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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: July 2026

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Market Comment

As the second half of 2026 begins, markets are adjusting to a more complicated inflation and policy backdrop. In the United States, Kevin Warsh has taken over as Federal Reserve Chair, and his first FOMC meeting reinforced a "higher-for-longer" message: rates were held steady, but the Fed's updated projections moved the expected year-end policy rate higher and showed inflation remaining above target. The implication for portfolios is that the hurdle for rate cuts has risen, long-duration assets may remain volatile, and equity valuations will need to be supported by earnings rather than easier monetary policy alone.

Geopolitics remain the other key market driver. The war involving Iran and the disruption to transit in the Strait of Hormuz have lifted energy prices, complicated central bank decision-making and reintroduced a stagflationary risk into the outlook. For Canada, this creates a nuanced environment: higher oil prices can support parts of the Canadian equity market and the currency, but they also raise input costs, pressure consumers and limit the Bank of Canada's ability to ease policy while inflation is still sensitive to energy shocks. The Bank of Canada has held its policy rate at 2.25%, choosing to look through the near-term inflation impact of the war for now, while warning that persistent energy-driven inflation could require a more restrictive response.

AI-related investment continues to support U.S. growth and corporate earnings, but it has also increased market concentration and raised the bar for future cash-flow delivery. U.S. trade and tariff uncertainty remains an important risk for Canadian exporters, especially in sectors such as metals, autos and forestry.

Investing principles are as important today as ever. Diversification, liquidity and quality are foundational to sound portfolio construction to weather market volatility.

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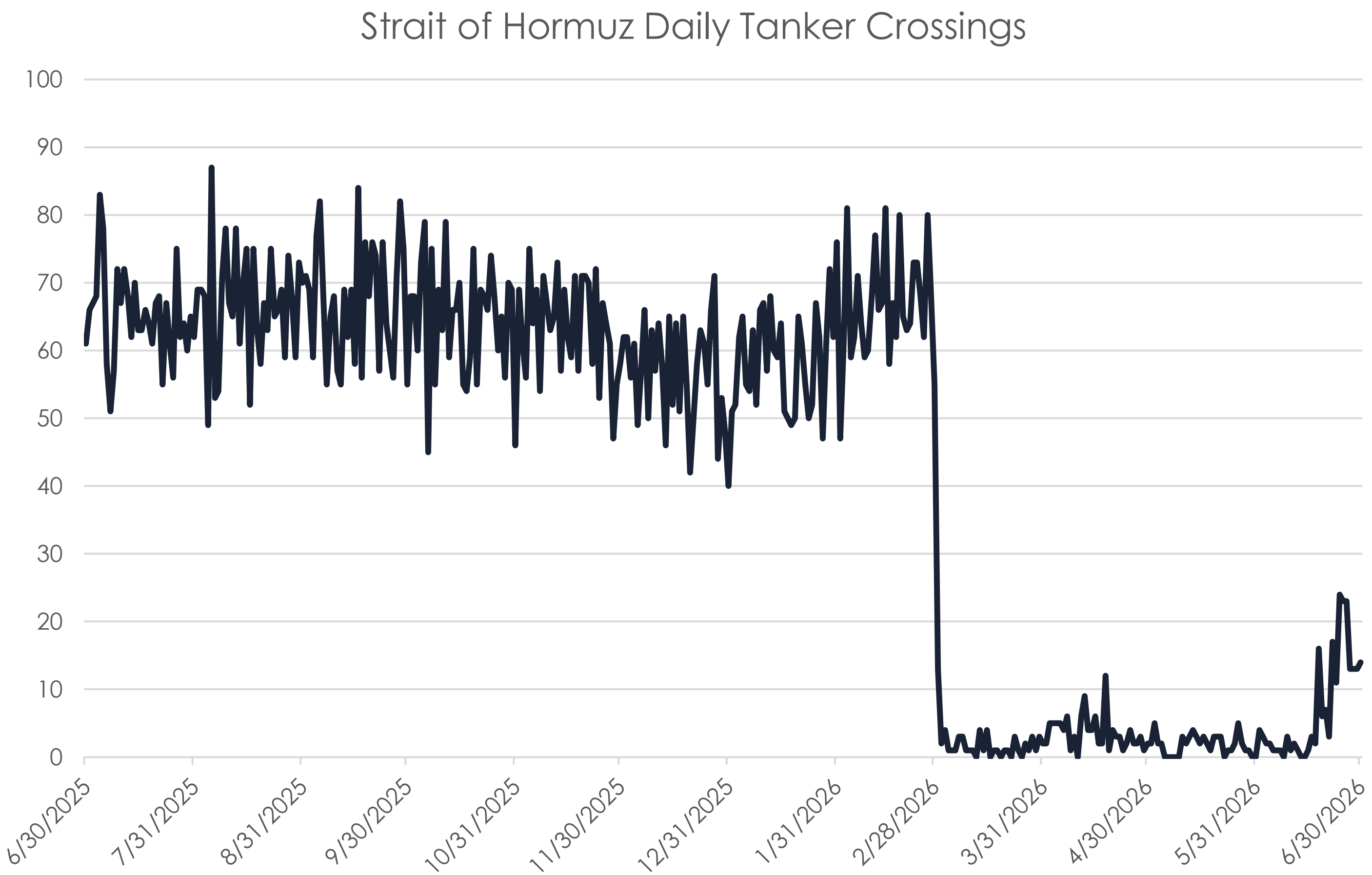
Strait of Hormuz

Transit through the Strait of Hormuz has increased following the agreement between the US and Iran, but remains well below normal levels, suggesting there is a lot of work to be done prior to normalization.



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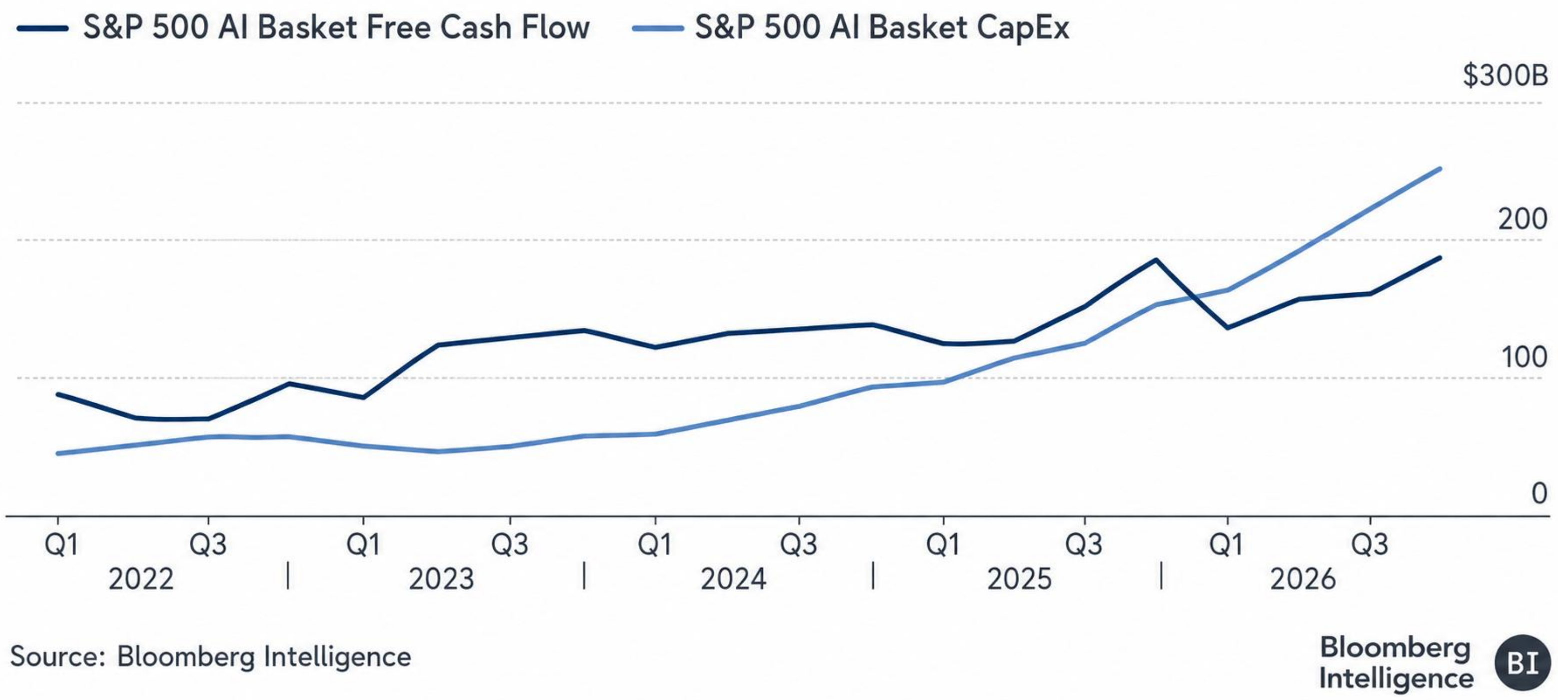
AI Cash Flow and CapEx

AI leaders are still producing substantial free cash flow while capital intensity is rising quickly. The key question is whether future returns justify the scale of investment.



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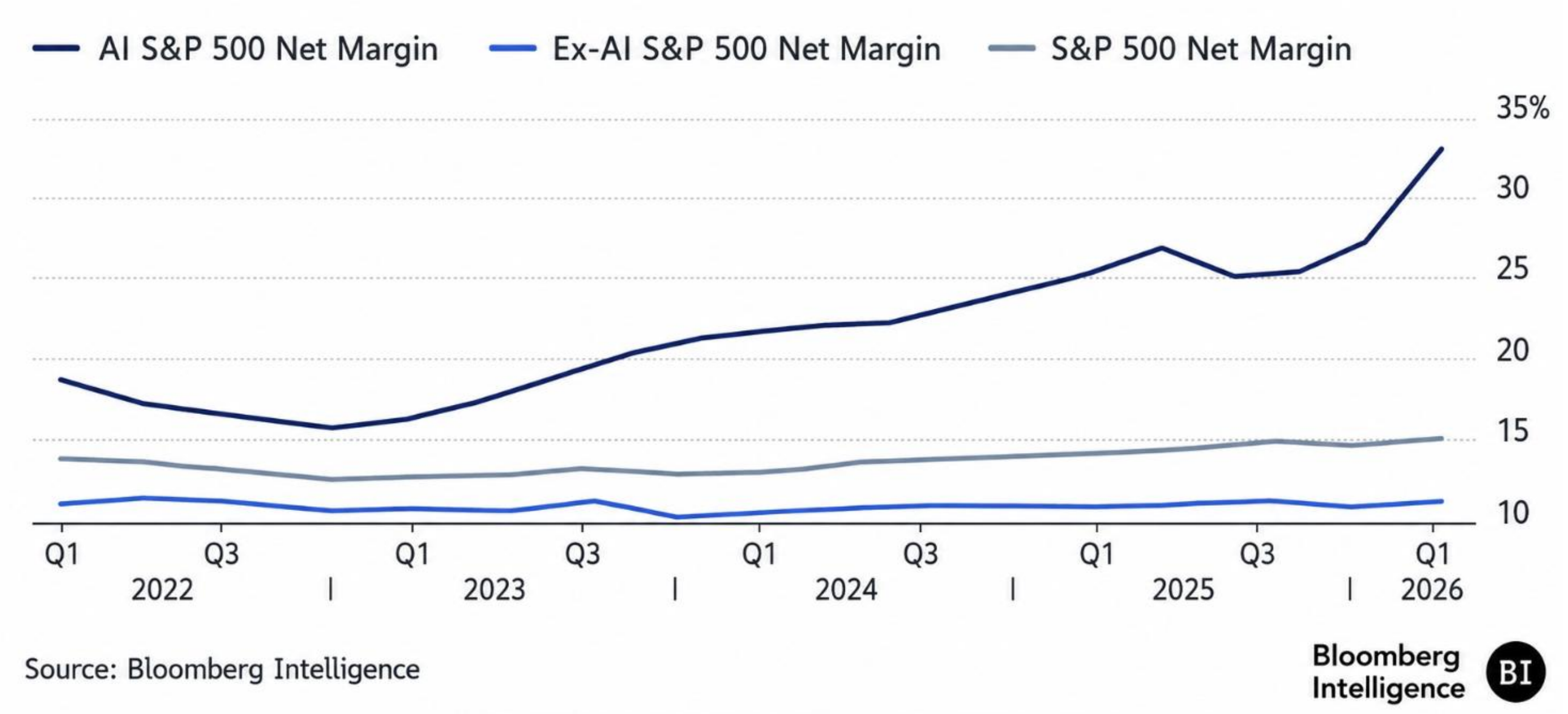
AI Business Margins



AI net margins have expanded to more than 30%, far above the broader index and ex-AI cohort. High profitability supports leadership, while setting a high bar for future earnings delivery.

The market has become reliant on this group of AI leaders to deliver earnings growth for the broader index, as margin expansion for the ex-AI group has been largely stagnant since 2022.

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AI Earnings Growth

AI remains a disproportionate contributor to S&P 500 earnings growth. A more robust market would see profit growth broaden beyond the current leaders, which is yet to be seen.

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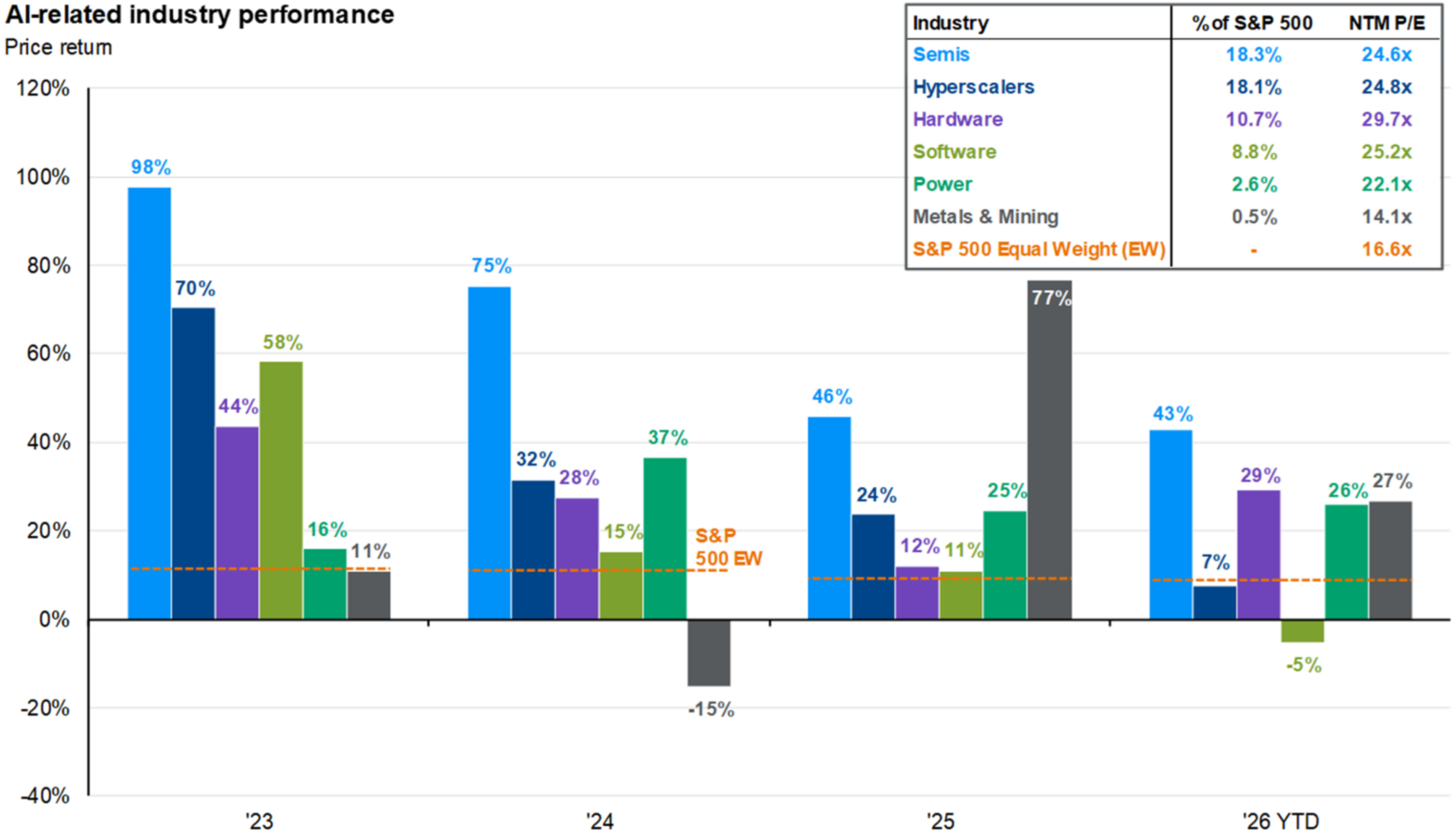
Selected Industry Returns



Industry	% of S&P 500	NTM P/E
Semis	18.3%	24.6x
Hyperscalers	18.1%	24.8x
Hardware	10.7%	29.7x
Software	8.8%	25.2x
Power	2.6%	22.1x
Metals & Mining	0.5%	14.1x
S&P 500 Equal Weight (EW)	-	16.6x

AI-related returns are not uniform across every subsector. Semiconductors and hyperscalers remain leadership groups, but 2026 has seen somewhat of a shift across these groups.

Metals and Mining led in 2025 but have come back to the pack in 2026 year-to-date, while semiconductors have remained very strong. AI Infrastructure has been a key theme in 2026, with the Power and Hardware groups being strong performers.

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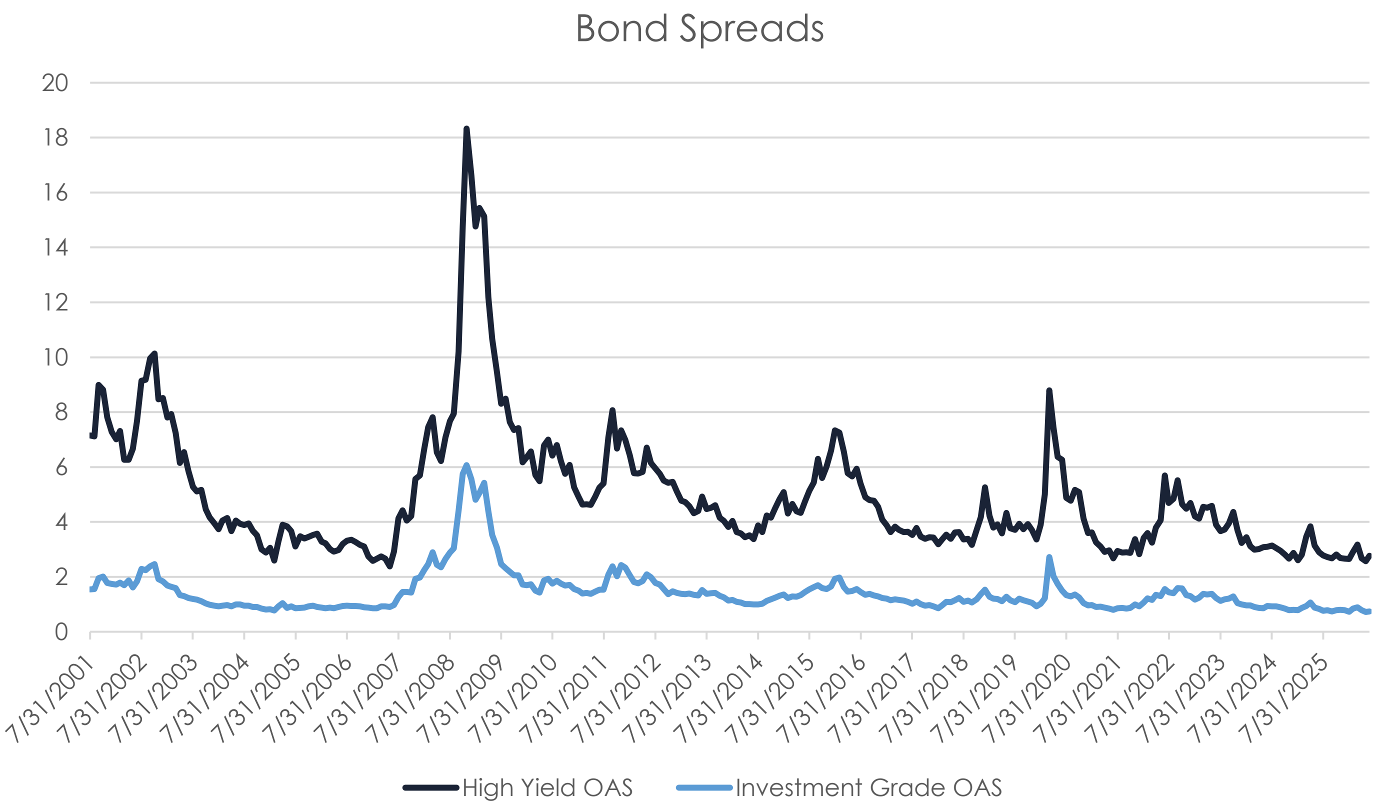
Bond Spreads

As of late June, high-yield and investment-grade spreads were near the tight end of their 25 year range. That favours quality and liquidity over reaching for yield. Tight spreads are favourable for issuers who are relying on the market for financing, such as AI businesses looking to build out their infrastructure.



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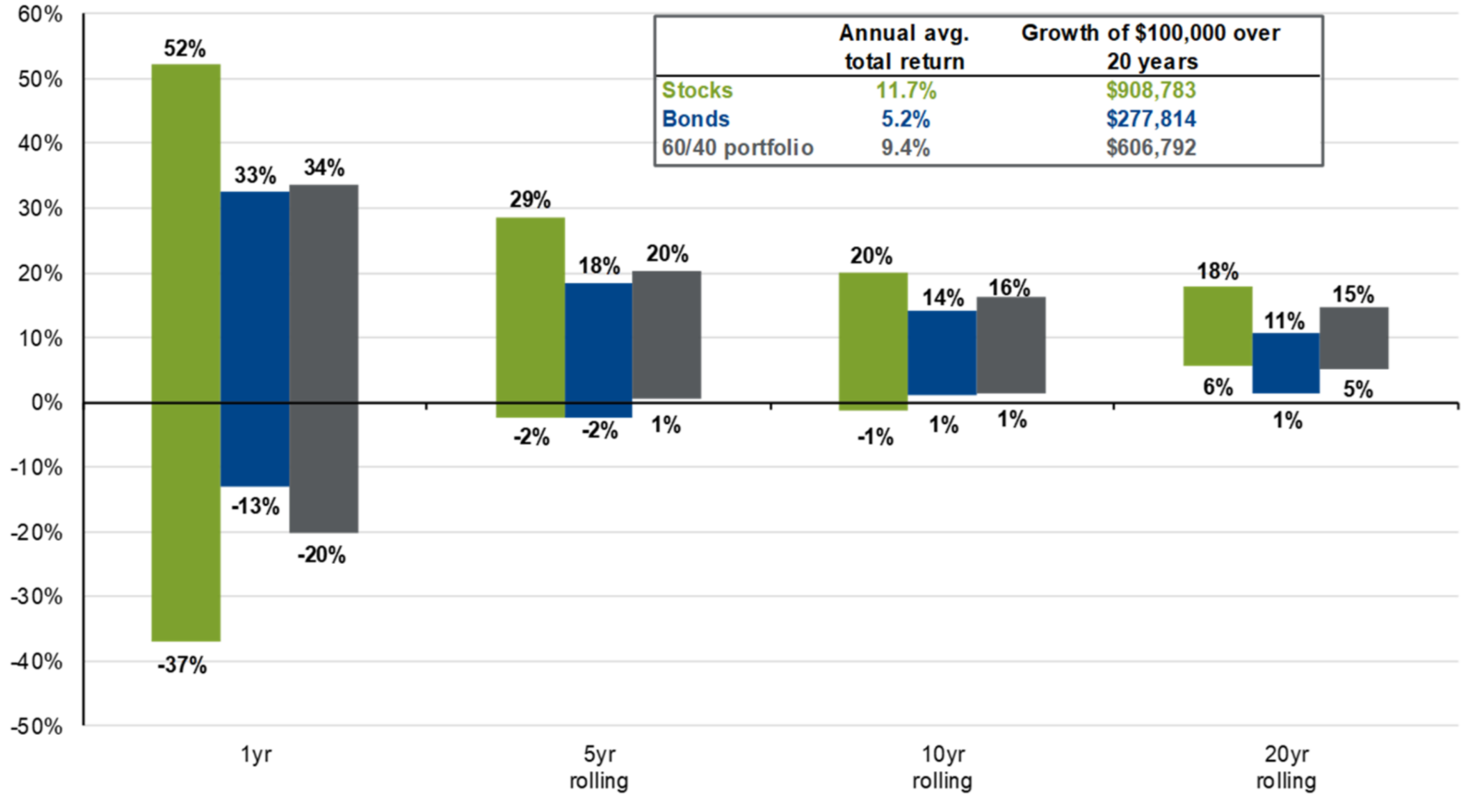
Range of Returns Over Time

Annual returns can be volatile, but the range of outcomes narrows over five-, ten- and twenty-year windows. History shows that investing over a 20 year time horizon is highly likely to deliver a positive outcome, while shorter periods much less certain.

A long time horizon is one of the most valuable assets an investor can have.

Range of stock, bond and blended total returns

Annual total returns, 1950 - 2025



Stocks: S&P 500; Bonds: Strategas/Ibbotson for periods prior to 1976 and the Bloomberg U.S. Aggregate thereafter

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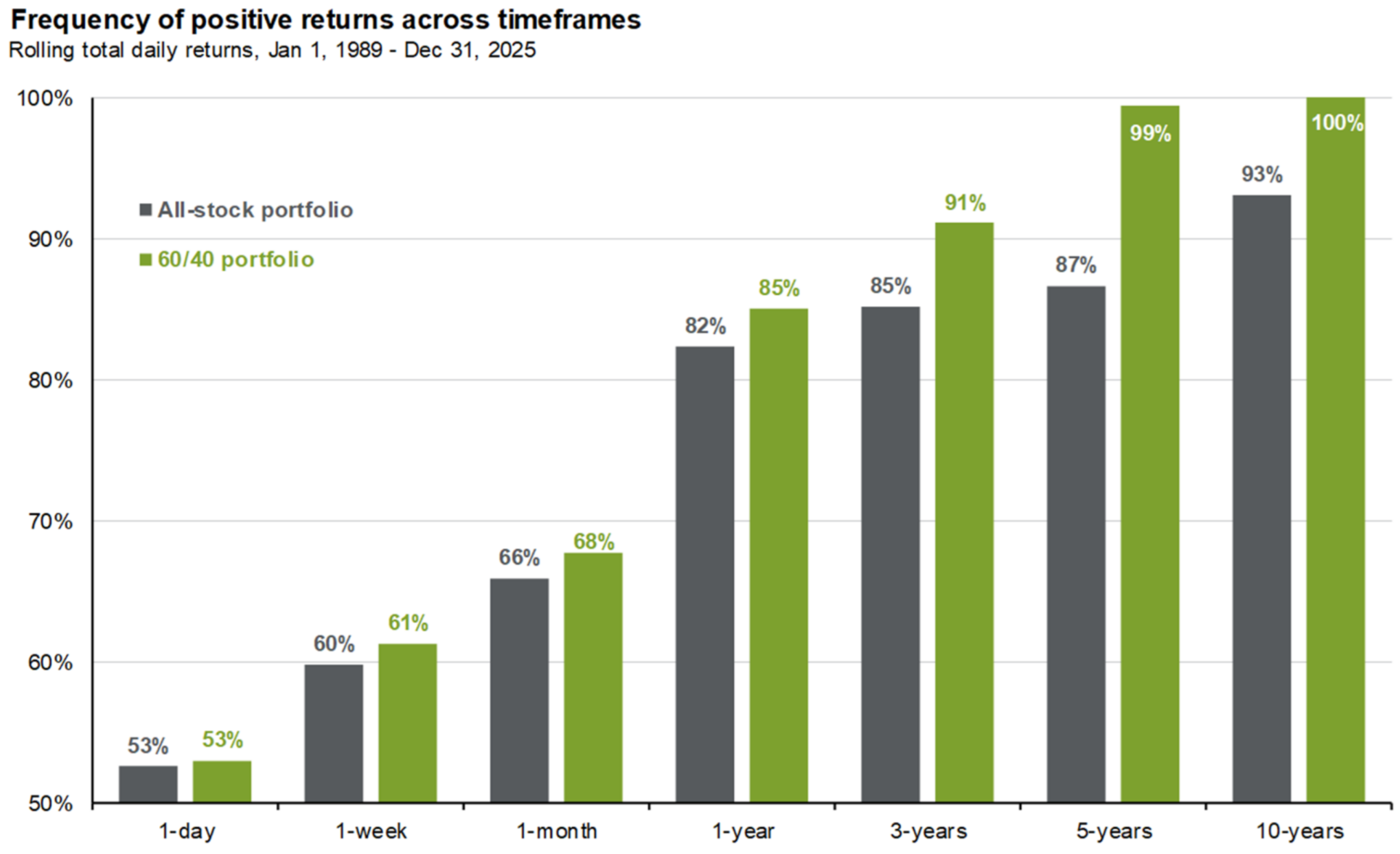
 Source: JP Morgan Asset Management, OceanFront Investment Counsel Inc.

Diversification and the Frequency of Positive Returns

Rolling historical periods show positive outcomes become more frequent over time, especially for balanced portfolios. While an all stock portfolio may earn a higher return, it comes with a cost in the form of greater risk of negative returns over any given year.



Stocks: S&P 500, 60/40 portfolio: 60% S&P 500, 40% Bloomberg U.S. Aggregate

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