

RJL PCS: INSIGHTS & STRATEGIES

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June 2026 Insights & Strategies: Canada's "technical recession" likely yields to better growth through the rest of 2026

Macro Highlights for May

- Canadian GDP declined 0.1% in 1Q26, which was below the 1.5% growth expected in the Bank of Canada (BoC) forecast. Following a 1.0% (revised from 1.5%) decline in 4Q25, some call this a “technical recession”, although an official ruling on an actual recession depends on the depth, breadth, and duration of any downturn. Despite a cautious landscape, thanks in large part to trade uncertainty with the U.S., we continue to expect modest, but positive, economic growth for the full year.
- Canada's unemployment rate dropped unexpectedly to 6.6% in May, from 6.9% in April, as the country saw 88k new jobs in the month, well above the 10k estimate. The YTD decline is now just 25k.
- The labour market remains more resilient in the U.S., with the unemployment rate steady at 4.3% again in May, with a 172k rise in payrolls, double the consensus expectation, putting the 3-month average gain at almost 188k/mth, leaving more reasons for the Fed to stay on hold rather than to resume cutting rates.

Financial Markets in May

- U.S. and Canadian equities extended their April rally into May, reaching new highs as strong earnings growth and renewed A.I. enthusiasm helped markets look through the ongoing Iran conflict. The S&P 500 gained 5.1% on a price basis and 5.3% on a total return basis, lifting year-to-date returns to 10.7% and 11.2%, respectively. The S&P/TSX Composite also advanced, gaining 2.4% by price and 2.5% on a total return basis, bringing year-to-date returns to 9.6% and 10.6%, respectively.
- S&P 500 earnings grew 27.9% year-over-year in 1Q26, more than double expectations, lifting full-year estimates from US\$317 to US\$335. TSX Composite earnings also rose strongly, up 26.3% year-over-year, with full-year estimates revised from C\$1,966 to C\$2,127. Growth was concentrated in A.I.-related sectors for the S&P 500 and in Materials and Financials for the TSX, while Energy is expected to contribute more meaningfully in 2Q26 for both indices, following the surge in oil prices.
- A.I. trades have rebounded sharply over the past two months, with some parts of the ecosystem now showing signs of crowding. Even after the recent pullback, memory and storage stocks have still driven the semiconductor industry index up 44.3% from its March 30 trough as of June 5. While the move is supported by real infrastructure bottlenecks, expectations have risen quickly, leaving these areas more vulnerable if earnings revisions, order growth, or capex commentary disappoint. Equity prices are also likely to become more sensitive to the Fed rate backdrop from here as still elevated inflation and strong jobs growth increase the potential for the Fed to move to a hiking bias which would put pressure on valuation multiples.

Upcoming

- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, will likely be the most consequential event for Canada this year. A lack of renewal does not mean that the USMCA ends imminently, but will just move the process to a period of annual reviews until another 16-year extension can be agreed to. We see a formal renewal on July 1 as increasingly unlikely, but that maintaining the current agreement, for at least the next 10 years, is still a reasonably good outcome for Canada, until a new 16-year extension is ultimately established. However, the lingering uncertainty will weigh on business sentiment and willingness to commit to longer-term investments, especially for industries in sectors that are targeting by demands from the U.S. for adjustments related to rules of origin, digital services, and the dairy industry.
- After the IEEPA-based tariffs were struck down by the U.S. Supreme Court, President Trump initiated Section 122 tariffs as a short-term replacement. Those tariffs expire on July 24, and so we are now seeing the U.S. administration rebuilding its tariff wall with country and

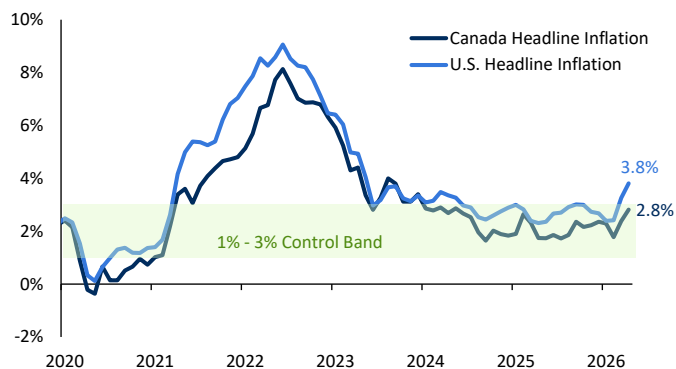
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industry-specific tariffs, including recent announcements claiming that countries, including Canada, are not doing enough to avoid products produced by forced labour from entering supply chains. We will be watching intently to see additional efforts to rebuild these protectionist policies and replace lost tariff revenue for the U.S. government.

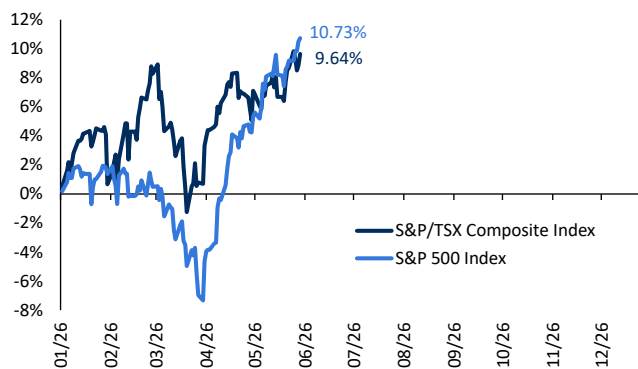
- The Bank of Canada (BoC) will make its next interest rate announcement on June 10. With surprising weakness in the Q1 GDP numbers, and uncertainty regarding trade, with a slight improvement in the unemployment rate, and inflation that has been inching up, but still within the 1-3% comfort range, we expect the bank to remain on hold at 2.25%. Similarly, the FOMC is likely to maintain its U.S. rate at 3.75% on June 17, against still elevated inflation, still strong economic growth, stronger than expected job growth, and relatively low unemployment rate. The focus will be on messaging from new Chair Kevin Warsh and evolution in the dot plot signaling willingness to cut rates later in the year or the likelihood of the Fed moving to a tightening bias.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of April 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 May 29, 2026. Price return in local currency.

Executive Summary

We are now through almost all 1Q26 earnings reports and the conclusion is that corporate profitability firmly supports the strength and optimism in equity markets. Much of the support in the U.S. has come from A.I. related businesses and investments, although higher oil prices, driven by the Iran conflict, have most significantly boosted the forward-looking EPS forecasts in the Energy sector, with relatively broad positive earnings revisions in most sectors as the U.S. economy continues to show strength. Canadian equities have also held up well despite volatility and downward pressure in both oil and gold prices. In Energy, stronger balance sheets, disciplined capital allocation, and higher free-cash-flow returns through dividends and share repurchases have made the sector less sensitive to downside oil-price moves than it was before the pandemic. For gold miners, although bullion has been consolidating, gold prices remain well above year-ago levels, continuing to support miners' margins, cash flow, and balance-sheet strength.

Lingering uncertainty regarding a lasting peace deal with Iran, with a protracted standoff in the Strait of Hormuz, could still lead to upward pressure on oil prices and inflation rates. This could also put upward pressure on interest rates and downward pressure on valuation multiples. As such, remaining diversified by geography, sectors, industries, and asset classes remains advisable. Investors should also remain selective in quality and avoid chasing more speculative stories.

Following the Supreme Court's rejection of IEEPA tariffs, the U.S. administration has shifted more toward Section 122, 232, and 301 tariffs to maintain a protectionist stance and to recuperate lost government revenue sources. Canada remains relatively insulated, with 85% of goods qualifying for USMCA exemptions, resulting in an effective tariff burden estimated at only 5–6%. The future of USMCA is therefore increasingly important for Canadian exporters and corporate investment decisions.

By July 1, the three parties in the USMCA are expected to either renew the agreement for another 16-year period, with or without revisions. We do not expect a full renewal, rather the more probable outcome is an extended renegotiation period with annual reviews, for up to 10 years, until the USMCA officially expires in 2036, unless extended with a new 16-year reset. In the meantime, the existing terms of the USMCA would remain in place.

Canada has now recorded two consecutive quarters of negative GDP growth, meeting the technical definition of recession. However, the weakness was largely driven by trade distortions rather than widespread economic deterioration. Consumer spending remains positive, business

investment is mixed, and employment rebounded strongly in May. Current data suggest economic activity is stabilizing and may strengthen in the second quarter.

Higher energy prices, driven largely by Middle East tensions, have pushed inflation higher in both Canada and the U.S. Despite this, underlying inflation measures remain relatively contained. We expect both the Bank of Canada and the Federal Reserve to keep policy rates unchanged through the remainder of 2026, barring a significant change in inflation or geopolitical conditions.

The U.S. continues to demonstrate moderate but durable economic growth supported by strong labour markets, expanding manufacturing and services activity, and continued investment in artificial intelligence infrastructure. Inflation remains above target, but economic momentum remains intact. This raises the possibility of the Fed shifting to a hiking bias in future meetings.

USMCA Renewal

As we approach the July 1 deadline for U.S., Canada, and Mexico to renew the United States - Mexico - Canada (USMCA) Agreement, a.k.a. CUSMA in Canada, we will be providing a little more detail and coverage of the negotiations and potential outcomes that investors should be watching for, and potentially preparing for.

Background

The USMCA came into effect on July 1, 2020, as a replacement for the North American Free Trade Agreement (NAFTA). The update focused on rules of origin to allow goods tax-exempt status, and new guidelines around intellectual property, digital trade, anti-corruption, and regulatory practices. In 2022, U.S. goods and services trade covered by the USMCA totaled US\$1.8 trillion. A source of frustration for the U.S. government was that U.S. exports were US\$789.7 billion, while imports were US\$974.3 billion, that year, meaning that the U.S. had a US\$184.6 billion trade deficit. The current U.S. administration is heavily focused on having the country exporting more value than it imports.

Renewal process

Chapter 34 of the USMCA describes that the agreement shall terminate 16 years after it's entry into force. That would put expiry at July 1, 2036. However, there are checkpoints each six years, such that by July 1, 2026, a joint review of the operation of the agreement must be conducted, where each country reviews recommendations to improve the agreement, and decides on any appropriate actions. Recommendations are due at least a month before the joint review.

If all countries are satisfied with the joint review, the agreement is reset and a new 16-year clock is started, with another 6-year review deadline. If however, we do not attain a unanimous confirmation to renew the agreement, the process shifts to annual reviews for the remainder of the 10-year period until the agreement ultimately expires on July 1, 2036. If, at any of those annual reviews, the committee agrees to revisions and extension, then at that point, a new 16-year term is established.

Under the most extreme scenario, each country can withdraw from the USMCA by giving notice to the other parties. The withdrawal takes effect six months after the notice is given. The other two parties remain bound by the agreement.

Our expectation

At this point in time, we think it is unlikely that USMCA will be accepted for renewal on July 1. What we do expect is that a non-renewal will just push the effort into an annual review process, but within the ensuing 10 years, the countries will agree to revisions that will then set a new 16-year term. We see a complete withdrawal, after 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 concerns in the short-term would be that non-renewal on July 1 is misinterpreted by individuals and/or businesses of an immediate breakdown in the trading relationship, when it only sets off a protracted renegotiation period with annual reviews.

Tariffs

With IEEPA-based tariffs struck down by the U.S. Supreme Court, the President shifted to Section 122 tariffs, that allowed up to 15% rates for up to 150 days, as a stop-gap, while advancing more enduring Section 301 (country-targeting) and Section 232 (industry-specific) tariffs to entrench protectionist policies and revenue generation for the U.S. government. The current Section 122 tariffs, which were set at 10%, expire on July 24.

On June 3, the President launched a fresh wave of Section 301 tariff threats of 10-12.5% on dozens of countries, including Canada, citing concerns that they had failed to adequately address the importing of goods produced with forced labour. The measures follow investigations launched

in March covering roughly 60 trading partners and are intended to provide a more durable legal basis for tariffs. However, the proposed tariffs remain subject to a public consultation process, with hearings scheduled for July before any implementation. Goods qualifying under the USMCA would be exempt from the proposed measures.

There have also been new adjustments to previously implemented Section 232 tariffs on steel & aluminum products. Some relief is being implemented for mobile agricultural/industrial equipment (e.g., tractors) and HVAC systems. In addition, certain imported products containing steel or aluminum may qualify for a reduced 10% tariff rate if at least 85% of their steel or aluminum content was melted and poured, or smelted and cast, in the U.S. At the same time, new 25% tariffs were imposed on certain steel racks and aluminum lithographic plates. Changes seem to correct some unintended effects of an April revision, and to differentiate between national security sensitive products and non-sensitive goods, and may also include reduced tariffs on some Chinese goods, following the recent Trump-Xi summit.

Section 301 tariffs against Brazil are also expected to be revised, adding industrial, aviation, minerals, and fertilizer products to the previous agricultural products. We can expect that the overall tariff strategy will remain intact, yet continuing refinements will adjust to reduce impacts on U.S. businesses.

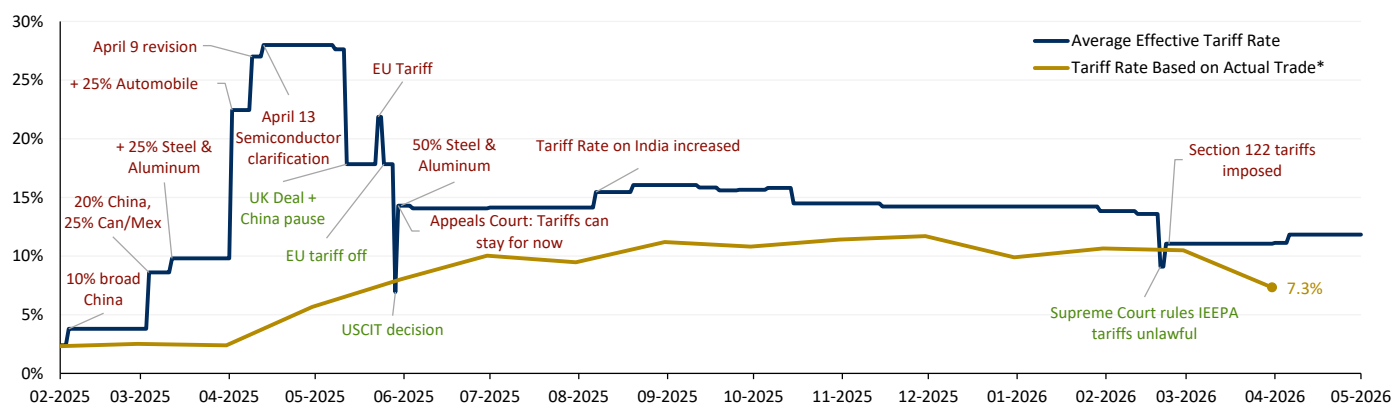
Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal. Below, in Table 1, we include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

Table 1 - Section 232 Tariffs Summary, as of June 4, 2026

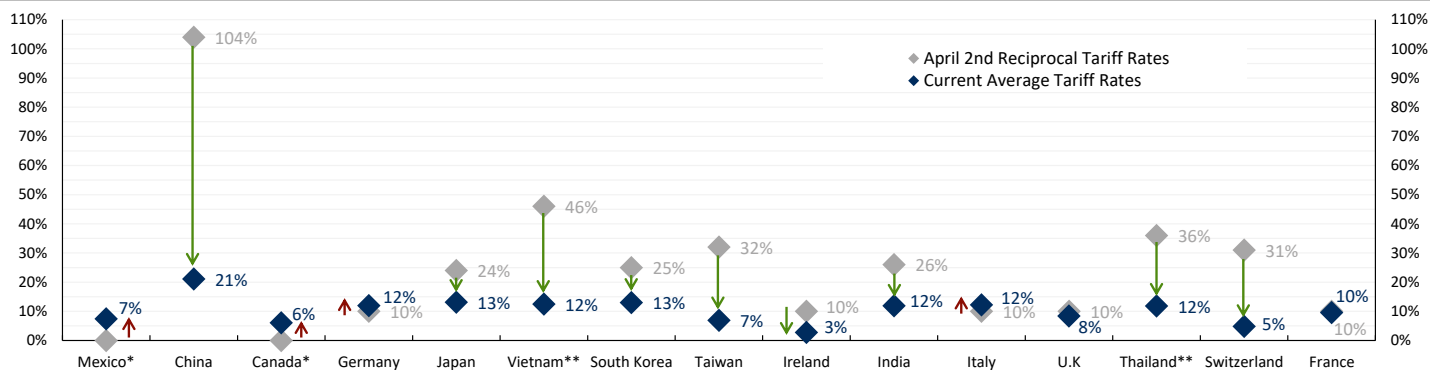
Sector	Effective Date	Tariff Rate
Automobiles and auto parts	May 3, 2025	25%
Steel/aluminum and copper (including derivatives)	Jun 4, 2025 (Steel/alum.); Aug 1, 2025 (Copper)	10-50%
Primary steel/aluminum and most copper products		50%
Certain derivative articles substantially made of steel, aluminum, 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 June 4, 2026

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

Economics

Canadian GDP — Two quarters of decline, but not a broad-based downturn

Real GDP contracted at a 0.1% q/q annualized rate in 1Q26, following a downward-revised 1.0% contraction in 4Q25. While two consecutive quarters of negative growth meet the common definition of a “technical recession”, the underlying details were more constructive than the headline figure suggests, and the economy has not experienced the broad-based and persistent decline in activity typically associated with recessionary periods. The headline figure was heavily influenced by volatile trade flows. Net trade subtracted 3.8 percentage points from growth, reflecting a surge in gold imports and weaker auto exports, while inventories added 4.3 percentage points, largely offsetting the drag from trade (Chart 5).

Domestic demand softened modestly, although underlying trends remained mixed. Household consumption rose 1.5% q/q annualized, contributing 0.8 percentage points to GDP growth and extending the 2.9% gain recorded in the previous quarter. However, weakness in business investment and government spending more than offset the strength in consumer spending, leaving final domestic demand as a whole subtracting 0.4 percentage points from growth.

Business investment declined 3.0% q/q annualized, driven primarily by weakness in residential and engineering-related construction. However, spending on machinery & equipment increased 10.2%, while investment in intellectual property products rose 13.8% (both q/q annualized), highlighting some strength in productive investment categories. Government investment fell 9.6% q/q annualized, largely reflecting lower spending on defence equipment following a surge late last year.

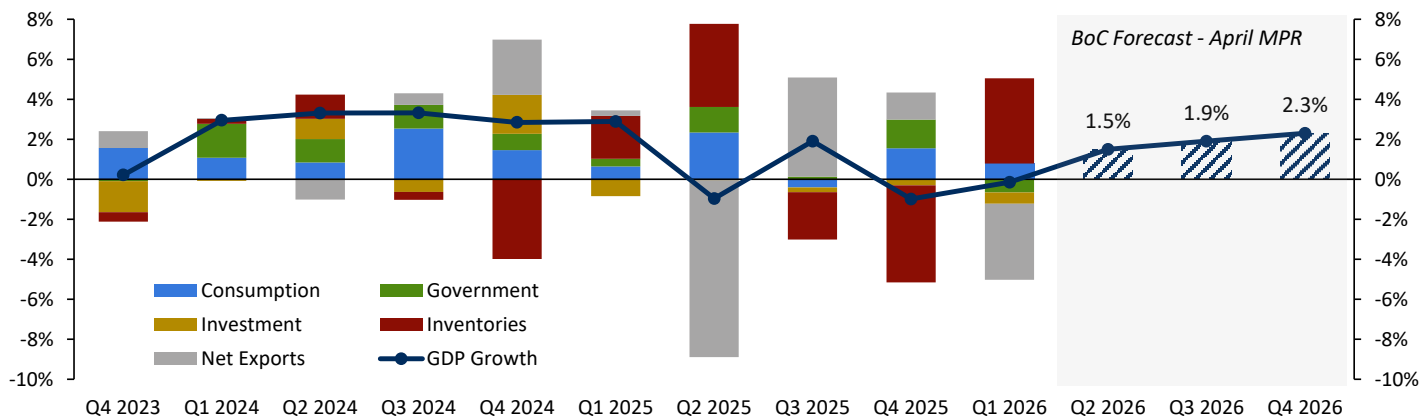
Despite the decline in the headline figure, real GDP per capita rose 0.9% q/q annualized in 1Q26, as the result of a second consecutive quarterly decline in population growth.

Looking ahead, monthly data suggest momentum improved heading into 2Q26. While GDP by industry fell 0.1% m/m in March, the decline largely reflected temporary disruptions in oil and gas extraction. Statistics Canada's preliminary estimate points to a 0.4% m/m rebound in April (Chart 6), supported by a recovery in energy production and an expected pickup in manufacturing activity.

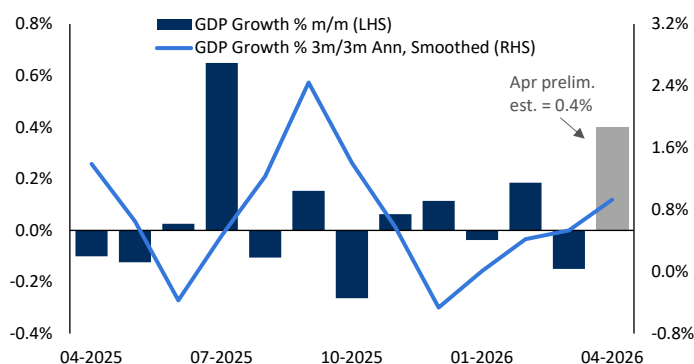
Consumer spending weakens beneath headline gains

Retail sales rose 0.9% m/m in March, exceeding the preliminary estimate of a 0.6% increase. However, much of the gain reflected higher gasoline prices, with sales at gasoline stations rising 12.4% during the month. Excluding gasoline, retail sales edged down 0.2% m/m (Chart 7). In volume terms, retail sales declined 0.7% m/m, highlighting the extent to which price increases drove the headline gain.

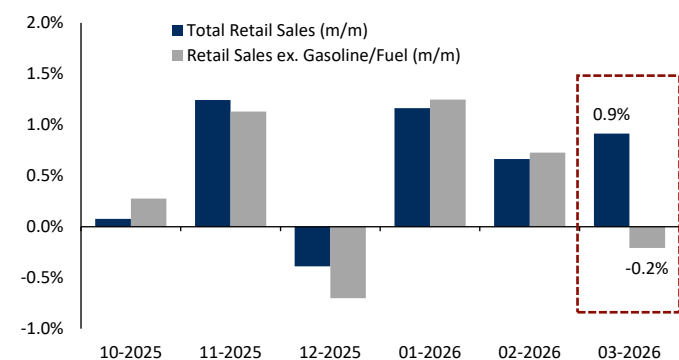
The advance estimate points to a further 0.6% m/m increase in retail sales values in April, although higher gasoline prices likely accounted for much of the increase. Overall, the latest data suggest that the relatively stronger pace of consumer spending seen at the start of the year has begun to moderate, as higher fuel costs weigh on household purchasing power and discretionary 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 - Preliminary Data Suggest Rebound in April Growth

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

Chart 7 - Retail Sales Growth Driven by Gasoline Prices in March

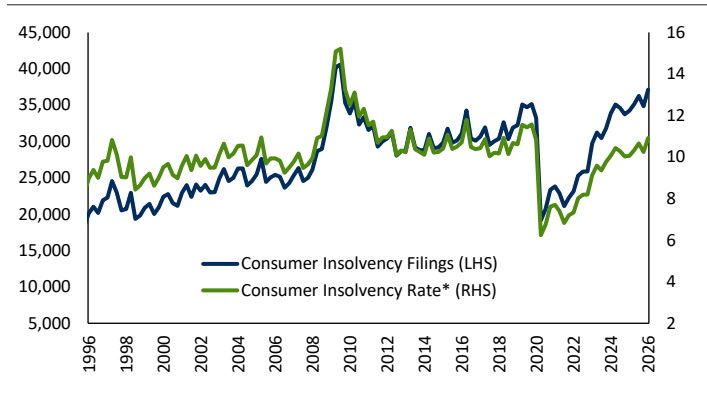
Source: Statistics Canada, Raymond James Ltd.; Data as of March 31, 2026.

Consumer insolvencies rising, but not yet alarming

Recent headlines have highlighted that consumer insolvency filings have reached their highest level since 2009. However, the increase appears less severe when adjusted for population growth. Canada's adult population has expanded by roughly 28% since 2009, and the insolvency rate currently stands at approximately 10.9 filings per 10,000 adults (Chart 8). While this is slightly above the historical average of around 9 filings per 10,000 adults, it remains broadly in line with pre-pandemic levels and well below the levels observed during previous periods of significant household financial stress.

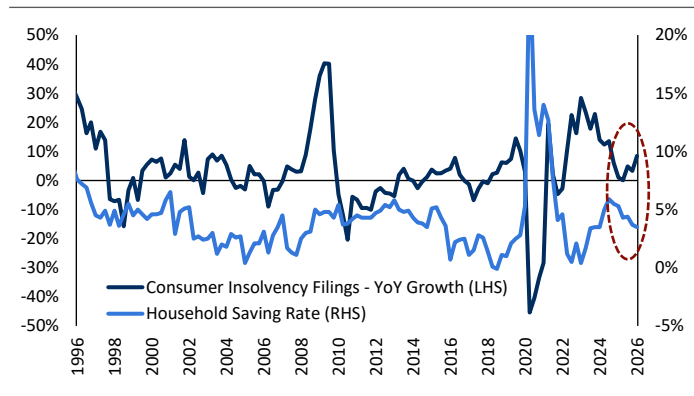
That said, although insolvency levels are not yet indicative of widespread financial stress, the steady upward trend in recent quarters points to emerging pressures on household finances. This coincides with a decline in the household saving rate to 3.5% in 1Q26 compared to 5.3% at the end of 2024 (Chart 9), marking its lowest level in two years, alongside softer labour market conditions and continued pressure from elevated living costs. More recently, higher gasoline prices due to the conflict in Iran and ongoing uncertainty surrounding trade and tariffs have added to the challenges facing households. As a result, while the insolvency rate is not currently at an alarming level, it remains worth monitoring for signs of increasing strain on household finances.

Chart 8 - Insolvency Filings Higher, but Remain Near Historical Norms When Adjusted for Population Growth



Source: Office of the Superintendent of Bankruptcy, Raymond James Ltd.; Data as of March 31, 2026. *No. of insolvency filings per 10,000 individuals aged 18+.

Chart 9 - Rising Insolvencies Coincide with Declining Savings



Source: Office of the Superintendent of Bankruptcy, Statistics Canada, Raymond James Ltd.; Data as of March 31, 2026.

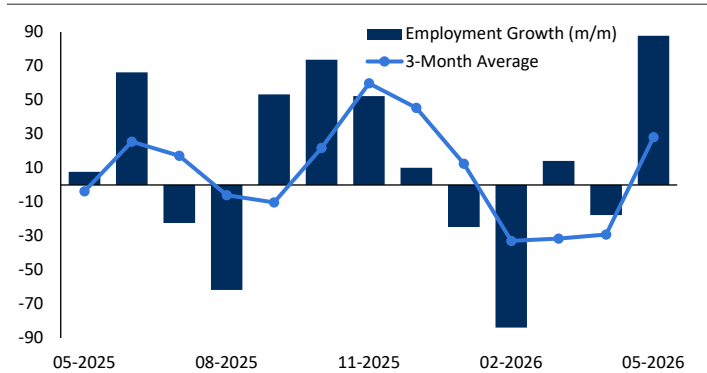
Labour market strengthens in May

Labour market conditions improved in May, with employment increasing by 87.8k, marking the first meaningful gain since November 2025 and substantially exceeding recent trends (Chart 10). The increase more than offset a 3.8k rise in the labour force, pushing the unemployment rate down to 6.6% from 6.9% in April (Chart 11). The labour force participation rate was unchanged at 65.0%.

The underlying details pointed to a broad-based improvement in labour market conditions. Employment gains were entirely driven by a 154k increase in full-time positions, while part-time employment declined by 66.2k. Job growth was widespread across industries, led by construction (+27k), information, culture and recreation (+19k), transportation and warehousing (+19k), and manufacturing (+15k). In contrast, wholesale and retail trade employment fell by 35k, marking a fourth consecutive monthly decline in the sector. There were also signs of improvement among younger workers, with the unemployment rate for those aged 15–24 declining to 13.4% from 14.3% in April as the summer hiring season began.

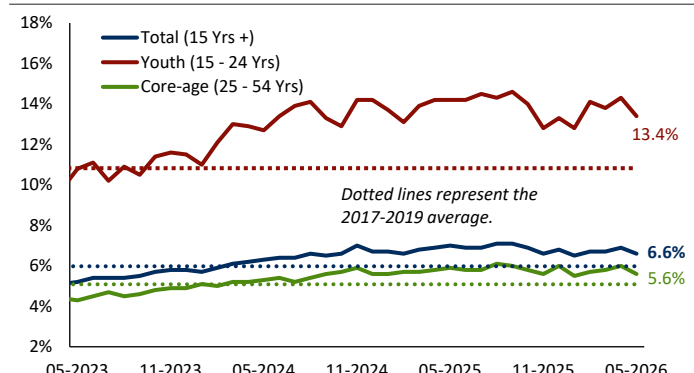
Following the 87.8k employment gain in May, year-to-date employment losses now stand at 24.5k, reversing much of the 112k decline recorded during the first four months of 2026. The improvement is also consistent with recent 1Q26 Business Outlook Survey results showing stronger hiring intentions over the next 12 months. Nonetheless, trade-related uncertainty, particularly surrounding the USMCA review, remains a risk to business confidence and hiring plans. That said, with labour force growth expected to remain moderate, the unemployment rate is unlikely to deteriorate significantly.

Chart 10 - Employment Growth Rebounds in May



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

Chart 11 - Unemployment Rates Drop Across Age Groups



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

Gasoline prices push headline inflation up in April

Headline CPI inflation rose to 2.8% y/y in April, up from 2.4% in March, driven primarily by higher energy costs. Energy prices increased 19.2% from a year earlier, with rising oil prices pushing gasoline prices higher. Excluding gasoline, inflation was a more modest 2.0% y/y, suggesting broader price pressures remained relatively contained (Chart 13). Food inflation also eased to 3.5% y/y in April from 4.0% in March.

The Bank of Canada's preferred core inflation measures remained close to its 2.0% target. CPI-trim increased 2.0% y/y, while CPI-median rose 2.1% y/y. On a monthly basis, the two measures advanced at an average pace of 0.16%, slightly below the rate typically associated with 2% inflation. The data suggest that, despite the recent increase in energy costs, there is limited evidence so far of meaningful spillover effects into non-energy goods and services.

Looking ahead, the path of energy prices will remain an important factor for the inflation outlook. While oil price pressures eased somewhat toward the end of May, uncertainty surrounding the U.S.-Iran conflict remains elevated. Although not our base case, if energy prices remain higher for an extended period, rising fuel, transportation, and input costs could increasingly feed through to other components of the CPI, raising the risk of more persistent inflationary pressures.

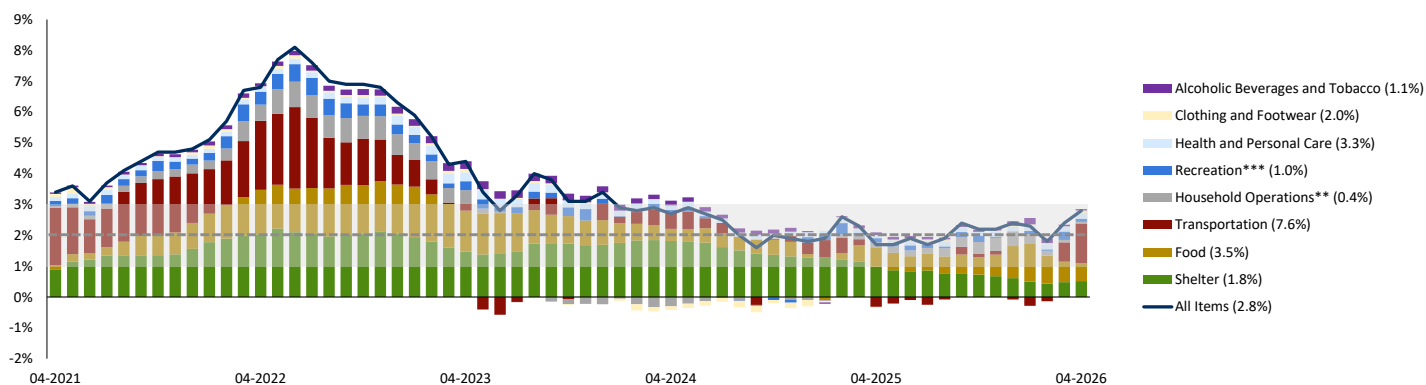
Bank of Canada to remain on hold

The Bank of Canada left its policy rate unchanged at 2.25% at its April meeting, citing elevated uncertainty surrounding the economic outlook. Policymakers noted that while higher energy prices had pushed headline inflation higher, underlying inflation pressures remained more contained. The Bank also reiterated that it would largely look through the direct impact of higher oil prices on inflation, while remaining attentive to any broader spillover effects. Looking ahead, the Bank is expected to leave rates unchanged again at its June 10 announcement.

The Governing Council has previously indicated that a policy rate close to current settings would likely remain appropriate if oil prices gradually ease and trade conditions remain stable. While first-quarter GDP was weaker than expected, the Bank has cautioned against placing too much weight on the headline contraction, noting that the economy has not experienced the broad-based weakness typically associated with recessionary periods. That view has been reinforced by subsequent data, including the strong May employment report, which showed broad-based job gains and a decline in the unemployment rate. As a result, the recent GDP data is unlikely to materially change the Bank's policy outlook.

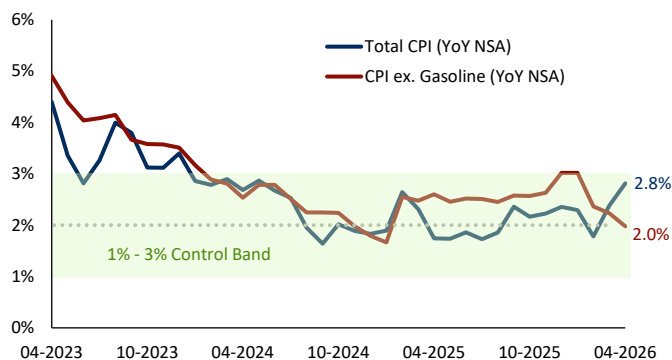
While two-sided risks remain, our base case is for the Bank to remain on hold through the remainder of the year (Chart 14). We continue to see some potential for a 25 bps rate cut should the reopening of the Strait of Hormuz lead to a faster normalization in energy prices, and if heightened uncertainty surrounding the USMCA review warrants a more stimulative policy stance. Conversely, while not our base case, persistently elevated oil prices could lead to broader inflation pressures, a scenario in which the Bank has indicated that some policy tightening may be required.

Chart 12 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)



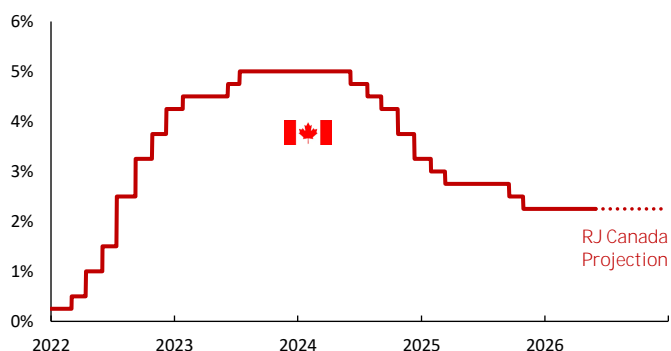
Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026. **Household operations, furnishing and equipment; ***Recreation, education and reading.

Chart 13 - Gasoline Prices Lift Headline CPI; Underlying Pressures Remain Moderate



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

Chart 14 - Bank of Canada Likely to Stay on Hold



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

The U.S. — GDP growth revised lower for 1Q26

The second estimate of U.S. real GDP showed the economy grew at a 1.6% q/q annualized pace in 1Q26 (Chart 15), revised down from the initial estimate of 2.0%. The downgrade reflected modest downward revisions to both consumer spending and private investment, while government spending and net trade were largely unchanged. Consumer spending was revised down to 1.4% q/q annualized from 1.6%, reducing its contribution to GDP growth from 1.1 percentage points to 1.0 percentage points. Gross private domestic investment was also revised lower, from 8.7% to 7.0% q/q annualized, primarily due to weaker inventory accumulation, with inventories contributing just 0.1 percentage points to growth, down from the initial estimate of 0.4 percentage points.

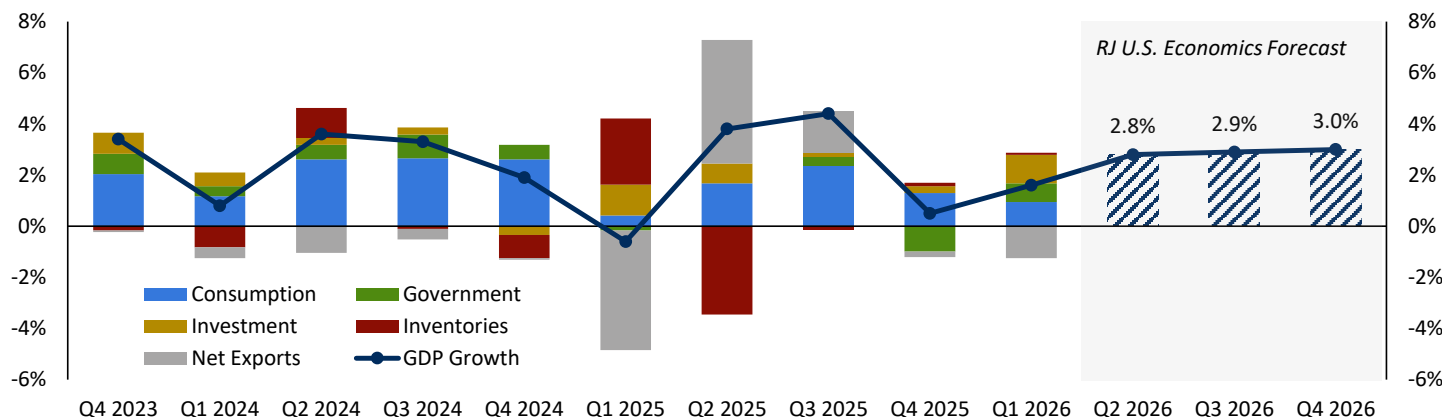
Despite the revision, the overall picture of moderate economic growth remains largely intact. Real final sales to private domestic purchasers, a key measure of underlying domestic demand, were revised only slightly lower, from 2.5% to 2.4% q/q annualized. At the same time, continued strength in AI-related investment remains a key driver (Chart 16), with both these factors continuing to support overall economic growth.

PMIs remain firmly in expansion

The ISM Manufacturing PMI rose to 54.0 in May from 52.7 in April, marking a fifth consecutive month in expansion territory (Chart 17). The increase was supported by stronger new orders and production activity, while business sentiment also improved, with survey respondents reporting fewer concerns related to tariffs and geopolitical uncertainty. The ISM Services PMI increased to 54.5 in May from 53.6 in April, extending its expansion streak to 23 consecutive months. Business activity and new orders strengthened further, although employment remained in contraction. At the same time, the prices index moved higher, suggesting service-sector firms continued to face elevated cost pressures.

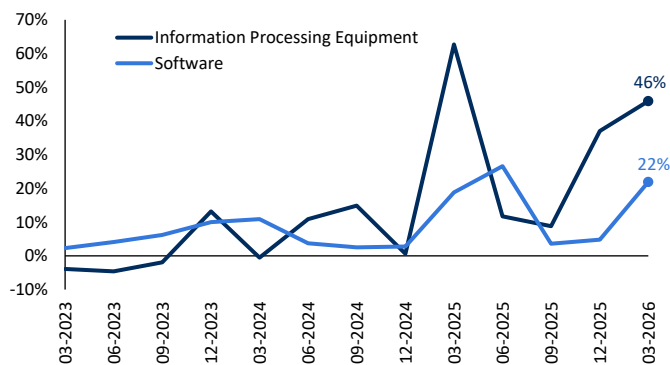
Overall, the PMI surveys suggest economic activity remained resilient through May, with both manufacturing and services continuing to expand. Unsurprisingly, persistent price pressures, particularly within the services sector, continue to point to potential upside risks for inflation.

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



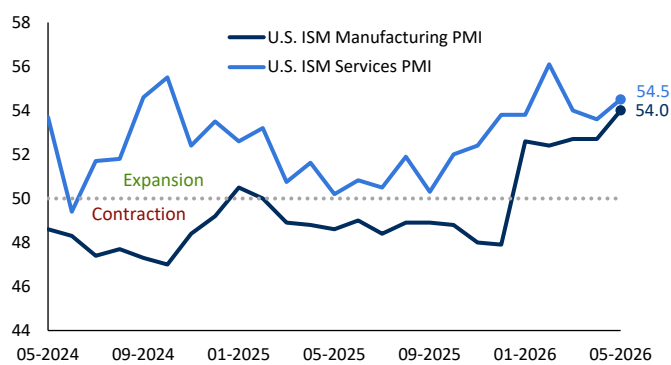
Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Chart 16 - Robust Growth in A.I.-Driven Investment (q/q annualized)



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

Chart 17 - PMIs Remain Firm in Expansion Territory



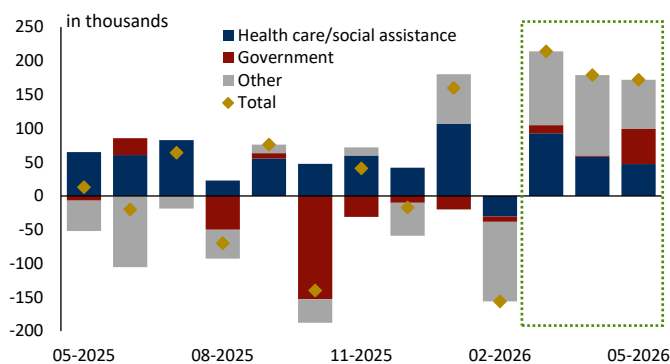
Source: FactSet, Raymond James Ltd.; Data as of May 31, 2026.

U.S. labour market regains momentum

Non-farm payrolls in the U.S. increased by 172k in May, significantly exceeding expectations of 88k, and marking another month of solid job creation. The unemployment rate remained unchanged at 4.3%. Job growth was broadly based across sectors, continuing a trend observed over the past three months and marking a notable improvement from much of 2025, when employment gains were heavily concentrated in health care and social assistance (Chart 18). Revisions to prior months were also positive, with payroll gains in March revised up from 185k to 214k, and April revised up from 115k to 179k, resulting in a net upward revision of 93k jobs. Including the latest data and revisions, employment growth has averaged 114k per month during the first five months of 2026, a significant improvement from the average monthly gain of just 10k recorded throughout 2025.

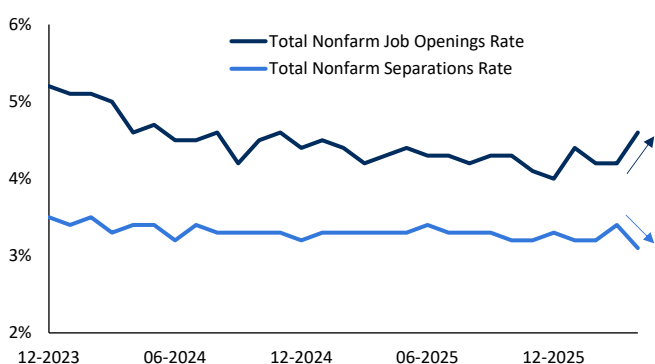
Other labour market indicators continue to point to underlying strength. According to the JOLTS report, job openings rose to 7.62 million in April from 6.89 million in March, marking the largest monthly increase in five years and the highest level since May 2024. The increase in job openings rate, combined with a decline in separations rate, suggests employer demand for labour has strengthened (Chart 19). Meanwhile, the ADP Employment Survey showed private-sector employment increased by 122k in May, with job gains becoming more broad-based across industries. Overall, recent data suggest labour market conditions have improved following the softness observed through much of 2025.

Chart 18 - Employment Growth Improving Beyond Health Care/Social Assistance



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

Chart 19 - Strengthening Demand for Labour



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

U.S. inflation continues to move higher

U.S. CPI inflation continued to accelerate in April, with headline prices rising 0.6% m/m and the year-over-year rate increasing to 3.8% from 3.3% in March (Chart 21). Core CPI also rose 0.4% m/m, lifting the annual rate to 2.8% from 2.6%. Much of the increase was driven by shelter-related components and higher airfares. Importantly, some of the strength in shelter inflation reflected statistical adjustments related to earlier data collection disruptions rather than a meaningful acceleration in price pressures during the month. Consistent with this, CPI excluding shelter, food, and energy increased a more modest 0.2% m/m in April, following a 0.1% rise in March.

The Fed's preferred inflation gauge, the core PCE price index, increased 0.2% m/m in April, a softer pace than suggested by the CPI report and an indication that broader inflation pressures remained relatively contained. However, the annual core PCE inflation rate still rose to 3.3%, its highest level in nearly three years. The headline PCE price index increased 0.4% m/m, lifting the year-over-year rate to 3.8% from 3.5% in March.

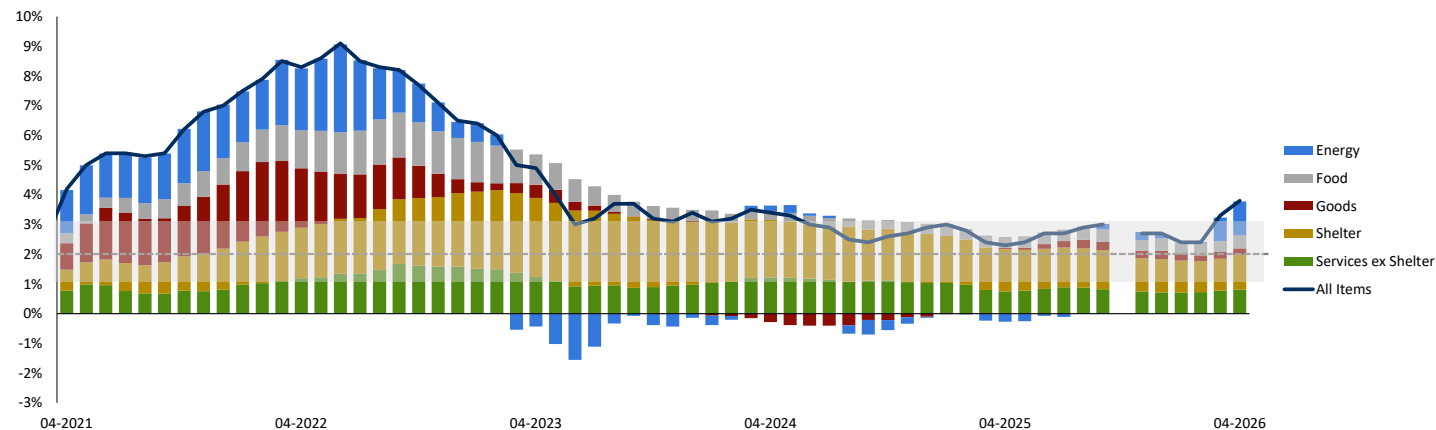
Overall, inflation remains elevated, although the latest data suggest the recent increase has been driven by a relatively narrow set of categories rather than a broad-based acceleration in price pressures. However, with energy prices remaining elevated, the extent to which higher fuel and transportation costs feed through to a wider range of goods and services will remain an important factor for the inflation outlook in the months ahead.

Fed to remain on hold for now

In its April meeting, the Federal Open Market Committee (FOMC) left the policy rate unchanged at 3.50–3.75%. The Committee retained its existing guidance, emphasizing a data-dependent approach while broadly maintaining an easing bias. However, the decision saw four dissents, with one Governor favouring a rate cut and three regional Fed presidents opposing the inclusion of an easing bias in the statement.

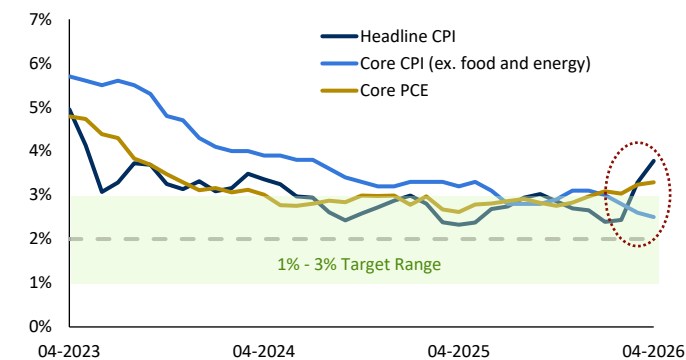
The minutes from the meeting revealed a more hawkish tone than the initial statement suggested. Policymakers expressed growing concern that elevated inflation and uncertainty surrounding the Middle East conflict could require restrictive policy settings to remain in place for longer than previously anticipated. Notably, a majority of participants indicated that additional policy tightening could become appropriate if inflation were to remain persistently above the Fed's 2% target. Since the meeting, a continued run of resilient labour market data has further reinforced the case for maintaining a restrictive policy stance. Reflecting these developments, our U.S. Economics team now expects the Fed to remain on hold through the remainder of the year (Chart 22), rather than easing policy later this year as previously expected.

Chart 20 - Major Components' Contributions to U.S. CPI



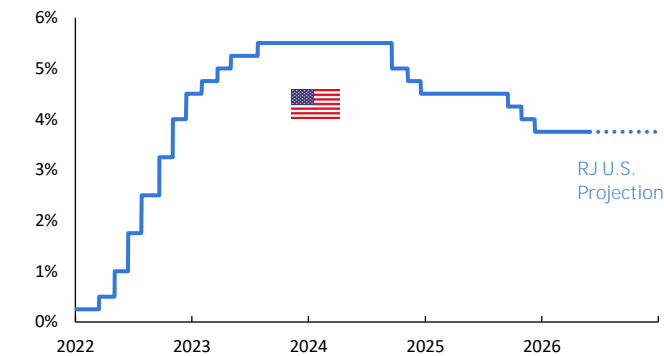
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of April 30, 2026.

Chart 21 - Inflation Pressures Build As Energy Prices Remain Elevated



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

Chart 22 - Fed Expected to Remain on Hold



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

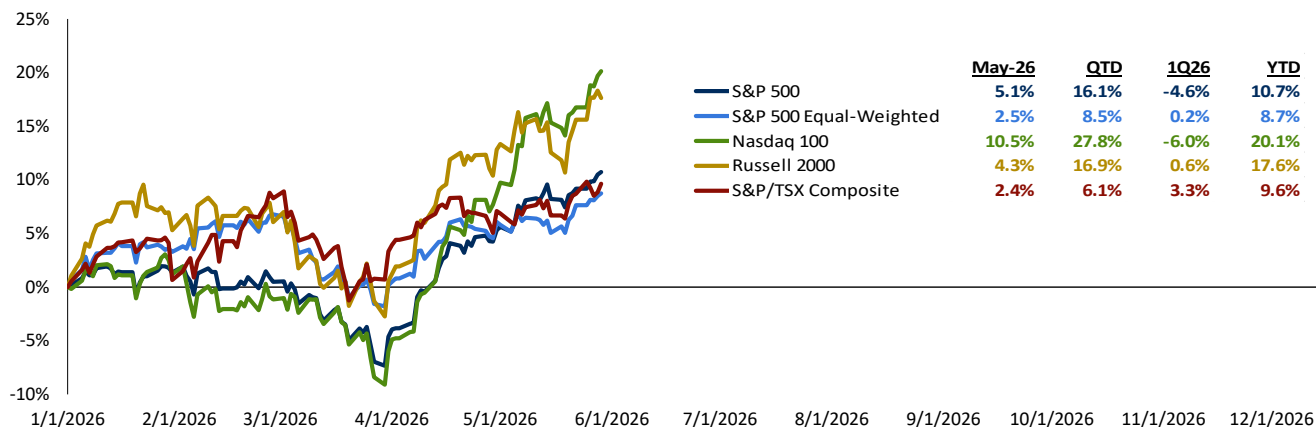
Financial Markets

U.S. and Canadian equity markets extended their April momentum into May, reaching new highs. Robust earnings growth and a renewed wave of A.I. enthusiasm captured investor attention, helping markets look through the ongoing Iran conflict. The S&P 500 delivered a 5.1% price return and a 5.3% total return in May, ending the month at a new high and rebounding 19.5% from its prior trough on March 30. This lifted year-to-date performance to 10.7% on a price basis and 11.2% on a total return basis.

Other major U.S. indices also continued to rally. Supported by impressive 1Q26 earnings results and positive developments around A.I. monetization, the technology-heavy Nasdaq 100 was the biggest beneficiary, advancing 10.5% in the month. The Russell 2000, a proxy for small-cap equities, also posted a meaningful gain, rising 4.3%. While narrow leadership among technology stocks caused the equal-weighted S&P 500 to lag its capitalization-weighted counterpart, it still generated a solid 2.5% price return.

Canadian equities also advanced in May, with the S&P/TSX Composite gaining 2.4% on a price basis and 2.5% on a total return basis, reaching a new high during the month. This brought year-to-date returns to 9.6% and 10.6%, respectively. Notably, although both oil and gold prices declined in May, with oil seeing the more meaningful pullback, the Energy sector held up relatively well while Materials appeared to find a bottom. This suggests that sector performance has become less directly tied to near-term commodity price volatility, particularly on the downside. We provide a more detailed analysis in the Canadian Equities section.

Chart 23 - Selected Indices Price Returns

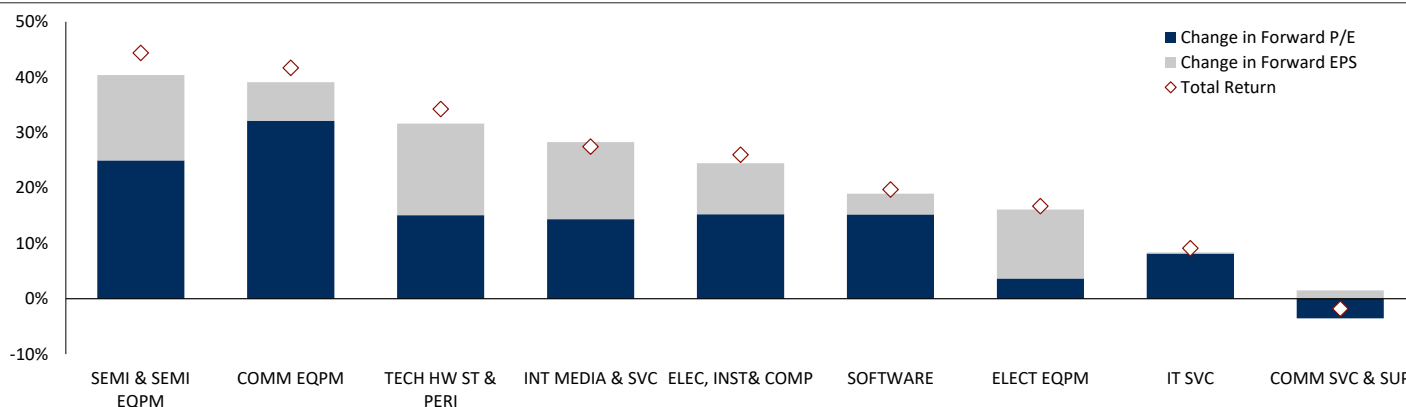


Source: FactSet, Raymond James Ltd.; Data as of May 29, 2026. Price return in local currency.

A.I. Trades Are Back, Now What?

The Information Technology sector and A.I.-related equities have rebounded sharply over the past two months, erasing their early-2026 underperformance. Even after a more than 10% drawdown over the last four trading days, from June 2 to June 5, the sector remains the second-best performer year-to-date among the 11 sectors, behind only Energy, which has been supported by the oil-price surge tied to the Iran conflict. As evidence of A.I. monetization has improved, capital has rotated quickly into perceived infrastructure bottlenecks, including memory, CPUs, and optical networking. The potential for several large A.I.-adjacent IPOs has further reinforced investor enthusiasm.

This raises a broader question: **how should the next phase of the A.I. trade be assessed after such a powerful rebound, particularly as the Fed potentially adopts a more hawkish tone?** In our view, the next phase requires a more segmented approach. The A.I. ecosystem has always moved at different speeds, but the market is now better able to distinguish the layers of opportunity and the return drivers within each segment. A more hawkish rate backdrop does not undermine the A.I. theme, but it does make quality more important. Within the more attractive parts of the value chain, the focus should shift to companies with valuation support, strong earnings visibility, solid balance sheets, and credible monetization roadmaps. High-flying stocks with elevated multiples, higher leverage, or less proven earnings support are likely to face greater volatility in this environment.

Chart 24 - S&P 500 A.I.-Related Industries Total Return Breakdown (3/30/2026 - 6/5/2026)

Source: Bloomberg, Raymond James Ltd. GICS Level 3 Industries.

Some parts of the A.I. trade now appear crowded. As of June 5, despite the sharp pullback, memory and storage companies had still driven the semiconductor industry index up 44.3% from its March 30 trough. A similar dynamic has unfolded in optical networking-related stocks, which have lifted the communication equipment industry index by 41.7% over the same period (Chart 24). These moves are not necessarily detached from fundamentals, as both areas sit near important bottlenecks in the A.I. infrastructure buildout. However, the speed and magnitude of the gains suggest that expectations have moved quickly, leaving these segments more vulnerable to pullbacks if earnings revisions, order growth, or capex commentary fail to keep pace. Valuations are also likely to become more sensitive to the Fed rate backdrop going forward.

In that context, we would be cautious about chasing these areas after such a sharp move. At the same time, if market momentum remains powerful, standing directly against the trend carries its own risks. A more balanced approach may be to maintain exposure to the highest-quality winners, particularly those with strong earnings visibility, clear capacity roadmaps, and durable customer demand, while avoiding indiscriminate buying across the segment. That discipline is especially important because the next phase of returns needs to be driven more by earnings growth than by further multiple expansion. In a more sustainable rally, upward earnings revisions should do more of the heavy lifting, allowing multiples to stabilize or even contract toward more reasonable levels without necessarily derailing performance.

Other parts of the A.I. value chain may still be earlier in the catch-up phase, but software requires a more selective lens. The key distinction is whether A.I. can expand a company's revenue opportunity, deepen product usage, or improve pricing power, rather than simply lower operating costs. Companies that can turn A.I. into incremental demand are more likely to earn investor attention and multiple support; cost savings alone may help margins, but are unlikely to drive a sustained re-rating. At the same time, disruption risk across parts of the SaaS universe has not disappeared, although a meaningful portion of that concern may already be reflected in valuations. The software industry index's forward P/E contracted by more than 40%, falling from a recent peak of 35.0x in July 2025 to a trough of 20.3x in April 2026, before partially recovering to 25.5x.

The potential IPO wave and secondary equity offerings have also attracted considerable attention. Encouragingly, history suggests that large new issuance does not necessarily drain liquidity from the existing market. Periods of sizeable issuance have often coincided with solid S&P 500 returns and relatively healthy market breadth, indicating that high-quality supply can attract incremental capital rather than simply compete with existing equities. In many cycles, this has helped broaden market participation rather than undermine it. The profile of the likely candidates also matters. These are generally large, strategically important businesses with potential profitability or strong earnings visibility, rather than small, unprofitable companies coming public at indiscriminate valuations. That suggests we are not yet seeing the typical late-cycle issuance pattern. The warning signs to monitor would be a deterioration in issuer quality, aggressive valuation resets, weak post-IPO performance, and investors becoming more willing to fund growth narratives with limited visibility into profitability.

U.S. Equities

Renewed A.I. enthusiasm, supported by exceptional 1Q26 earnings from A.I.-related companies, remained the dominant driver of S&P 500 performance in May. Energy was the largest laggard, as markets increasingly priced in the potential for a U.S.-Iran peace agreement and a corresponding retracement in oil prices. At the same time, the resilient economic backdrop supported a more risk-on tone, putting defensive sectors such as Utilities and Consumer Staples under pressure.

There are growing signs that the current backdrop remains consistent with a mid-cycle environment, characterized by earnings-driven returns, strengthening capex, and rising selectivity. Technology, Industrials, and Materials are also among the sectors that typically perform well in this phase. The ongoing A.I. trend may help extend the cycle by supporting both revenue growth and productivity-led margin improvement, as demonstrated in 1Q26 earnings results.

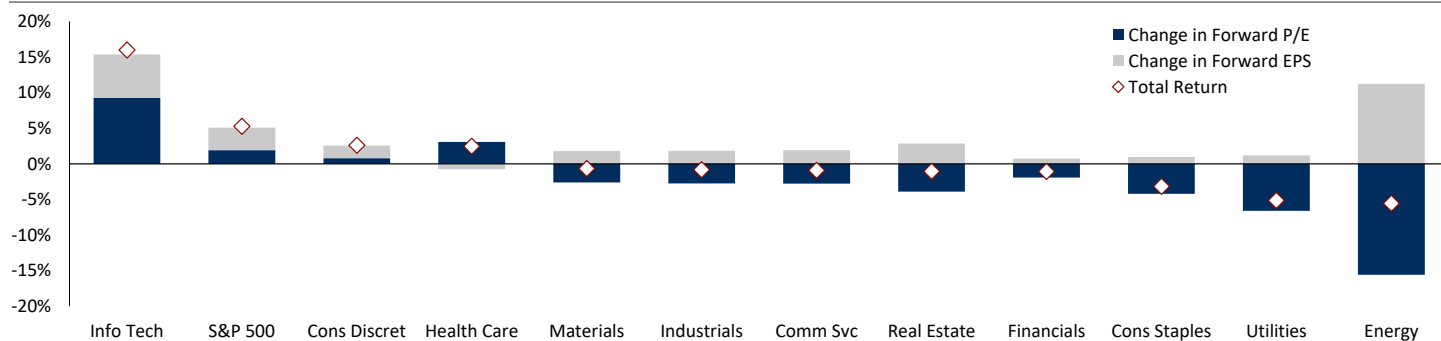
S&P 500 earnings grew 27.9% year-over-year and 9.4% quarter-over-quarter in 1Q26, an impressive result, though growth remains highly concentrated in mega-cap technology and A.I.-linked leaders. The seven key A.I. beneficiaries, Nvidia, Alphabet, Amazon, Microsoft, Apple, Meta, and Micron, account for 33.0% of the S&P 500's market capitalization and 32.3% of index earnings, but contributed 60.7% of year-over-year earnings growth in the quarter.

On the positive side, the group's market-cap weight and earnings weight are broadly aligned, suggesting that its index representation is supported by earnings power rather than valuation alone. However, this concentration also leaves the broader index more dependent on the durability of their earnings growth. If this group disappoints, S&P 500 earnings momentum could slow quickly, with limited cushion from the rest of the market.

At the sector level, Information Technology, Communication Services, and Consumer Discretionary, the three sectors most closely tied to the A.I. theme, now account for roughly half of total S&P 500 earnings in dollar terms, up from 35% in 1Q23 and 43% in 1Q25. Together, they contributed almost 80% of the index's earnings growth, reinforcing that while the earnings backdrop remains strong, it is still highly concentrated (Chart 27).

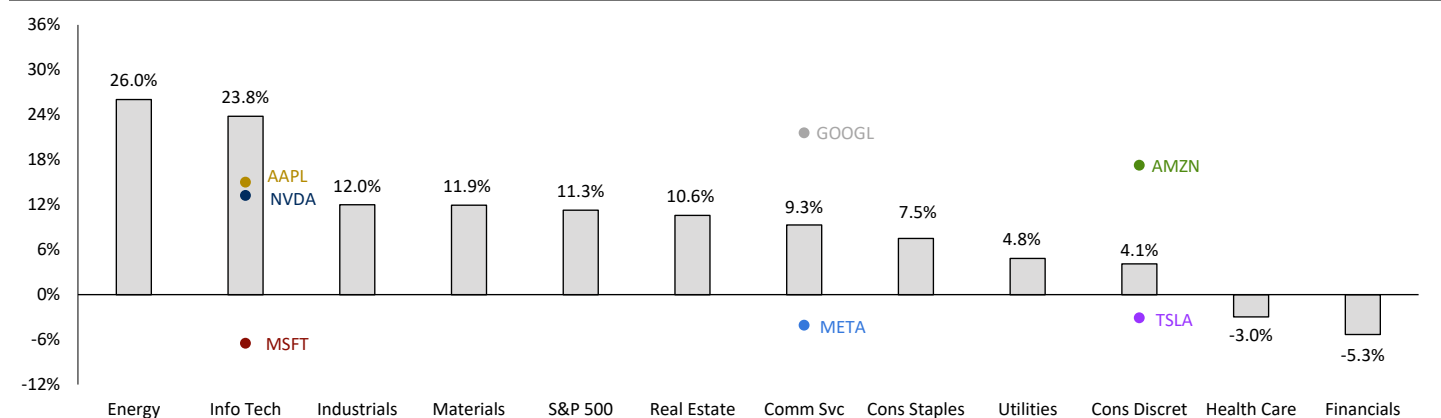
Calendar-year 2026 earnings estimates have been revised higher, from US\$317 prior to 1Q26 results to US\$335, now implying a 24% increase versus calendar-year 2025 earnings. Looking ahead, the Energy sector is expected to become one of the key contributors to next quarter's earnings, supported by the recent surge in oil prices.

Chart 25 - S&P 500 Composite Sector May 2026 Total Return Breakdown



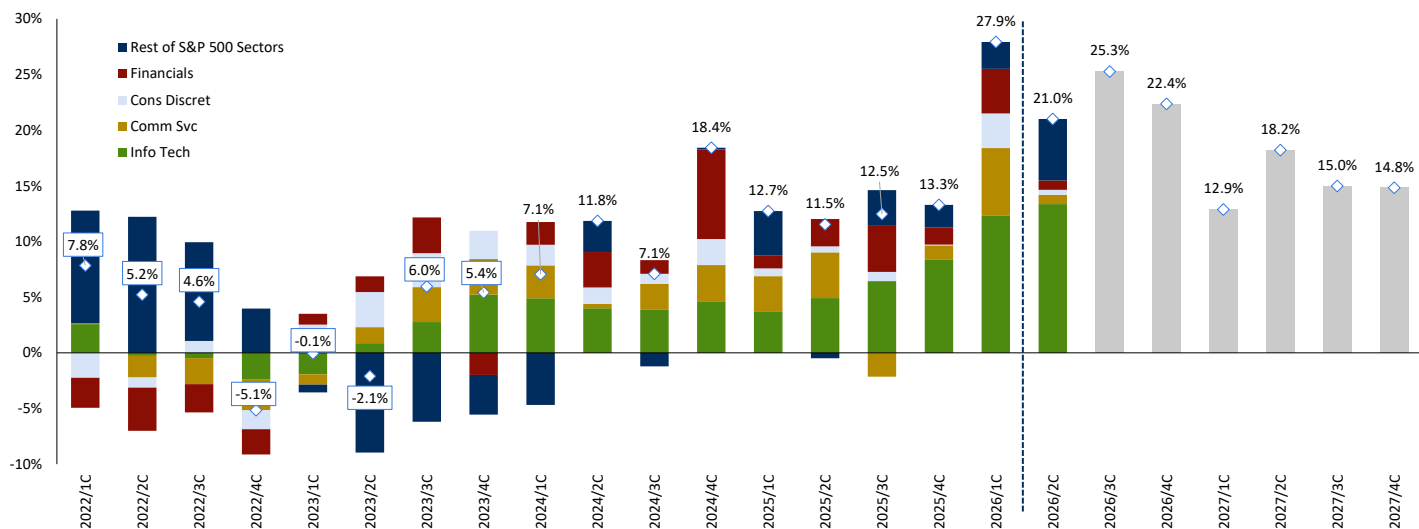
Source: Bloomberg, Raymond James Ltd.; Data as of May 29, 2026.

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



Source: FactSet, Raymond James Ltd.; Data as of May 29, 2026.

Chart 27 - S&P 500 EPS YoY Growth Contribution By Sector & Expectation



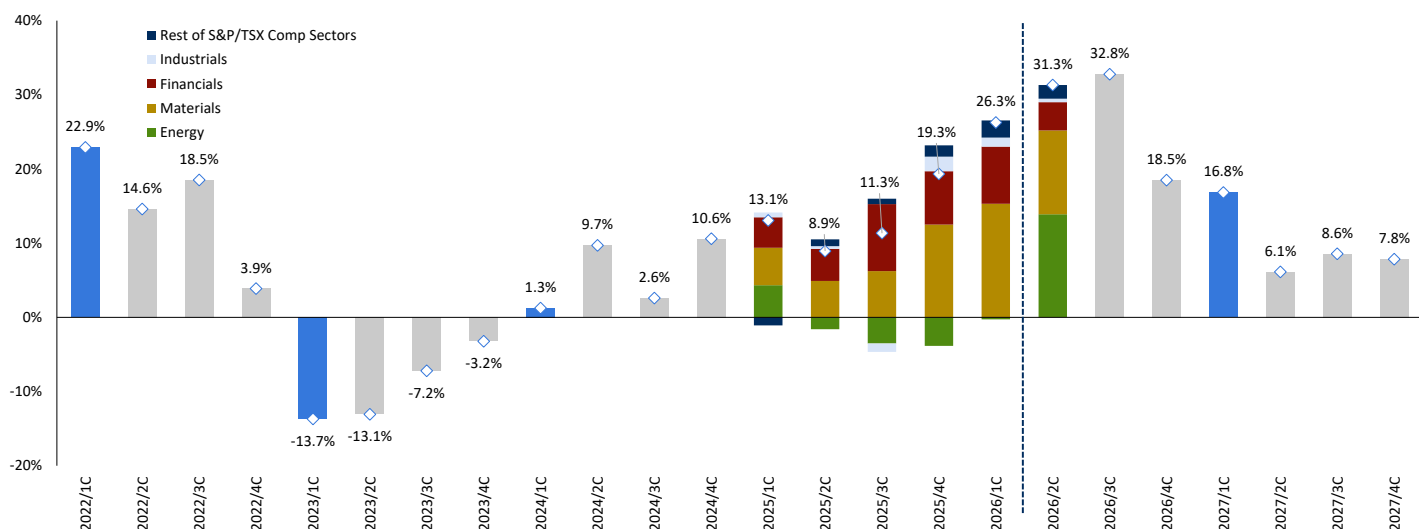
Source: FactSet; Raymond James Ltd.; Data as of May 29, 2026.

Canadian Equity Markets

In May, the TSX Composite held up well despite volatility and downward pressure in both oil and gold prices. Communication Services and Materials rebounded from the prior month to lead performance, while Financials continued its momentum with another meaningful advance. Energy, Consumer Staples, and Consumer Discretionary were the main laggards.

The TSX Composite delivered strong 1Q26 earnings, with year-over-year growth of 26.3%. Quarter-over-quarter earnings were slightly negative at -1.8%, though this was largely attributable to seasonality. However, the year-over-year growth was highly concentrated: Materials contributed more than 60% of the increase, while Financials accounted for another 28% (Chart 28). Looking ahead, the recent surge in energy prices could become another important driver of 2Q26 earnings. Materials should also remain a major contributor, as gold prices, despite recent consolidation, are still meaningfully higher than last year. Calendar-year 2026 earnings expectations have also been revised higher, rising from C\$1,966 before 1Q26 results to C\$2,127.

Chart 28 - S&P/TSX Composite EPS YoY Growth Contribution By Sector & Expectation



Source: FactSet; Raymond James Ltd.; Data as of May 29, 2026.

Given the TSX Composite's resource-heavy composition, it is worth revisiting how commodity-price movements are affecting its two key resource sectors: Energy and Materials. This is particularly relevant as oil prices remain highly volatile and sensitive to developments in the Strait of Hormuz, while gold has entered a consolidation phase amid a more challenging macro backdrop.

For the TSX Energy sector, its upstream-oriented composition makes it intuitive to view performance as highly sensitive to oil prices. However, since the pandemic collapse, Canadian energy companies have shifted toward greater capital discipline, stronger balance sheets, and higher free-cash-flow returns through dividends and share repurchases. The sector is clearly not decoupled from oil, but its downside sensitivity appears to have declined. The investment case is now less dependent on "oil must go up" and more supported by free-cash-flow generation, disciplined capex, shareholder returns, balance-sheet strength, and demand for energy infrastructure.

This shift is visible in relative performance during oil drawdowns. Since 2021, in all nine periods when WTI crude fell by more than 20%, the TSX Energy sector outperformed its S&P 500 counterpart. The average WTI drawdown in these periods was 26.1%, while the TSX Energy sector declined by an average of only 6.1%, compared with a 9.8% decline for S&P 500 Energy. This contrasts with the 2008–2020 period, when TSX Energy captured more of oil's downside, with an average TSX Energy decline of 17.5% versus a 33.9% WTI drawdown. Beyond oil, the TSX Energy sector's exposure to LNG and the presence of the world's largest publicly traded uranium company should also offer longer-term growth opportunities.

For the TSX Materials sector, recent performance has been relatively more resilient than the move in gold alone would suggest. Part of this reflects the way gold equities trade: miners are more levered to earnings expectations than to every short-term move in bullion. Even with gold consolidating, prices remain well above year-ago levels, supporting margins, cash flow, and balance-sheet repair after the earlier rally.

Materials has also benefited from exposure beyond gold. Copper has regained momentum, supported by mine disruptions, tight supply, and stronger structural demand from A.I. infrastructure, electrification, and EV-related investment. That has helped copper miners outperform and provided broader support to the sector.

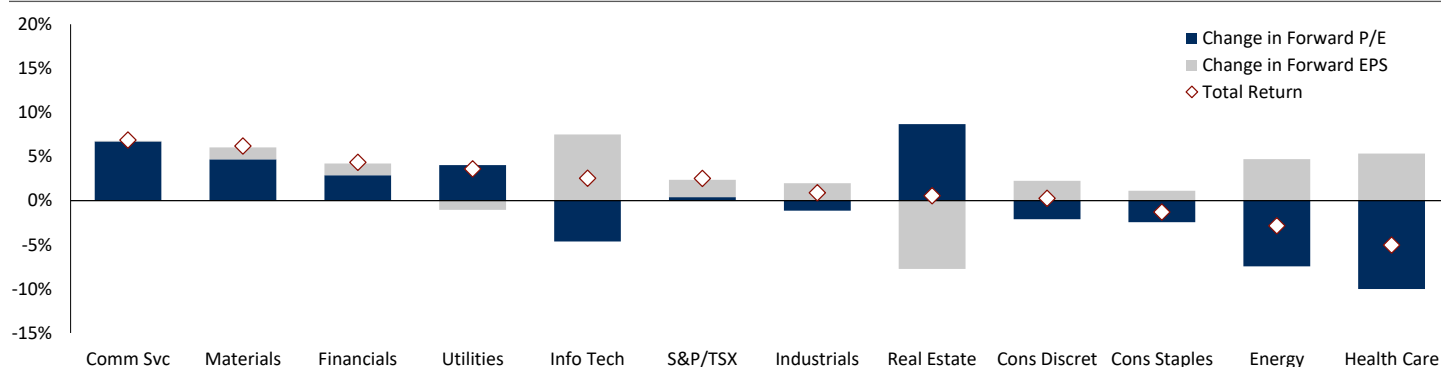
Looking ahead, gold's consolidation could persist after its break below the 200-day moving average, particularly if the U.S. and Iran remain unable to reach a deal and fully reopen the Strait of Hormuz. Elevated oil prices would keep inflation concerns alive, reinforcing a more hawkish Fed, higher U.S. Treasury yields, and a stronger U.S. dollar, all headwinds for gold. Retail sentiment toward gold has also cooled, while capital has rotated aggressively back into A.I.-related equities, reducing the urgency to add defensive or alternative exposures. That said, the medium-term case for gold is still intact. Central-bank buying remains a structural demand anchor, and institutional portfolios may still have room to increase allocations.

Top 3 Sectors (May 2026):

- **Communication Services:** The highly concentrated Communication Services sector, where the top three constituents account for nearly 90% of index weight, rebounded in May after the initial shock from the CRTC's move to broaden wholesale access to fibre and wireless networks, which benefited smaller providers. The May gain was driven almost entirely by valuation recovery, with the sector's forward P/E rising to 13.7x, nearly back to the 13.9x level seen in late March before the April 1 policy shift. The earnings growth outlook remains subdued. Looking ahead, structural headwinds persist, including slower immigration and less favourable demographic trends. Absent a renewed risk-off environment, such as a deterioration in USMCA negotiations, the sector's scope to outperform the broader index appears limited.
- **Materials:** Materials was volatile through May, largely reflecting swings in gold prices. However, the sector's performance was more resilient than bullion alone would suggest, supported by stronger gold-miner fundamentals and exposure to copper. Gold miners continue to benefit from still-elevated year-over-year gold prices, improved cash flow, and strengthened balance-sheet, while copper miners have been supported by tight supply, mine disruptions, and structural demand tied to A.I. infrastructure, electrification, and EV investment. Near-term volatility is likely to remain elevated as the Iran conflict prolongs gold's macro headwinds, but the sector could also regain defensive interest if concerns re-emerge around the crowded A.I. trade.
- **Financials:** Financials delivered another strong month, with broad-based gains outside Property and Casualty Insurance. Performance was again driven largely by multiple expansion, leaving the sector's forward P/E at 14.1x, near the upper end of its historical range. The major banks were the key contributors to 1Q26 earnings growth, reflecting solid execution, disciplined capital management, and credit conditions that remain contained. While Canada has recorded two consecutive quarters of negative GDP growth, the underlying details appear more constructive than the headline figures suggest. That said, the upcoming USMCA renewal remains an important macro uncertainty, while rising consumer insolvencies and emerging weakness in residential mortgage portfolios should be monitored closely.

Bottom 3 Sectors (May 2026):

- Energy:** The sector declined 2.8% in May, compared with a 16.9% drop in oil prices, reinforcing the view that its downside sensitivity has declined in recent years. As discussed earlier, higher dividends, increased share repurchases, stronger balance sheets, and more disciplined capital allocation have made the sector less of a pure oil-beta trade. Within the sector, upstream producers and integrated companies were most directly pressured by the pullback in crude, although industry leaders showed greater resilience. Midstream generated positive returns, while the rest of the sector was generally weaker. Overall, we remain constructive on Energy, as the investment case is now supported by free-cash-flow generation and shareholder returns, not just oil-price appreciation. Valuation also remains reasonable, with the sector's forward P/E of 15.7x sitting in its historical second quartile. Looking ahead, 2Q26 earnings growth should receive support from the elevated oil-price environment following the start of the Iran conflict.
- Consumer Staples:** The macro backdrop remains largely unchanged, with persistent headwinds for grocers. Ongoing shifts in consumer behaviour toward discounts and promotions continue to pressure pricing power and margins, although leading players are relatively better positioned to navigate these dynamics. The recent increase in energy prices, driven by the Iran conflict, may also introduce some temporary upward pressure on food and essential goods inflation. In addition, uncertainty around food pricing is likely to persist until there is greater clarity on the USMCA renewal process.
- Consumer Discretionary:** Sector returns were roughly flat in May, though performance varied meaningfully across industries. Auto Parts and Apparel Retail outperformed the broader sector, with both industries having relatively higher U.S. revenue exposure. For the sector overall, however, the backdrop remains challenging. Softer Canadian consumer spending indicators, rising uncertainty ahead of the USMCA renewal, and elevated oil prices feeding into petrochemical input costs have all become headwinds that could persist in the near term.

Chart 29 - S&P/TSX Composite Sector May 2026 Total Return Breakdown

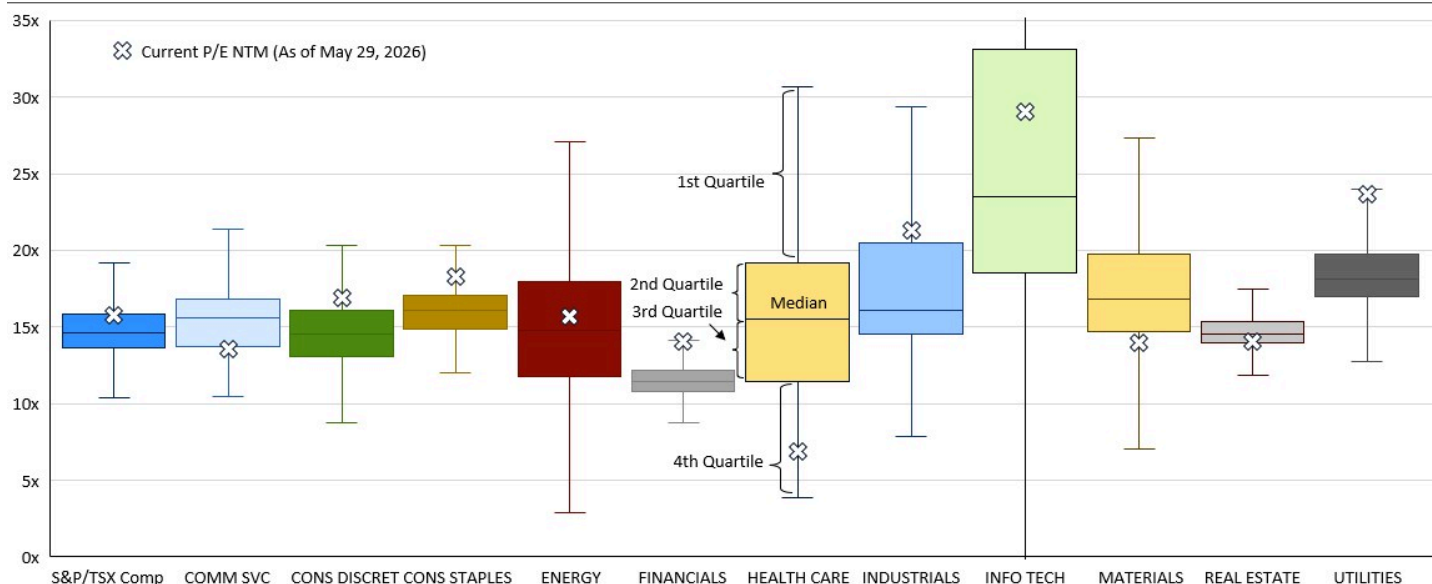
Source: Bloomberg, Raymond James Ltd.; Data as of May 29, 2026.

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
Financials	34.9%	13.2%	15.4%	4.4%	14.1	11.4
Information Technology	8.2%	-16.2%	8.1%	2.5%	29.0	23.5
Health Care	0.3%	2.7%	7.5%	-5.0%	6.9	15.5
Industrials	10.8%	7.0%	7.2%	0.9%	21.5	16.1
Consumer Discretionary	3.3%	2.3%	6.5%	0.3%	17.0	14.5
S&P/TSX Composite	--	10.6%	6.4%	2.5%	15.8	14.6
Real Estate	1.4%	0.7%	5.2%	0.6%	14.0	14.5
Utilities	3.7%	15.3%	3.7%	3.6%	23.9	18.1
Materials	19.0%	11.4%	0.6%	6.2%	13.6	16.8
Communication Services	2.0%	5.6%	-0.1%	6.9%	13.7	15.6
Energy	18.2%	28.9%	-0.9%	-2.8%	15.7	14.8
Consumer Staples	3.2%	0.9%	-2.1%	-1.3%	18.1	16.1

Source: FactSet, Raymond James Ltd.; Data as of May 29, 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 30 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of May 29, 2026. Historical P/E: 1/1/2000 – 5/29/2026. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	May (in LCL)	May (in USD)	May (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)*	4.4	4.4	5.6	7.4	7.4	8.4	10.6	10.6	11.1	19.4	16.1	3.3
EAFE (DM ex U.S. & Canada)*	2.4	2.4	3.6	-0.5	-0.5	0.5	9.4	9.4	10.0	15.4	13.6	1.8
EM (Emerging Markets)*	7.9	7.9	9.2	9.6	9.6	10.7	25.2	25.2	25.8	12.1	11.5	0.7
Selected Developed Markets												
Nikkei 225 (Japan)	11.9	10.1	11.5	13.5	11.3	12.4	32.7	30.4	31.2	22.7	17.3	5.3
Euro STOXX 50 (Europe)	3.9	2.3	3.6	0.4	-2.6	-1.6	6.7	3.8	4.3	15.5	13.4	2.1
FTSE 100 (U.K.)	0.7	-0.5	0.7	-3.3	-4.3	-3.4	6.6	5.0	5.6	12.4	12.3	0.1
CAC 40 (France)	2.4	1.8	3.1	-2.5	-3.6	-2.7	2.7	2.0	2.5	14.9	13.5	1.4
DAX (Germany)	3.3	2.8	4.0	-0.7	-1.9	-0.9	2.5	1.7	2.4	14.7	12.7	2.0
Hang Seng (Hong Kong)	-1.7	-1.8	-0.6	-4.6	-4.7	-3.8	-0.8	-1.5	-1.0	10.7	11.6	-1.0
Selected Emerging Markets												
CSI 300 (China)	1.9	2.9	4.3	4.1	5.6	6.9	6.2	9.7	10.3	15.5	13.9	1.5
Nifty 50 (India)	-1.7	-1.6	-0.2	-6.2	-10.0	-8.9	-9.5	-14.2	-13.7	19.2	18.7	0.5

Source: FactSet, Raymond James Ltd.; Total returns, data as of May 29, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 05/29/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

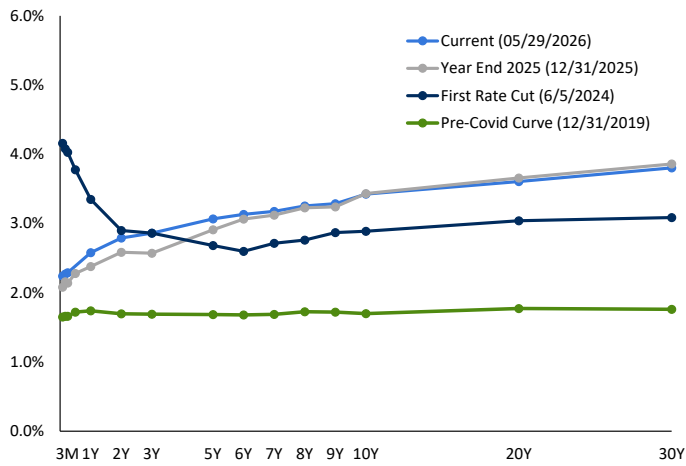
Another month into the Iran conflict, the back-and-forth around a potential U.S.-Iran peace deal remains unresolved. This continued to be the dominant driver of the U.S. Treasury curve in May. Elevated oil prices pushed inflation expectations higher, leading to a meaningful upward shift in the 2-year to 7-year segment of the curve versus the prior month-end. Our base case remains one of gradual de-escalation, which supports a constructive view on the front end of the curve. In this context, 2-year Treasuries offer an attractive risk-reward profile and carry opportunity, as yields would likely compress in the event of a credible resolution.

During the month, renewed tensions on May 18–19 pushed WTI crude back toward the US\$110 level, triggering a broader rise in longer-duration yields. The 10-year Treasury yield reached 4.67%, while the 30-year yield climbed to 5.18%, near a 20-year high. Yields later retraced to 4.44% and 4.97%, respectively, by month-end as expectations for a near-term deal improved. The recent move in long-end yields is a reminder of the 2022–2023 episode, when rate volatility became a key source of market stress, ultimately peaking around the Silicon Valley Bank failure. The current backdrop, however, appears less disruptive. Yields are rising from an already elevated starting point, and markets have had more time to adjust to a higher-rate environment. While this remains an important risk to monitor, there is evidence that the current U.S. administration is also sensitive to the potential market impact of a disorderly rise in longer-duration yields.

In Canada, the government yield curve shifted lower across most maturities by the end of May compared with the prior month-end. The renewed surge in oil prices on May 18 temporarily pushed the curve above late-April levels, but the move was not sustained. The front end moved modestly

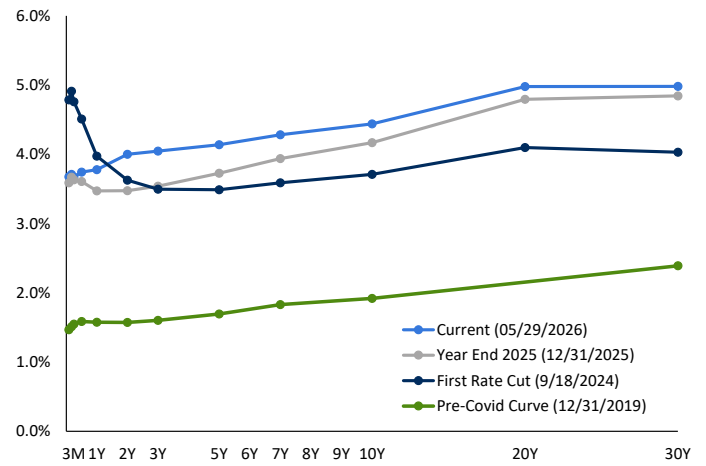
lower, reflecting softer macro indicators, including two consecutive quarters of negative GDP growth. The decline was limited, however, as markets viewed the underlying details as more resilient than the headline GDP figures suggested.

Chart 31 - Canada Government Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of May 29, 2026.

Chart 32 - U.S. Treasury Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of May 29, 2026.

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