Economic Commentary

Second Quarter 2026

Tensions Ease with U.S./Iran Agreement

The U.S. and Iran reached a fragile truce with the signing of a 14-point memorandum of understanding bringing a halt to hostilities. The agreement opened a 60-day window for further negotiation on multiple issues including freedom of navigation through the Strait of Hormuz, Iran's nuclear program and the lifting of sanctions. The agreement was universally welcomed by financial markets as the opening of the Strait allows for the flow of shipping traffic, particularly oil shipments, to resume. How quickly transit through the Strait can be returned to pre-war levels will be closely watched as tensions remain high and navigation through the Strait has becoming increasingly difficult. Oil prices, which had spiked at the onset of hostilities, fell on news of the agreement finishing the second quarter 31% lower with WTI at $69.50. Elevated energy prices had been the most impactful way the conflict was being felt amongst businesses and consumers, the agreement has the potential to remove a significant headwind to global growth as we move into the second half of 2026.

Central Banks Focus on Rising Inflation

The surge in energy prices brought about a re-acceleration in headline inflation numbers around the world as the war's impact was immediately felt at the gas pump. U.S. inflation rose to 4.2% in April from 2.4% in February while Canadian inflation followed suit rising to 3.2% from 1.8% over the same period. The European Central Bank was the first to act with a 25 bp hike in June to combat further price escalation in the region. Both the Bank of Canada and the U.S. Fed chose to keep rates unchanged, however, each made note of highlighting the elevated levels of headline inflation and their commitment to delivering price stability. So far in Canada, elevated energy prices have not leaked into the broader economy as core inflation remained near the 2% target level. Stagflation fears remain, especially in Canada, given the weaker economic backdrop as U.S. trade uncertainty persists. The fall in energy prices towards the end of the quarter will be a welcome relief as headline inflation is expected to recede over the coming months. This will give the central banks more time to evaluate the incoming economic data before having to act.

U.S. Economy Shows Resilience, Canada Stumbles

U.S. economic growth has remained resilient as the labour market solidified to match population growth. The unemployment rate dropped marginally lower to 4.2% in June while adding an average of 111,000 jobs per month in the quarter. First quarter GDP growth measured 2.1% on an annualized basis as business investment in AI drove the gains. New Fed Chair Kevin Warsh, at the helm for his first meeting, removed language from its Federal Open Market Committee (FOMC) statement indicating a bias toward easing, instead emphasizing price stability. Markets interpreted this shift as increasing the likelihood of a rate hike by year-end with one to two hikes priced in. GDP growth was weaker in Canada falling by -0.14%, the second negative quarter in a row. Canadian labor markets remained steady with the unemployment rate coming in at 6.6% for May. Early readings point to a bounce back for Canadian growth over the summer as consumer spending remains resilient. However, uncertainty over pending CUSMA negotiations continues to dissuade significant business investment. The Bank of Canada is expected to remain on hold through the

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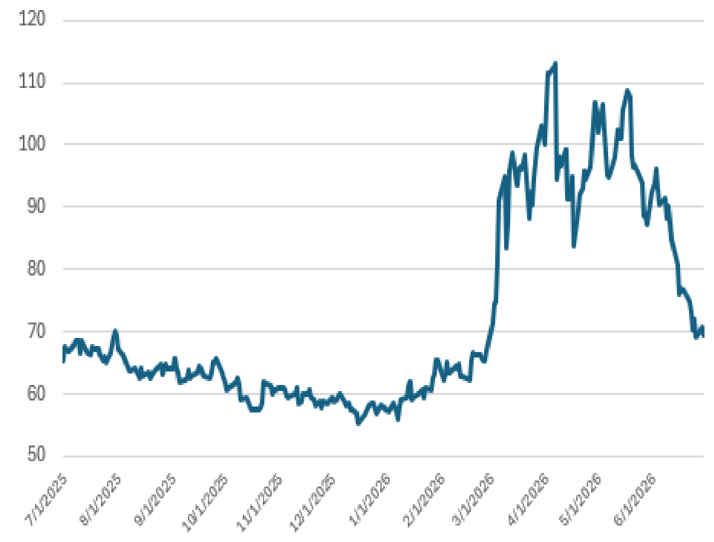
Key Metrics

Indicator	Value	Chg Q2	Chg 1Y
S&P/TSX Composite	34,856.99	7.0%	32.9%
S&P 500 (USD)	7,499.36	15.2%	22.3%
iShares MSCI EAFE ETF (USD)	103.88	8.6%	20.2%
USD/CAD	$ 0.70	-2.0%	-4.2%
WTI Crude ($/bl))	$ 69.50	-31.4%	6.74%
GoC 10Y Bond	3.38%	-9 bps	11 bps
GoC Deposit Rate	2.25%	0 bps	-50 bps
Cdn CPI YoY	3.2%	0.8%	1.3%
US 10Y Treasury	4.47%	15 bps	24 bps
Fed Funds Rate	3.75%	0 bps	-75 bps
USD CPI YoY	4.2%	0.9%	1.5%

Top Themes

- U.S./ Iran interim agreement to end war eases global tensions
- Central banks sound hawkish alarm on inflation flare-up
- U.S. Economy resilient, while Canada slows

Top Chart: WTI Crude Oil (Generic 1st Futures Contract)



Source: Bloomberg, Morguard Lincluden

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remainder of the year amid the evolving macroeconomic backdrop.

Equity Markets Increase While Bond Yields Were Mixed

Most equity markets increased during the quarter as the rumours of a cease fire led up to the eventual agreement between the U.S. and Iran. The U.S. market led with a 15.2% return for the S&P 500 in the quarter while the S&P/TSX posted a healthy 7% return. Optimism over the AI build out reached new heights, highlighted by the initial public offering of Space X, the largest IPO in history valuing the company at around $1.8 trillion. Investors remain cautious of the magnitude of AI spending as they evaluate the substantial investment requirements relative to long-term profitability. Bond yields fell modestly during the quarter in Canada as the fall in energy prices is expected to bring a reprieve for headline inflation. The 10 year Government of Canada bond decreased by 9 bp, ending the quarter at 3.38%. Yields in the U.S. finished the quarter slightly higher as the U.S. Fed was deemed more hawkish than the market anticipated. The yield on the benchmark 10 year U.S. Treasury increased by 15 bp, ending the quarter at 4.47%.

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