumulative** and should be attributed to expansive monetary policies and the printing of fiat currencies. We argue CPI, as its currently defined, makes the extent of price increases and currency debasement less obvious. Cumulative inflation reflects the total percentage increase in prices over a period, accounting for compounding effects. In the U.S., cumulative inflation since the beginning of 2000 now approximates 97.84%. This means that today's prices are 1.9784 times as high as average prices since 1999. In Canada, cumulative inflation since the beginning of 2000 is 82.96%. This means that today's prices are 1.8296 times as high as average prices since 1999. The further back you go the more alarming cost inflation is. The inflation impact is highly regressive, individualized and cumulative with lower-income households facing a disproportionate squeeze as energy costs rise into a slowing labor market with minimal income cushion. This is particularly painful for households with limited asset exposure.

Central banks and governments may spin up new narratives; **inflation is an actual policy and is intentional.** Since 1999, the U.S. money supply has grown at an annual rate of 6.3%. The extent of currency debasement globally since 1999 is remarkable and reflects major financial rescues and massive pandemic-era stimulus spending. The further back you go the more alarming the results. While the U.S. has seen a 78% debasement of the dollar, averaging 6.3% annually since 1999, it is not the most extreme case. Canada has experienced an even greater erosion, with an 82% reduction in purchasing power and a 7.2% annual increase in its money supply since 1999. Historical YoY money supply growth has averaged 6-8% over many decades, and as such, in this environment, financial resilience increasingly depends on holding assets that appreciate faster than this true rate of inflation. It is unsurprising that market participants are increasingly seeking refuge in alternative assets like Gold, Bitcoin, commodities, and Real Estate. Gold and Bitcoin does not impose wealth confiscation through inflation. Unlike Bitcoin's predictability and declining rate of supply growth, and bullion's steady 1-2% growth rate, fiat currency's annual growth rate is highly variable and at times uncontrolled by profligate government spending. Real estate, if bought at the right price, also delivers rental growth and price appreciation that tends to track the real inflation rate.

Gold is approximately 25% lower than its peak price stamped in late 2025 and is now trading near US$4,000 oz. It continues to be accumulated by central banks and sovereign governments around the world. At $64,000, the price of a Bitcoin may be volatile, but it is hardly worthless. Both the price reversal in Gold and Bitcoin was more sentiment-driven than macro-driven, because inflation prints remained stubborn while the U.S. Dollar rallied on more hawkish FED expectations under new Chair Kevin Warsh. It's important to point out for both Gold and Bitcoin, after a large price move in 2025, the market became crowded, emotional, and vulnerable to any shift in rates, dollar strength, or geopolitical risk premium. Commodities also struggled during the 2nd quarter, with oil down 32% and energy equities down 13% as the geopolitical risk premium tied to the Iran conflict remarkably faded. More recently, however, the Iran risk premium has flared back up after the July 8th ceasefire breakdown has pushed WTI crude up roughly 20%–25% higher toward $80–$84 per barrel. Real estate, which has underperformed since rates began rising in 2022, looks to benefit as the FED eventually takes on a more dovish stance. These alternative assets are not in competition with each other, but rather they serve as a team in the fight against continued currency debasement. When inflation is running above 3% and money supply is growing ~6-8% annually, cash is a melting ice cube.

Canada's economy remains under uncomfortable strain. Canadian GDP contracted by 0.1% annualized in the first quarter of 2026, following a 1.0% decline in the previous quarter. This sequence of two consecutive quarterly declines placed the economy in a technical recession. Household spending is still being squeezed by higher mortgage payments as renewals transmit past rate hikes into budgets, even though lower rates have recently provided some relief. Business confidence also remains fragile, and manufacturers and non-resource exporters continue to face competitiveness pressures. Many economists will attempt to explain away the weakness and point to external factors, but the facts remain, this current Canadian government is being evaluated daily in the bond and foreign exchange markets. The facts all point to embarrassing downward pressures on the loonie which seem to be mostly ignored by, or at least not being addressed by Ottawa. The currency's weakness is in part driven by years of low productivity growth in this country, a problem that should be receiving far more attention than it does from governments at all levels.

Canada's labor market mirrors this fragility: unemployment is at an alarming 6.5% as of May, remaining a concerning statistic this current government has yet to seriously address. Notably, unemployment has hovered near the highest since 2020 and job growth has been trendless. The Canadian labor force participation rate remains below pre-pandemic peaks, and youth unemployment ticks higher. These are signs of an economy operating below potential, with slack persisting. Until these fundamental issues are resolved, the outlook for the economy and the Canadian dollar are expected to remain weak.

Latest update on the Middle East is the US and Iran had signed a memorandum of understanding ("MOU") in mid June to end the war followed by a 60-day period of negotiation to sort out the details. The U.S would end its blockade on the Strait of Hormuz, it would release billions of frozen dollars of Iranian assets, and, along with other regional partners, it would provide reconstruction funding for Iran. Iran would also agree to unblock the Strait of Hormuz, agree to not to pursue nuclear weapons, and agree to dispose of its enriched uranium. Uncertainty remains if Iran can impose tolls on the Strait of Hormuz after 60 days, which would be a significant new revenue source. WTI crude oil price did not wait for the Strait of Hormuz to fully reopen. The market had front-run the perceived resolution, with oil and agricultural commodities leading the move significantly lower. The pace of that price unwind was remarkable, falling from $100/barrel to under $70/barrel, and the overall market viewed the issue as resolved.

Subsequent to quarter end, peace talks between the US and Iran appear to have stalled. Verbal tensions have once again surfaced and daily military exercises have once again taken place even as both sides remain keen to continue negotiations serving as a reminder of how quickly market narratives can shift in the current environment. The situation has swung repeatedly between escalation and de-escalation, with policy signals, diplomatic efforts, and regional responses changing on a near daily basis. As a result, attempting to anchor portfolio decisions to the status of the conflict at any given moment is unlikely to be productive. What matters more for investors is the persistence of uncertainty itself: headline driven volatility, episodic risk premium repricing, and sensitivity across energy, rates, and risk assets. Until a more durable resolution emerges, this remains a background risk best approached through disciplined positioning, liquidity, and diversification as opposed to reactive, event driven adjustments. If the MOU gets back on track and the Strait of Hormuz mostly re-opens, energy prices should stabilize, and the latest rise in inflation expectations for Q3 should soften.

This quarter's major macro event occurred on May 22nd when Kevin Warsh was sworn in as the 17th US Federal Reserve chairman, and on June 17th he oversaw his first FOMC statement release and performed his first press conference. The FED held the federal funds target range at 3.50% to 3.75%, but the real message was the attempt to remove the easing bias in the statement, so the markets do not just assume the next move is a cut. On the surface, the rate policy is hawkish. Hold rates and keep inflation credibility all the while encouraging markets from assuming interest rate cuts are automatic. Chair Warsh has also signaled that they will be providing less forward guidance.

The FED next meets on July 28th/29th. The latest CPI reading gives the FED a reason not to hike, but it does not provide a clear path to a cut either. Status quo (hold) to rates allows the FED to acknowledge the June softer CPI report while waiting to see whether higher energy prices from ongoing escalations re-occurring between the United States and Iran has spread into wages, services and inflation expectations. The bigger risk here is that Iran war keeps headline inflation elevated long enough for the FED to remain restrictive while hiring, credit, real spending and business solvency deteriorate underneath. This FED is in a difficult position. With serious stagflation risks rising (inflation surprising to the upside while growth surprising to the downside), the FED faces the choice of fighting inflation at the cost of growth or supporting growth at the cost of allowing inflation to run. Neither is a good option. The FED likely does nothing in the near term and FED cuts are a 2027 narrative.

While oil prices get all the attention, from our point of view, the bigger macro issues are happening in the foreign exchange and bond markets, specifically strength of the U.S Dollar ("DXY") and the 10YR yield acceleration, and what is rapidly evolving into the global economy's biggest headwinds. The U.S dollar remains the global reserve currency for global funding, trade, reserves and cross border finance. A strong U.S dollar tightens global liquidity, increases cross assets volatility and de-stabilizes capital markets. For simplicity, a strong DXY is when it trades above 100 whereas when it trades below that reference point it serves to provide relief. DXY has been trading above 100 for most of the 2nd quarter and currently prints at approximately 101.

As inflation expectations rise, long term rates (10YR and 30YR) rise to compensate lenders for this risk. The 10 Year is the benchmark for just about all consumer borrowing rates in the US, including credit cards, auto loans, and mortgages and unlike the 2YR which is the controlled by the FED, the 10YR is set by the Bond market, participants voting on inflation, credit risk, and Treasury supply in real time. The FED can talk about price stability, but the Treasury market is where that credibility is marked to market every day. The US 10YR Yield has now risen from ~3.92% to 4.58% since the Iran War began. General weakness in equities will accelerate as the 10YR Yield rises further. President Trump, the FED, and Treasury Secretary Bessent in particular, all know that the US Treasury market and labor market is not in a position to handle higher long-term interest rates alongside expanding U.S debt burden and rising inflation risks. Simply said, the US economy wobbles when the 10YR Yield nears 4.50%. The 10YR comes down in a lasting way only when the Strait of Hormuz reopens and the oil premium collapses again, or growth breaks hard enough that real yields roll over and the market starts pricing a much more aggressive FED response. With midterm elections now just 4 months away, we maintain our view that a prolonged war with higher energy prices, rising interest rates, and prolonged instability is not President Trump's first objective.

On the labour front, June payrolls came in at 57,000 against expectations of 115,000, with April and May revised further downward by another 74,000. The unemployment rate came in at 4.2%, appearing fine on surface, but only because half a million people left the labor force, dropping the labour participation rate to 61.5%, the lowest since March 2021 as the employment-population ratio edged down to 59.0%. The number of Americans who are not in the labor force rose by +832,000 in June, to 105.8 million, an all-time high. These are people who are neither employed nor actively looking for work. This is now 2.2 million above the 2020 pandemic peak, when the global economy was shut down. So far in 2026, 2.5 million Americans have exited the labor force. Full time employment continues to fall in June and the number of people employed part time remains elevated. The unemployment rate can look stable all the while participation rate is weakening, people leave the labour force, full time work deteriorates, part time work rises and broader unemployment stays elevated. US consumer sentiment remains at low levels. Americans are the most indebted than they ever have been. People are facing a rather harsh combination of weak income growth, a weak job market, high cost of living, elevated energy inflation, and broad concerns that rapid advancements in artificial intelligence will devalue the income potential of many college degrees for debt-laden graduates. Monthly payroll releases, perhaps highlight, labor market strength is overstated.

The quarter's events reinforced core tenets of our philosophy. The global macro environment has shifted toward elevated inflation, higher rates (problematic), flatter curves, tighter liquidity and more reactive central banks. Inflation is cumulative and a policy choice and currency debasement will continue, arguing for assets that protect real purchasing power. Global oil supply constraints are likely to last longer than markets are discounting. The yield curve is flattening, not steepening. Setup remains constructive for utilities, REITs, consumer staples, and other high dividend payers along with technology and growth with pricing power. We remain cautious but also opportunistic. Cash is useful for liquidity, but over long periods it remains a melting ice cube. The current allocation reflects elevated geopolitical, oil and market-structure risks, not an outright bearish outlook. The Iran turmoil has not shaken our long-term conviction that we are in a decade defined by financial repression, persistent inflation, and choppy volatility. We maintain a defensive stance with respect to interest rate risk, given that even if central banks pause and speak hawkish, long term the rates path is lower, albeit, with more noise around monthly FED meetings. Upside volatility can be destabilizing for the broader market. Still, there are some mechanical reasons to maintain a bias higher, particularly if realized volatility continues to underperform. Broad valuation metrics are already near historic extreme and risk appetite is stretched. The AI trade has pulled forward years of optimism. The second quarter gave markets relief. The third quarter will test whether that relief was durable or merely another pause defined by inflation, repression, geopolitical instability, and higher structural volatility. The FED is boxed in because it cannot easily cut but the economy underneath is already showing stress. Corrections still occur; they just seem to not last as long. Current VIX of 19 is elevated but not panicking. For now, we remain cautiously risk-on, long real assets conceptually, defensive on duration, and selective in equities.

As always, we encourage our clients to maintain a long-term perspective amid the short-term turbulence. The coming quarters will no doubt present new challenges and opportunities as the cycle progresses and the world adjusts to its new realities. We will continue to communicate our thoughts and positioning as conditions evolve. Everyday feels like we are navigating unprecedented circumstances, and patience continues to be a key component of our investment strategy.

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Sincerely,

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The Portfolio Management Team