RJL PCS: INSIGHTS & STRATEGIES

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September 2026 Insights & Strategies: Markets remain positive despite the escalating noise

Macro Highlights for August

- The Bank of Canada (BoC) held its policy rate at 2.25%, as conflicting pressures (oil pressuring inflation higher vs. an unpredictable trade war threatening growth), but a still relatively resilient economy, with 2Q26 GDP recording robust growth of 3.3% and the unemployment rate stable at 6.4%, buys time for policymakers to wait and see.
- Employment data continued to be highly volatile month-to-month, but the overall unemployment rates were unchanged from July. The Canadian unemployment rate was steady at 6.4% for August, despite 41.7k in job losses versus 75k gains in July. The U.S. unemployment rate also stayed steady at 4.1%, with 162k jobs created versus 21k (revised from a 23k loss) in July.
- U.S. economic growth remained robust in 2Q26, at 1.5% annualized growth, in large part due to the A.I. build out. Although down slightly from 2.1% growth in 1Q26, the U.S. consumer remains resilient.

Financial Markets in August

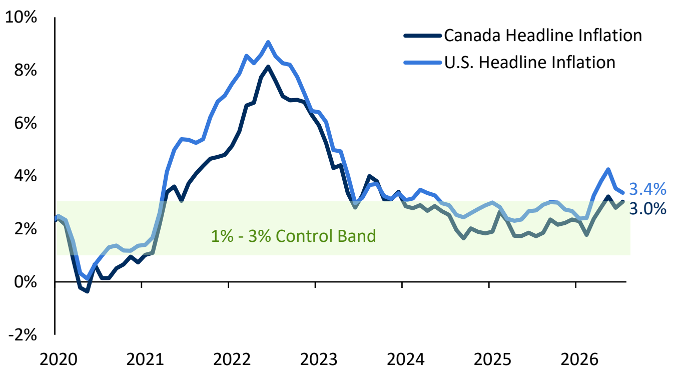
- In August, the S&P 500 posted a price return of 2.6% and a total return of 2.7%, bringing its year-to-date price and total returns to 12.3% and 13.1%, respectively. Sector performance, however, was notably dispersed. Energy, Information Technology, Materials and Health Care led the market higher, while Utilities, Industrials and Real Estate were the main laggards. The rise in Treasury yields created a more challenging backdrop for rate-sensitive Utilities and Real Estate, while Industrials faced some valuation pressure following their strong performance earlier in the year.
- The S&P/TSX Composite maintained its strong momentum in August, delivering a price return of 3.0% and a total return of 3.1%, while reaching a new high despite renewed U.S. tariff tensions. Sector performance, however, was sharply divided. Materials and Information Technology led, while Communication Services rebounded and Energy posted a modest gain; most other sectors declined. Much of the dispersion reflected changes in valuation multiples rather than earnings expectations, highlighting the continued influence of macro and policy sentiment on near-term performance.
- The latest earnings reports have been particularly strong. S&P 500 earnings rose 51.2% year-over-year and 25.1% quarter-over-quarter in 2Q26; excluding the post-pandemic and post-global financial crisis rebounds, the year-over-year increase would be the strongest in roughly two decades. However, the outsized gain in the quarter included investment gains from Alphabet and Amazon, excluding which, EPS growth was still an impressive 34%, against the income expectation of 23%. In Canada, S&P/TSX Composite earnings also advanced meaningfully, rising 34.2% year-over-year and 15.9% quarter-over-quarter.

Upcoming

- All eyes will be on the FOMC meeting on September 16 to gauge the Fed's commitment to price stability after more than five years of above target inflation. While the recent jobs report might have taken away any excuse to hold rates down, the inflation report on September 11 will likely have a significant impact on expectations and the decision. The consensus expectation is currently for 3.3% inflation in August, down from 3.4% in July, which has helped to establish a 60% expectation of a rate hike at this meeting.
- Canada's latest counter-tariffs come into effect on September 8. So far, immediate U.S. retaliation has been threatened, but with no specifics, other than the indication that rates on autos, trucks, parts, and steel would increase to 50% on January 1. The escalating threats and extended timelines seem to be intended to force urgency in returning to the bargaining table.

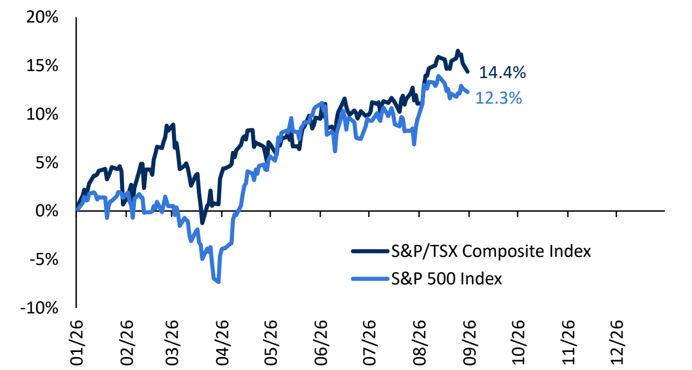
- The war in Iran seems far from being resolved, and traffic through the Strait of Hormuz seems to be just a trickle. Military strikes have been sporadic through the month, keeping everyone guessing as to the possibility of escalation, while strategic petroleum reserves continue to flash warning signs. A rapid escalation or de-escalation could quickly change forecasts that would impact energy prices and interest rates.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of July 31, 2026. Not seasonally adjusted.

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



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

Executive Summary

This September it feels like we're all back to school, learning how to juggle the opportunities and threats against the backdrop of a resurging conflict in Iran, oil prices that are back on the move upward fueling more inflation concerns, a reignited trade war between Canada and the U.S., and increasing concerns about rising global bond yields. On the plus side, we saw better than expected economic growth in Canada and stable unemployment rate. The A.I. trade also seems to continue to support the financial markets as we come off an almost miraculous earnings season.

Canada braces for more punches

Just when you thought we were settling in for protracted trade discussions, dragging out USMCA negotiations potentially over several quarters or years, the interim negotiations related to the most recent Section 338 tariffs unraveled spectacularly, with excalating rhetoric and finger pointing, culminating in the renaming of one of the Great Lakes, at least for resident of the U.S. We describe the details in our Market Perspectives report from August 26, but going forward, we are expecting continuing jabs and escalating tariff hits designed to soften up the other country before the parties agree to an interim agreement, that will in turn set the groundwork and positioning coming back into USMCA talks. While we still expect both the interim deal and broader USMCA renegotiation to result in a slightly more favourable outcome for the U.S., but still palatable deal for Canada, the more important outcome will be a stable environment, with reasonable surety of longevity, enabling businesses to go back to making longer-term commitments to investments. Aside from certain industries and companies that might be severely disadvantaged coming out of these new trade agreements, the most punishing effect in the meantime is the extended uncertainty for businesses trying to figure out how to line up on an ever-shifting playing field. The longer it takes to reach a new agreement, the more likelihood that businesses will choose to relocate or direct growth investing into the U.S. in order to reduce uncertainty.

Interest rates in Canada remain unchanged

The Bank of Canada decided to keep its policy rate at 2.25% at its meeting on September 2. This was as expected by just about everyone. The question going into the announcement was if the recent escalation in tariffs and counter-tariffs would entice the Council to shift its bias towards easing interest rates in the future in order to support the economy. The press release was actually more hawkish than might have been expected, as the prospects of inflation pressures, primarily from higher oil prices, seem more immediate than any potential pressure on the economy as increasing tariffs come into effect. The Bank's dilemma is that the impact of either lowering or raising rates can take 12-18 months to trickle into the economy, while the future path of oil prices or tariff rates could be decided by a social media post 12-18 minutes from now. While there is minimal immediate stress on the economy or inflation, the best course of action, likely for many more months to come, will probably be for the BoC to 'wait and see'. We expect this to raise the bar on conviction required to move rates in either direction.

Canada's economy continues to hold up well, despite elevated uncertainty

Canada's real GDP increased at a 3.3% annualized pace in 2Q26, while 1Q26 was revised up to a 0.3% gain, from what was initially reported as a 0.1% decline. Advance estimates, however, point to essentially flat growth in July, which aligns with the full-year growth expectation of under 1%. The unemployment rate also held steady from July to August at 6.4%, after declining slightly from 6.5% in June. This was despite job losses of 42k in August after a surprisingly strong 75k increase in July, and might be somewhat explained by activity around the FIFA World Cup. With the total population declining slightly and the participation rate declining from 65.1% to 65.0%, giving back the temporary blip up from last month, job creation seems in-line with the available labour force declining by 37k, which left the unemployment rate unchanged.

U.S. economy still performing well, putting more pressure on the Fed to hike rates in September

The U.S. economy, driven largely by the A.I. buildout, shows few signs of slowing down substantially. Real GDP growth was 1.5% annualized in 2Q26, down slightly from 2.1% in 1Q26, but still demonstrating strength in domestic spending, while drags were inventory investment and net exports, as the U.S. continues to be a massive importer. The most recent surprising surge of 162k jobs created in August, with a low unemployment rate steady at 4.1%, further reduces any potential for the Fed to consider rate cuts, leaving inflation concerns as the primary driver of action. The Fed held rates steady at its meeting on July 29, but with much criticism about tough talk on inflation not being followed up on, and three dissenting voters. A follow-up speech at Jackson Hole raised expectations for the Fed to hike rates at the September meeting if there was no clear sign that inflation is easing.

Longer-term yields driving concern

Perhaps more than policy rates, concerns have been growing about yields rising in the 10-30 year portion of the yield curve. These yields rise when investors need a higher risk premium for holding longer-term debt, typically as the demand for these bonds comes down and/or as supply increases, resulting in the prices moving down and yields moving higher. Although this has been occurring across developed countries, it is most closely watched in the U.S. market, with 30-year U.S. treasuries up to their highest levels since 2007. We have seen similar action among 10-year bonds, which are generally used as a benchmark for discount rates when valuing equities and typically drive 30-year mortgage rates for U.S. homeowners. The recent rise in yields has been attributed to concerns over the rapidly increasing U.S. debt, lack of fiscal restraint, inflation concerns, and alternative options for investors, such as the growing debt offerings from the hyperscalers. In an effort to take momentum away from longer-term yields, the U.S. Treasury is stepping up buybacks of off-the-run Treasuries.

The TSX beat out the S&P500 for the third month in a row

August was an eventful month, capped by Nvidia's earnings and Chair Warsh's Jackson Hole speech, which brought into focus two distinct drivers of market performance. Continued strength in A.I.-related capital spending and earnings has reinforced confidence in the underlying fundamental backdrop, but the outlook for inflation and monetary policy remains less settled, further complicated by the ongoing U.S.-Iran conflict and the resulting pressure on oil supply and prices, with implications across the yield curve. Despite this, the S&P 500 posted a total return of 2.7% in August and 13.1% YTD, while the TSX Composite delivered 3.1% and 16.0%, respectively.

USMCA Renewal

In line with expectations, the July 1 review deadline passed without Canada, the U.S., and Mexico agreeing to extend the expiry of the USMCA from 2036 to 2042. As outlined in our previous Market Perspectives report, this outcome does not alter the existing agreement or its current tariff exemptions. Instead, the renewal process is now shifted to annual reviews, while remaining in force until its currently scheduled expiry in 2036 unless the parties agree to revisions that trigger a new 16-year term.

Our expectation

The recent breakdown in Canada–U.S. negotiations and subsequent escalation in tariffs have added another layer of uncertainty to the USMCA review process. After an agreement appeared to have been reached in August, negotiations ultimately broke down and the 50% Section 338 tariffs came into effect, prompting Canada to announce dollar-for-dollar retaliation. Importantly, these tariffs apply even to USMCA-compliant goods, raising broader questions about the degree of protection the agreement can provide if tariffs are increasingly imposed outside its preferential framework.

Despite the recent escalation, our base case remains that the USMCA framework will ultimately be preserved, likely with targeted revisions rather than fundamental changes. However, the breakdown in negotiations makes a near-term resolution less likely and increases the potential for the annual review process to persist longer than previously anticipated. Until a longer-term agreement is reached, tariff threats and other pressure tactics from the U.S. are also likely to remain a feature of the relationship. A complete U.S. withdrawal, which would require six months' notice, remains unlikely given the depth of integrated North American supply chains and the benefits the agreement provides to all three countries.

The greater concern, therefore, may be less whether USMCA formally survives and more how much practical protection it continues to provide. If Canada-specific tariffs increasingly apply outside the agreement, some of the benefits of USMCA compliance could gradually be weakened even without a formal withdrawal.

Tariffs

The broader U.S. tariff framework introduced in July remains in place, with Section 301 tariffs of 10–12.5% applying to imports from 60 economies deemed to have inadequately addressed the importing of goods produced with forced labour. Canada received the lower 10% rate, while USMCA-qualifying goods remain exempt. The more significant development in August was the implementation of the previously announced Section 338 tariffs. Following the breakdown in Canada–U.S. negotiations, the U.S. imposed a 50% tariff on approximately C$28 billion of Canadian goods on August 22. Unlike the Section 301 measures, these tariffs also apply to USMCA-qualifying goods.

Canada subsequently announced dollar-for-dollar countermeasures covering approximately C$28 billion of U.S. imports, effective September 8. Tariffs of 15%, 25% and 50% will apply to selected products, with the highest rate covering products including steel and aluminum, furniture, clothing, smartphones, cosmetics, and paper and plywood products. While the overall economic impact should remain manageable, pressure will be concentrated in certain trade-exposed industries. We discussed the latest escalation and its broader implications in greater detail in our Market Perspectives report from August 26.

Section 232 activity also expanded during August, with new measures announced on polysilicon and certain downstream products, including a minimum import price program for polysilicon, and tariffs of up to 15% on specified derivatives effective December 4. Tariffs of 25–100% on certain unmanned aircraft systems and related equipment were also announced, effective September 3.

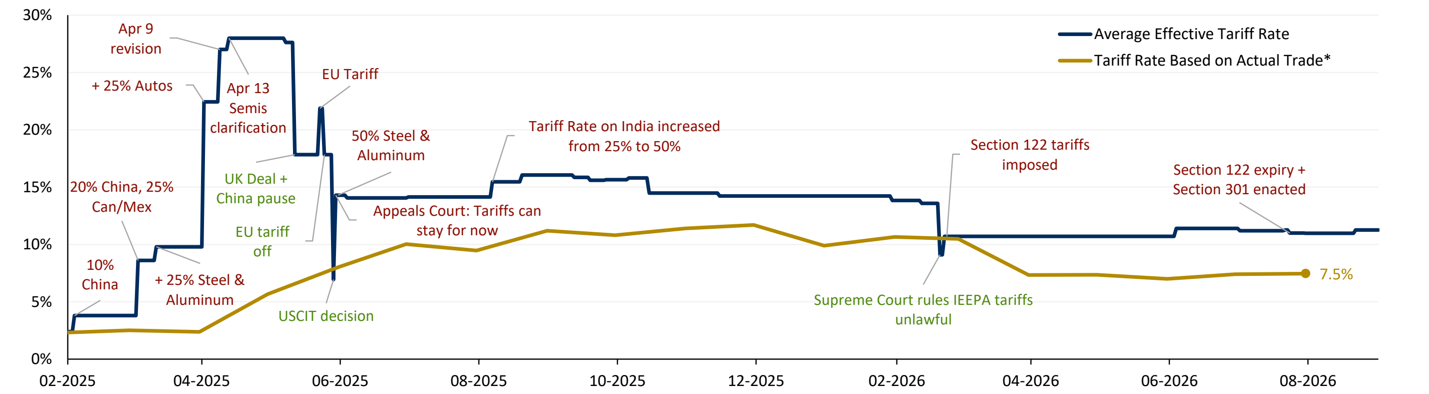
Looking ahead, we continue to expect intensive use of Sections 301, 338, and 232, as the U.S. administration seeks more durable legal mechanisms to advance its trade agenda. Below, in Table 1, we include brief updates on key tariff-related items.

Table 1 - Section 232 Tariffs Summary, as of September 3, 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)
Unmanned Aircraft Systems (incl. parts/components)	September 3, 2026	25-100%
Polysilicon and its derivatives	December 4, 2026	15% on specified derivatives + Minimum Import Price
Processed critical minerals and derivative products	Investigation initiated April 22, 2025	-
Commercial aircraft and jet engines	Investigation initiated May 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	-

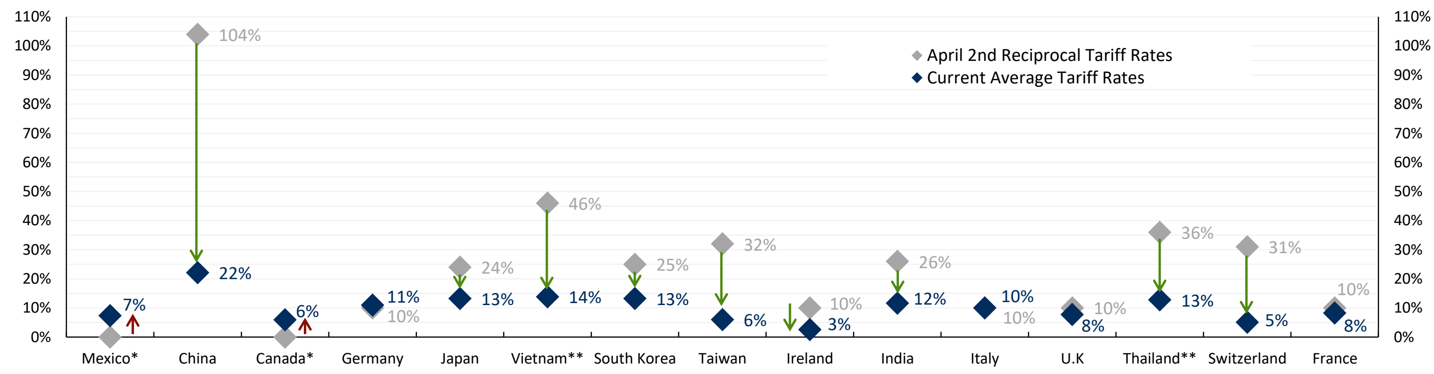
Source: U.S. Department of Commerce, Raymond James Ltd. *Headline tariff rates are shown. Actual rates may vary by trading partner, product characteristics, U.S. content, end use, or other applicable exemptions and preferential treatment.

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 September 3, 2026



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd. *USMCA-compliant goods remain exempt (except for Section 338 tariffs). **40% tariff rate on transshipments.

Economics

Canadian GDP — Robust growth in 2Q26

Canadian real GDP increased at a 3.3% q/q annualized pace in 2Q26, while a revision to first-quarter growth from a modest contraction of 0.1% to a 0.3% q/q annualized increase confirmed that the economy had avoided a technical recession (Chart 5). The composition of growth was encouraging, with household consumption, business investment, and net exports all providing support. Household spending increased 0.8% q/q, contributing 1.8 percentage points to annualized growth, while business investment contributed another 1.7 percentage points. In particular, spending on machinery and equipment rose to its highest level since 2Q24, while investment in engineering structures rebounded following two consecutive quarterly declines.

Net exports provided the largest contribution to growth, adding 4.4 percentage points, as exports increased 3.6% q/q, their strongest gain since 1Q23, while imports rose just 0.3% q/q. Export strength was led by a rebound in passenger cars and light trucks, alongside higher exports of intermediate metal products, energy products, and industrial machinery and equipment. Partially offsetting these gains was a sizeable inventory drawdown, which subtracted 4.9 percentage points from growth as businesses reduced inventories following a build in the first quarter.

Monthly GDP by industry also increased 0.3% m/m in June. While oil/gas extraction and mining have provided an important source of support in recent months, amid higher energy prices and relatively limited exposure to ongoing trade tensions, growth also broadened across the rest of the economy through the second quarter (Chart 6).

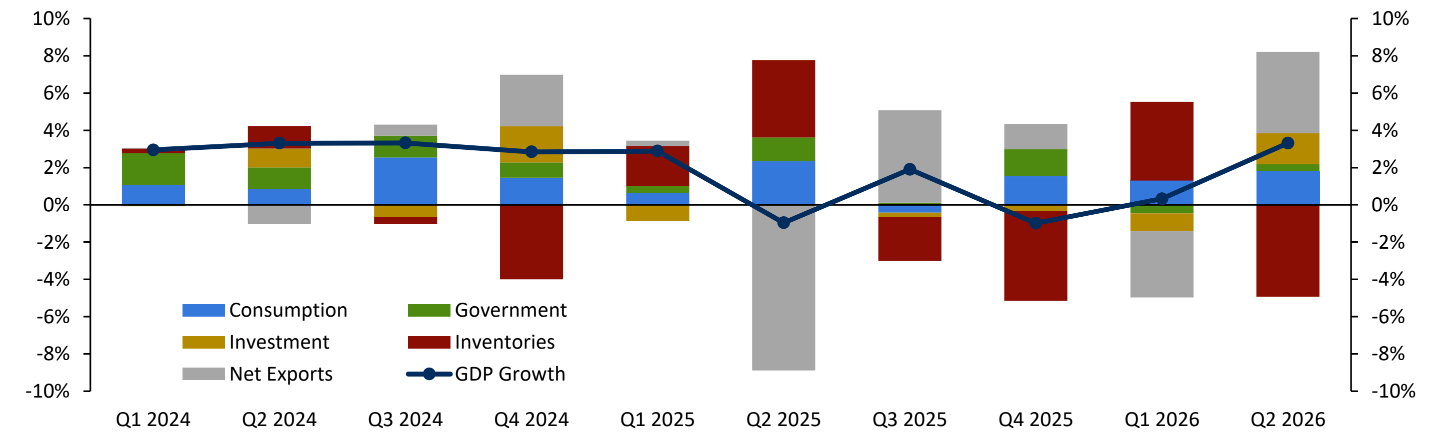
Statistics Canada's advance estimate, however, points to essentially flat growth in July, as gains in real estate and professional services were offset by declines in retail trade and manufacturing. Overall, the strong second-quarter GDP report highlights greater resilience in the Canadian economy, although the softer start to 3Q26 and lingering uncertainty surrounding the Canada–U.S. trade relationship remain important risks to the outlook.

Retail sales remain firm, with signs of moderation ahead

Retail sales increased 0.6% m/m to $74.3 billion in June, slightly above Statistics Canada's advance estimate of 0.4%. The increase was broad-based, with sales rising in seven of nine subsectors. Importantly, sales excluding gasoline/fuel vendors rose a stronger 1.2% m/m, extending the recent improvement in underlying retail spending (Chart 7). General merchandise retailers led the gains, while sales at motor vehicle and parts dealers increased for a third consecutive month. Strength was also evident in volume terms, with total retail sales volumes rising 1.5% m/m in June.

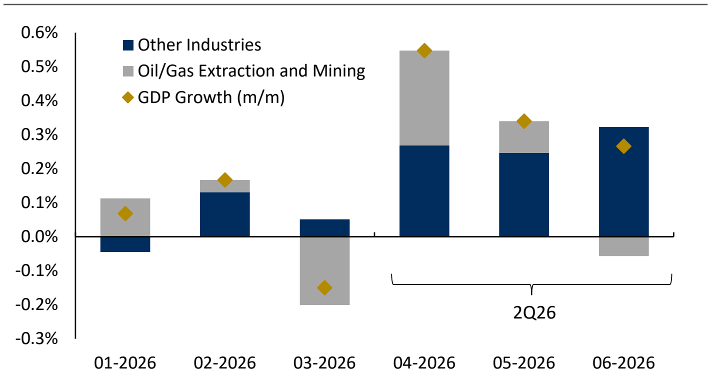
However, momentum appears to have softened entering the third quarter. Statistics Canada's advance estimate points to a 0.8% m/m decline in nominal retail sales in July. Combined with higher gasoline prices during the month, the decline in nominal sales points to a potentially weaker outcome in volume terms, suggesting some moderation in consumer spending following the strength seen through the second quarter.

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



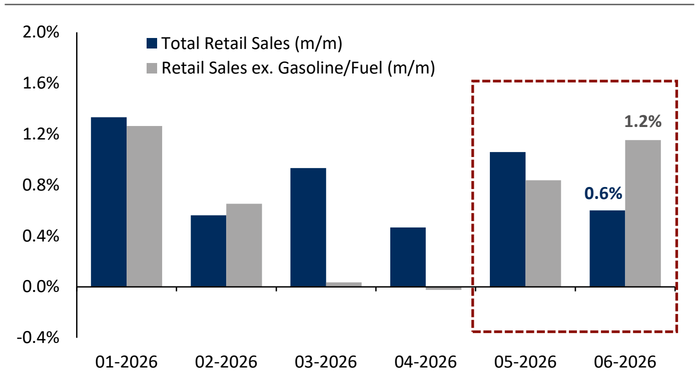
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of June 30, 2026.

Chart 6 - Broader Strength in GDP Growth (by Industry)



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

Chart 7 - Retail Sales ex. Gasoline Continued to Strengthen



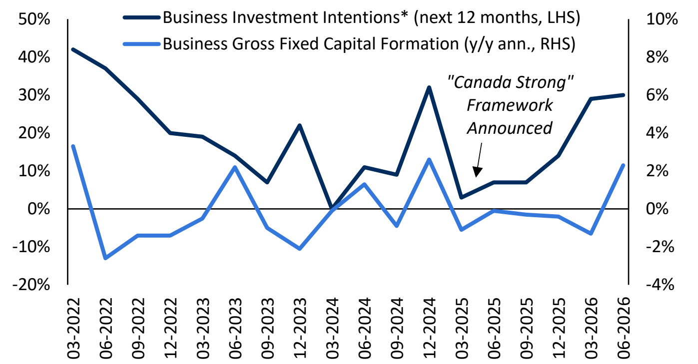
Source: Statistics Canada, Raymond James Ltd.; Data as of June 30, 2026.

Business investment trends are improving

Business investment remains an important area to watch, as continued trade uncertainty weighs on business confidence and capital spending decisions. However, so far, the broader picture has proven more resilient than expected. After several quarters of weakness, business gross fixed capital formation rebounded in 2Q26, while investment intentions have now improved for five consecutive quarters, suggesting the recovery in capital spending could have further room to run (Chart 8).

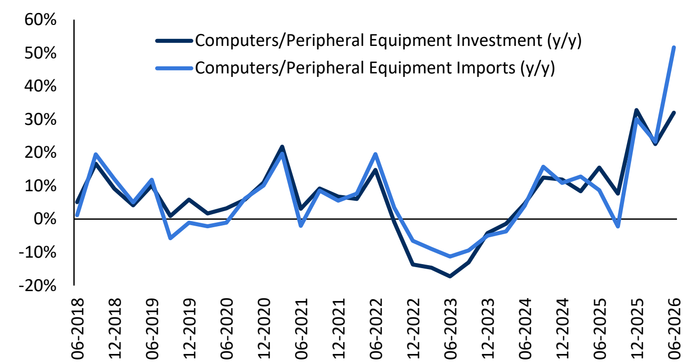
Several factors could provide further support. Policy measures aimed at accelerating major projects, reducing regulatory barriers, and improving internal trade should create a more supportive environment for business investment. At the same time, much of the domestically oriented economy and a large portion of the energy sector are less directly exposed to U.S. tariffs, providing scope for investment in these areas to partially offset weakness among trade-sensitive sectors. A.I.-related investment is also emerging as an additional source of strength. Investment in computers and peripheral equipment has accelerated alongside a sharp increase in related imports, pointing to growing A.I.-driven investment by businesses in Canada (Chart 9). Nonetheless, lingering trade uncertainty with the U.S. remains an important risk, particularly if a prolonged dispute begins to weigh more heavily on investment intentions and capital spending.

Chart 8 - Business Investment Intentions Have Remained Resilient



Source: BoC Business Outlook Survey - 2Q26, Statistics Canada, Raymond James Ltd.; Data as of June 30, 2026. *Balance of Opinion.

Chart 9 - Tech-Related Imports and Investment Accelerate



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

Trade data point to a softer start to 3Q26

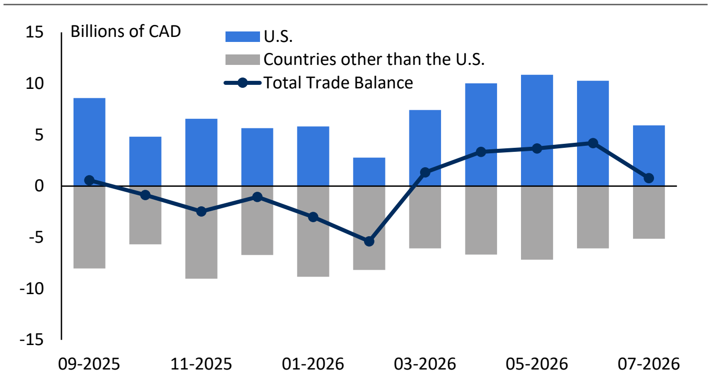
Canada's merchandise trade data weakened in July following a strong second quarter. Exports declined 2.3% m/m after five consecutive monthly gains, while imports increased 2.2% m/m, narrowing Canada's merchandise trade surplus sharply from $4.2 billion in June to $0.8 billion in July (Chart 10). The weakness was also evident in real terms, with export volumes declining 1.5% m/m while import volumes increased 2.2% m/m.

The decline in exports was concentrated in a few key categories. Metal and non-metallic mineral product exports fell 8.5% m/m, largely reflecting lower exports of unwrought precious metals, while energy exports declined 4.4% m/m as both crude oil prices and volumes fell (Chart 11). Excluding these two categories, exports actually increased 0.6%. Meanwhile, higher imports were supported by an 11.4% m/m increase in motor vehicles and parts, which reached a record high during the month.

Trade with the U.S. also weakened notably. Exports to the U.S. declined 6.6% m/m, the largest percentage decrease since April 2025, driven primarily by lower crude oil and gold exports. Combined with a 1.8% increase in imports from the U.S., Canada's bilateral trade surplus narrowed from $10.3 billion in June to $5.9 billion in July, its lowest level since February.

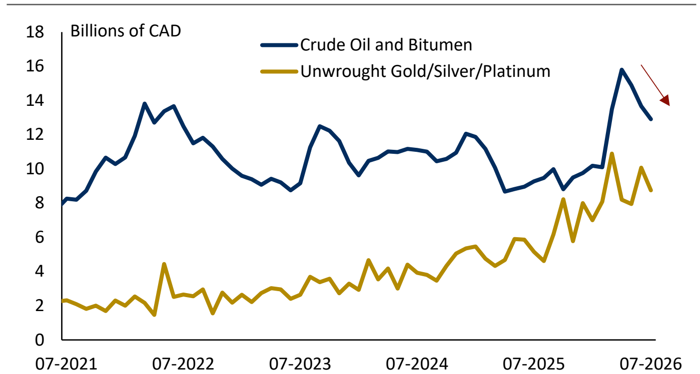
Looking ahead, the Section 338 tariffs implemented in August could place further pressure on U.S. demand for affected Canadian goods, although these measures cover only around 5% of Canadian exports to the U.S., while ~80% are expected to remain tariff-free under USMCA. However, the greater downside risk would come from a further escalation in trade tensions that leads to tariffs being extended to a broader range of Canadian exports.

Chart 10 - Trade Surplus Narrows in July



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

Chart 11 - Key Commodity Exports Weaken in July



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

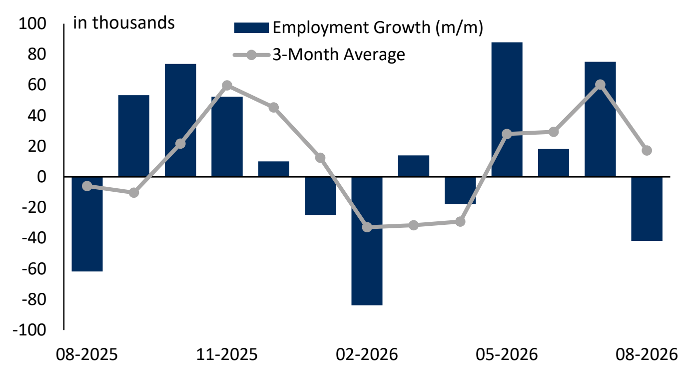
Employment declines in August, but broader labour market remains stable

Canadian employment declined by 42k in August following a cumulative 181k increase from May through July (Chart 12). However, the decline was somewhat less concerning than the headline suggests, as hiring had run relatively strong over the summer and some of the August weakness reflected a reversal in youth employment, which fell by 19k. The decline was also concentrated in services (-52k), potentially reflecting some normalization following World Cup-related hiring, while goods-producing employment held up better (+10k), including a 22k increase in manufacturing.

Despite the decline in jobs, the unemployment rate held steady at 6.4% (Chart 13), as the labour force fell by 37k. Importantly, the unemployment rate remains well below the 7.1% level reached a year ago, with slower population growth from reduced immigration helping ease growth in labour supply and limiting upward pressure on the unemployment rate.

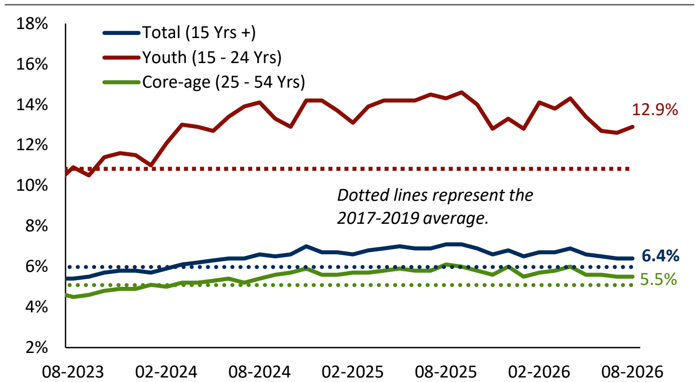
Trade uncertainty remains an important risk to the outlook. Layoff rates have been somewhat higher in industries dependent on U.S. export demand, averaging 0.9% over the past year compared with 0.7% across other industries, but the difference remains relatively modest. This is consistent with our view that businesses have so far responded to trade uncertainty more by delaying new hiring than through widespread layoffs, as firms may be reluctant to reduce headcount given the potential cost of rehiring once greater clarity emerges. With the latest Section 338 tariffs implemented only toward the end of August, their impact will become clearer in the coming months. For now, we continue to view broader uncertainty surrounding the Canada–U.S. trade relationship as a greater risk to business confidence and hiring plans than the direct impact of existing tariffs alone.

Chart 12 - Employment Growth Weakened in August



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

Chart 13 - Unemployment Rate Stable Despite an Uptick in Youth Segment



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

Headline inflation ticks higher, but underlying pressures remain contained

Headline CPI inflation increased to 3.0% y/y in July from 2.8% in June, as consumer prices rose 0.3% m/m. Roughly half of the monthly increase was attributable to higher gasoline prices, reflecting the rebound in oil prices and elevated refining margins. Travel-related costs also contributed to the increase, partly reflecting the World Cup-related demand. Importantly, there remained limited evidence of higher energy costs spilling over more broadly, with CPI excluding gasoline holding at 2.2% y/y for a third consecutive month (Chart 14).

The Bank of Canada's preferred core inflation measures also picked up during the month, with the average of CPI-trim and CPI-median rising 0.23% m/m. However, much of the increase was concentrated in categories affected by temporary World Cup-related pressures, while the average year-over-year rate remained around the Bank's 2% target.

Overall, the July increase in inflation appears to have been driven largely by higher gasoline and travel-related prices. While renewed energy-price pressures remain a risk to headline inflation, limited evidence of broader pass-through and relatively contained core inflation suggest little reason for concern at this stage.

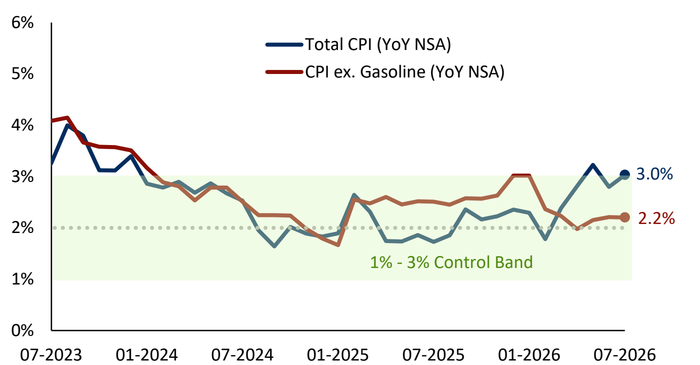
Bank of Canada remains on hold

As widely expected, the Bank of Canada left its policy rate unchanged at 2.25% at its September meeting. The Bank viewed recent economic developments relatively favourably, pointing to broad-based GDP growth in the second quarter and relatively stable labour market conditions, including a gradual decline in the unemployment rate. While Governor Macklem emphasized that the growth outlook has become more uncertain amid the recent escalation in Canada–U.S. trade tensions, the Governing Council expects government spending and new support programs to partially offset some of the resulting economic weakness.

On inflation, the Bank continues to view much of the recent above-target headline inflation as being driven by higher gasoline prices, with limited evidence of broader spillover into other categories. However, during the press conference, Governor Macklem cautioned that a prolonged conflict in the Middle East could lead to more persistent energy-price pressures and eventually feed more broadly into inflation. Overall, the Governing Council's messaging was somewhat more hawkish than expected, placing greater emphasis on the economy's resilience and potential inflation risks despite heightened uncertainty surrounding trade.

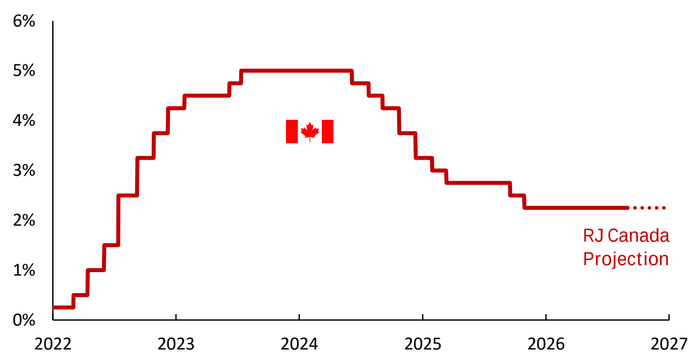
Given the economy's continued resilience and relatively contained underlying inflation pressures for now, our base case remains that the Bank of Canada will leave its policy rate unchanged through the remainder of the year (Chart 15). However, risks remain on both sides: persistently elevated energy prices could complicate the inflation outlook, while a more significant deterioration in the Canada–U.S. trade relationship could weaken growth and support the case for further monetary policy support.

Chart 14 - Higher Gasoline Prices Lift Headline Inflation in July



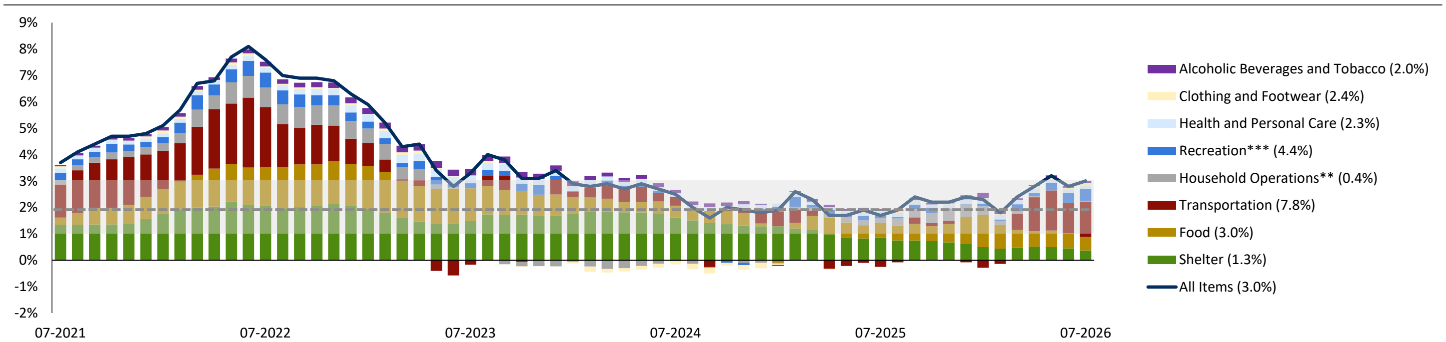
Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2026.

Chart 15 - Bank of Canada to Stay on Hold



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

Chart 16 - 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 July 31, 2026. **Household operations, furnishing and equipment; ***Recreation, education and reading.

The U.S. — Domestic demand remained robust in 2Q26

U.S. real GDP growth was unchanged at a 1.5% q/q annualized pace in the second estimate for 2Q26, slowing from 2.1% in 1Q26 (Chart 17). However, revisions to the underlying components reinforced the strength in domestic demand. Consumer spending growth was revised up to 3.4% q/q annualized from 3.2%, helping lift final sales to private domestic purchasers to 4.2% q/q annualized, from an initially reported 3.9% and its strongest pace since the first quarter of 2023.

Consumer spending remained the largest contributor to growth, adding 2.1 percentage points, while gross private domestic investment added another 1.2 percentage points. Within investment, equipment spending continued to provide support, with strength extending beyond A.I.-related information technology equipment to industrial and transportation equipment. Meanwhile, inventory investment subtracted 0.7 percentage points from growth, while net exports were a larger drag at 1.0 percentage point, primarily reflecting stronger imports. Government spending also provided a modest 0.1 percentage point drag.

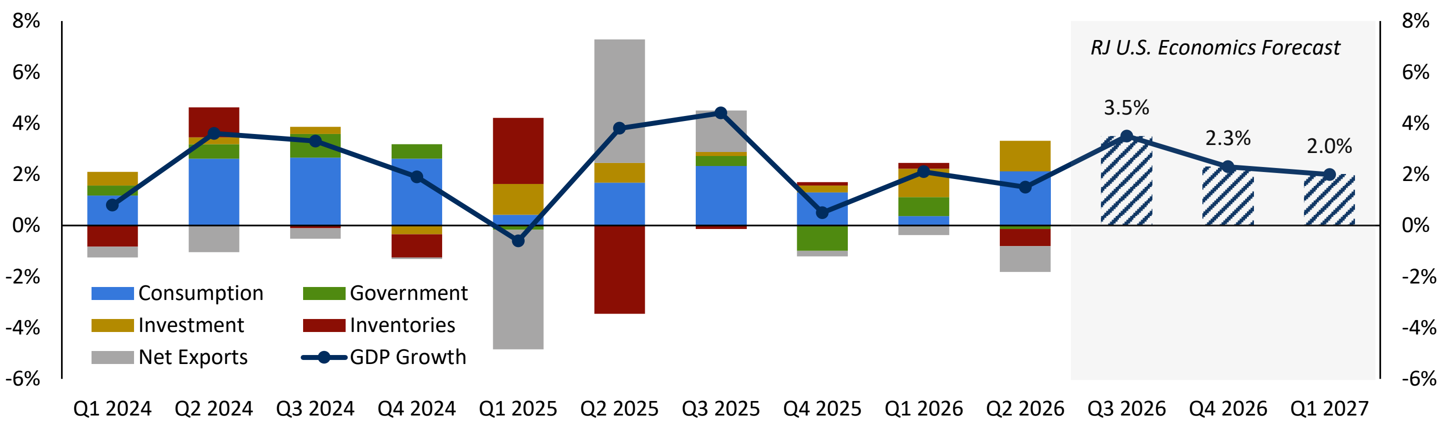
Overall, the second estimate reinforces that domestic demand remained resilient in 2Q26 despite slower headline growth. Stronger private domestic demand and continued growth in business investment suggest that the modest headline growth rate masked relatively firmer underlying activity during the quarter. However, early third-quarter data point to some moderation in consumer spending, with control group retail sales (which feed directly into the calculation of GDP) declining 0.4% m/m in July alongside downward revisions to May and June (Chart 18). While some of the July weakness may reflect temporary factors, the slowdown points to a more moderate pace of consumer spending entering the third quarter.

PMIs continue to signal growth

The ISM Manufacturing PMI edged lower to 54.6 in August from 55.6 in July, but remained firmly in expansion territory for an eighth consecutive month (Chart 19). Despite the modest decline, the underlying report remained solid, with all five subindices that directly factor into the headline PMI in expansion territory for a second consecutive month. Encouragingly, the employment index remained in expansion territory for a second consecutive month, despite easing to 51.2 from 52.8 in July.

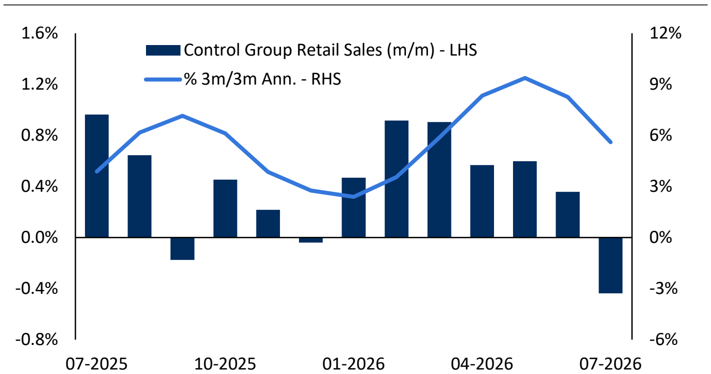
The ISM Services PMI rose to 55.4 in August from 54.1 in July, exceeding expectations and pointing to continued strength in the services sector. The improvement was broad-based across most components. However, the employment index remained in contraction territory for a second consecutive month, although survey commentary suggests this partly reflected difficulties finding workers rather than a lack of hiring demand. Meanwhile, the prices index moved higher, pointing to continued cost pressures from higher energy prices.

Chart 17 - Contribution to % Change in U.S. GDP (q/q annualized)



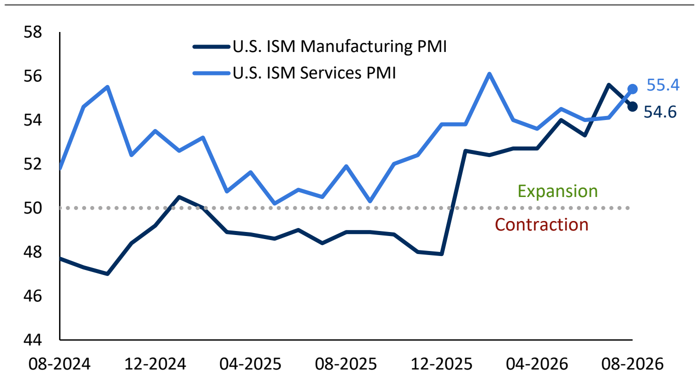
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of June 30, 2026.

Chart 18 - Control Group Retail Sales Momentum Moderates in July



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

Chart 19 - PMIs Stay Firm in Expansion Territory



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

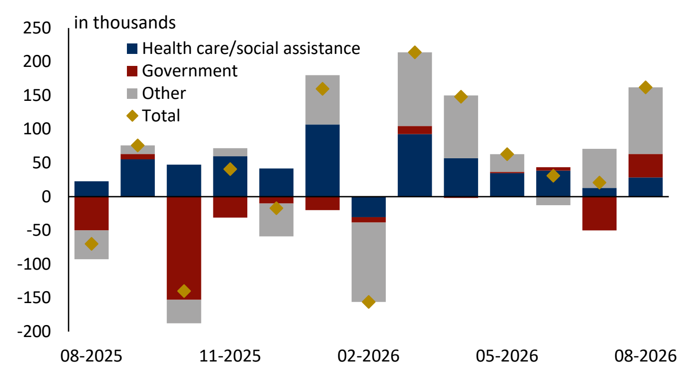
U.S. payrolls show broad-based strength in August

U.S. non-farm payroll employment increased by 162k in August, well above expectations for a 65k gain and an improvement from the weakness seen in recent months. Prior estimates were also revised higher, with June and July payrolls increased by a combined 55k. Importantly, the gains were relatively broad-based, with private-sector payrolls excluding health care/social assistance rising by approximately 99k, indicating that hiring extended across a wider range of industries (Chart 20).

Goods-producing industries added 41k jobs, led by construction (+22k) and manufacturing (+16k), while service-providing industries added 86k. Overall, the August report provides some reassurance that the slowdown in payroll growth through the middle of the year did not reflect a more pronounced deterioration in labour demand, although further data will be needed to confirm whether the improvement is sustained.

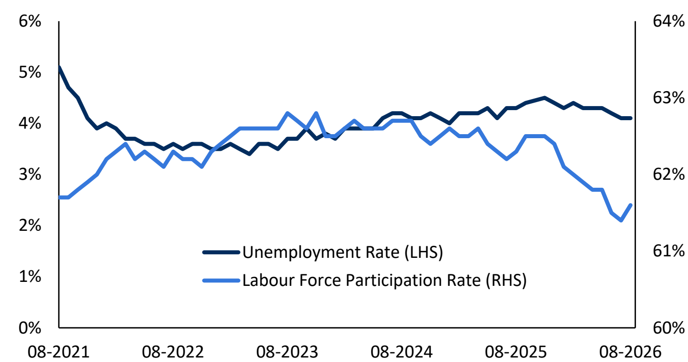
The unemployment rate remained unchanged at 4.1%, despite a 0.2 percentage point rebound in the labour force participation rate (Chart 21). This is particularly encouraging following recent months when declining participation had helped keep the unemployment rate contained. However, we do not expect a significant sustained recovery in participation, which remains well below the levels seen through mid-2025. As a result, slower labour force growth could continue to absorb some potential weakness in employment gains and limit upward pressure on the unemployment rate.

Chart 20 - U.S. Hiring Strengthens in August



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

Chart 21 - Unemployment Rate Steady Despite Rise in Participation



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

U.S. inflation moderates further, but remains elevated

The U.S. headline Consumer Price Index (CPI) increased 0.1% m/m, lowering the year-over-year rate to 3.4% from 3.5% in June, while core CPI rose 0.2% m/m, with the annual rate edging down to 2.5% from 2.6% (Chart 22). Lower energy prices helped contain headline inflation, while shelter costs remained subdued. However, some pressure was evident within core goods, particularly from used vehicles and technology-related categories, where computer and electronic equipment prices continued to rise.

The Federal Reserve's preferred inflation gauge showed a similar picture. Both headline and core PCE prices increased 0.2% m/m in July, while their year-over-year rates were unchanged at 3.7% and 3.3%, respectively. While the monthly increase in PCE prices was only slightly above a pace consistent with the Fed's 2% target, the year-over-year rate remains elevated and well above target.

Upstream price pressures also eased in July. The Producer Price Index (PPI) was unchanged in July, below expectations for a 0.1% increase, lowering the year-over-year rate to 4.7% from 5.5% in June. However, the renewed increase in energy prices in August could place some upward pressure on headline inflation in the upcoming month(s). As before, the broader inflation implications will depend on whether higher energy costs persist and begin to spill over into other categories.

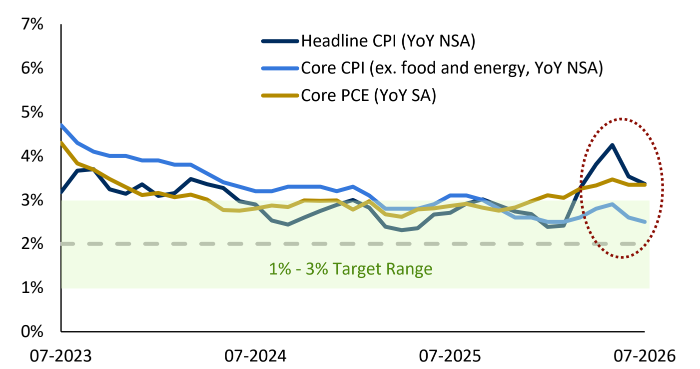
Warsh delivers a more hawkish message at Jackson Hole

With no FOMC meeting in August, attention shifted to Chair Kevin Warsh's first Jackson Hole address, where he delivered a more hawkish message than at his July press conference. Warsh emphasized that the Fed's 2% PCE inflation objective is a firm target and argued that, despite encouraging recent inflation readings, underlying price trends have not improved sufficiently. He also characterized the economy as having strengthened, the labour market as stable, and consumer spending as healthy, suggesting that the Fed's predominant near-term focus should remain on price stability.

The speech strengthened the case for further tightening if inflation fails to make sufficient progress. Despite better-than-expected recent inflation readings, Warsh cautioned that underlying inflation trends have yet to improve sufficiently and reiterated that the Fed still has "work to do" if inflation does not move toward the 2% target at an adequate pace. Markets responded accordingly, with the probability of a September hike rising to roughly 58% following the speech, from 35% the day before. By the end of August, markets were pricing around 39 bps of cumulative tightening by December, up from roughly 27 bps before the speech.

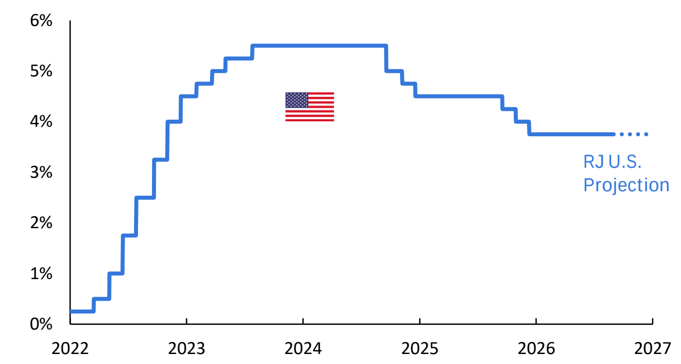
One key inflation reading remains before the September meeting, with the August CPI report scheduled for release just days beforehand and likely to play an important role in calibrating market expectations for the path of monetary policy. For now, our U.S. Economics team continues to expect the Fed to remain on hold through year-end (Chart 23), although Warsh's Jackson Hole remarks suggest the risks to that forecast have shifted toward an earlier hike.

Chart 22 - Inflation Moderating, but Still Elevated



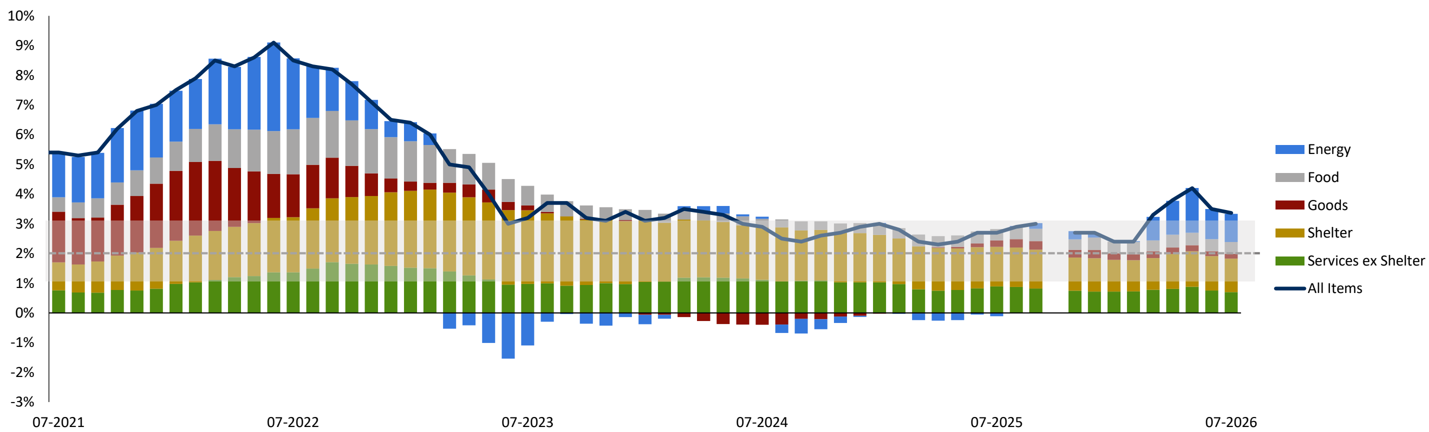
Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of July 31, 2026.

Chart 23 - Fed Expected to Stay on Hold



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

Chart 24 - Major Components' Contributions to U.S. CPI



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

Financial Markets

August was an eventful month, capped by Nvidia's earnings and Chair Warsh's Jackson Hole speech, which brought into focus two distinct drivers of market performance. On the corporate side, continued strength in A.I.-related capital spending and earnings has reinforced confidence in the underlying fundamental backdrop. On the macro side, the outlook for inflation and monetary policy remains less settled, further complicated by the ongoing U.S.-Iran conflict and the resulting pressure on oil supply and prices, with implications across the yield curve.

Markets therefore enter September in a relatively delicate balance, particularly given the month's historically weaker seasonality. Strong earnings growth provides an important cushion, but developments in oil prices, inflation and the Fed policy path could still shift sentiment meaningfully in either direction. Against this backdrop, broader exposure across sectors and industries, with a relatively lower-beta profile, may offer a more resilient approach through the U.S. midterm election period. Within sectors, however, selectivity should remain important, as differences in earnings durability, valuation and macro sensitivity are likely to be rewarded.

Despite these crosscurrents, U.S. equities posted a solid month in August. The S&P 500 delivered a price return of 2.6% and a total return of 2.7%, bringing its year-to-date price and total returns to 12.3% and 13.1%, respectively. Sector performance, however, was notably dispersed. Energy, Information Technology, Materials and Health Care led the market higher, while Utilities, Industrials and Real Estate were the main laggards. The rise in Treasury yields created a more challenging backdrop for rate-sensitive Utilities and Real Estate, while Industrials faced some valuation pressure following their strong performance earlier in the year.

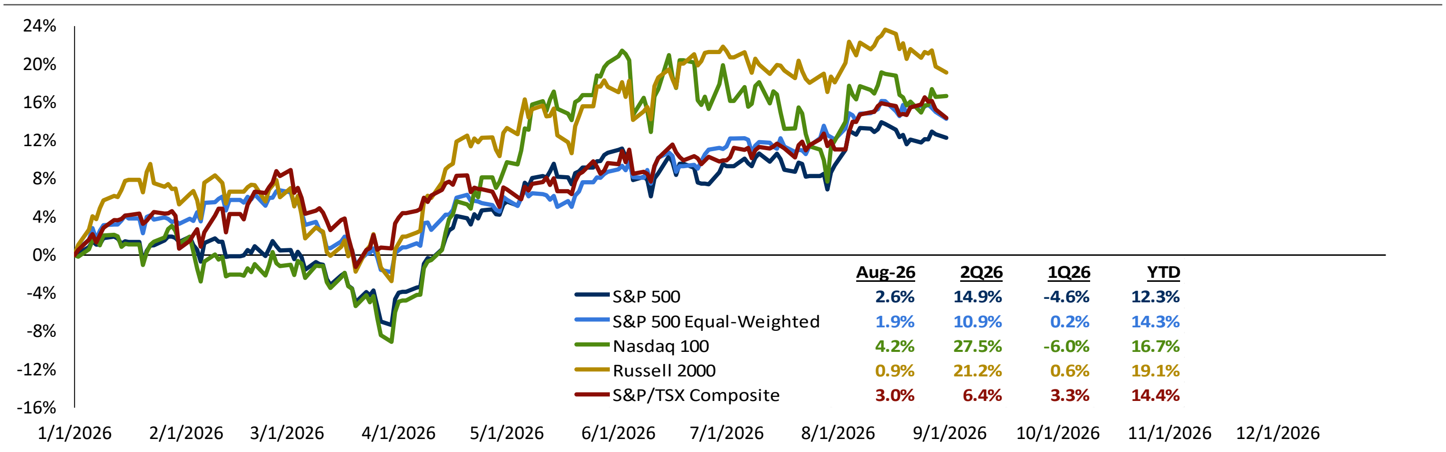
The rebound in several leading software names, alongside a recovery in the leading memory stock, helped lift the tech-heavy Nasdaq 100, which outperformed the other major U.S. equity indices in August. At the same time, a strong earnings season across sectors supported broader market participation, with the equal-weighted S&P 500 only modestly underperforming its market-cap-weighted counterpart. Small caps, represented by the Russell 2000, were more sensitive to the Fed's hawkish tone and the rise in Treasury yields. While they lagged their large-cap peers, small caps still delivered a solid positive return for the month.

Canadian equities, represented by the S&P/TSX Composite, maintained their strong momentum in August, delivering a price return of 3.0% and a total return of 3.1%, while reaching a new high despite renewed tariff tensions with the U.S. This brought the index's year-to-date price and total returns to 14.4% and 16.0%, respectively, continuing to outpace U.S. large caps.

Beneath the headline strength, however, sector performance was sharply divided. Materials and Information Technology were the clear outperformers, while Communication Services rebounded following two particularly weak months and Energy posted a modest gain. Most other sectors came under meaningful pressure. Much of the movement in both directions was driven by changes in valuation multiples rather than a material shift in earnings expectations, suggesting that investor sentiment around the evolving macro and policy backdrop remains an important driver of near-term performance.

Once again, however, the composition of the Canadian market provided a natural offset. During the earlier tariff shock, gold benefited as investors sought protection against heightened policy uncertainty, providing a tailwind to the gold-heavy Materials sector. While the latest strength in gold reflects a broader set of factors, Materials has continued to provide meaningful support to the S&P/TSX Composite. This has helped the Canadian market reach new highs even as trade tensions resurfaced, reinforcing that tariff-related uncertainty does not necessarily translate one-for-one into broader equity-market weakness.

Chart 25 - Selected Indices Price Returns



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

U.S. Equities

The recently concluded 2Q26 earnings season once again surprised to the upside, highlighting the remarkable strength of U.S. large-cap corporate earnings despite the range of macro headwinds facing the market. The typical signs of a mid-cycle environment remain intact, characterized by earnings-driven returns, strengthening capex and rising selectivity. The ongoing A.I. trend may also help extend the cycle by supporting both revenue growth and productivity-led margin improvement.

The magnitude of the latest earnings growth is particularly notable. S&P 500 earnings increased 51.2% year over year in 2Q26, which, excluding the pandemic-related rebound in the first half of 2021 and the post-global financial crisis recovery in 1Q10, would represent the strongest earnings growth in roughly two decades. Earnings also advanced an impressive 25.1% from the previous quarter. However, the outsized gain in the quarter included investment gains from Alphabet and Amazon, excluding which, EPS growth was still an impressive 34%, against the income expectation of 23%. Reflecting the strength of the earnings backdrop, the CY2026 earnings estimate has been revised higher to US$360, from US$308 at the beginning of the year.

While earnings growth was healthy across most sectors, the contribution to overall growth remained highly concentrated among mega-cap technology and A.I.-linked leaders, with Energy also making a meaningful contribution following the surge in oil prices. This concentration should not be particularly surprising. More than half of the growth in capital spending this year can likely be attributed to the A.I. build-out, and one company's capex ultimately becomes another company's revenue. The more important question from here is how broadly those benefits can spread through the rest of the economy.

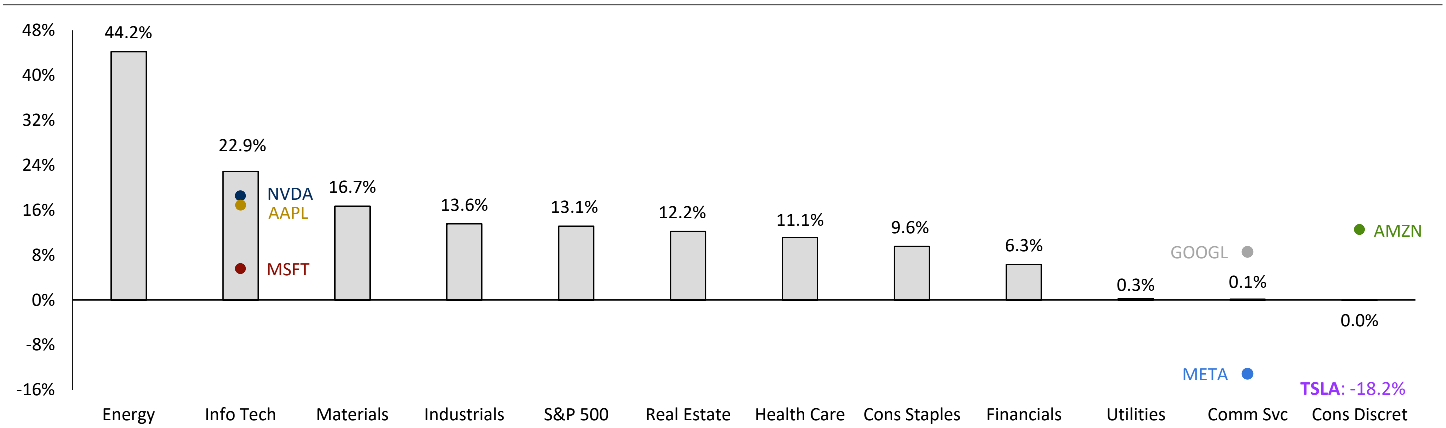
Corporate earnings calls are beginning to provide some evidence of that diffusion. Outside of the technology, media and telecommunications (TMT) sectors, financial services, health care, industrials, and retail and wholesale were among the industries most frequently discussing A.I. already in production. These industries may therefore be among the better positioned to benefit as A.I. adoption moves beyond infrastructure investment and increasingly translates into productivity gains across the broader economy.

Another recurring theme from earnings calls was strong pricing power and expanding margins, particularly among industrials and materials companies. While these businesses also faced higher input costs, pricing and other positive operating factors were generally sufficient to more than offset those pressures. This is consistent with the broader corporate profit backdrop. U.S. corporate profits reached a record high in 2Q26, while margins widened to 19.4%, surpassing their 2021 peak, supported in part by robust consumer spending even as wage growth moderated. Taken together, continued A.I.-related investment and healthy corporate margins should remain supportive of earnings momentum through calendar year 2026.

Looking ahead, with the earnings season now largely behind us, macro developments are likely to re-emerge as the primary driver of near-term market direction. Several sources of uncertainty remain. The ongoing U.S.-Iran conflict and higher oil prices have contributed to upward pressure across the Treasury yield curve, while the long end faces additional headwinds from increased supply, including issuance from hyperscalers, and a higher policy uncertainty premium as markets continue to assess the Fed's reaction function under Chair Warsh. The U.S. midterm elections are also now only two months away, bringing the market into a period that has historically been associated with weaker and more volatile performance. Against this backdrop, companies trading at elevated valuations without strong earnings visibility or balance sheet fundamentals may be particularly vulnerable to shifts in sentiment. Depending on investment horizon and risk tolerance, a lower-beta, higher-quality bias may offer greater resilience through this period, with Health Care historically among the better-performing sectors leading into midterm elections. Selectivity remains important within sectors.

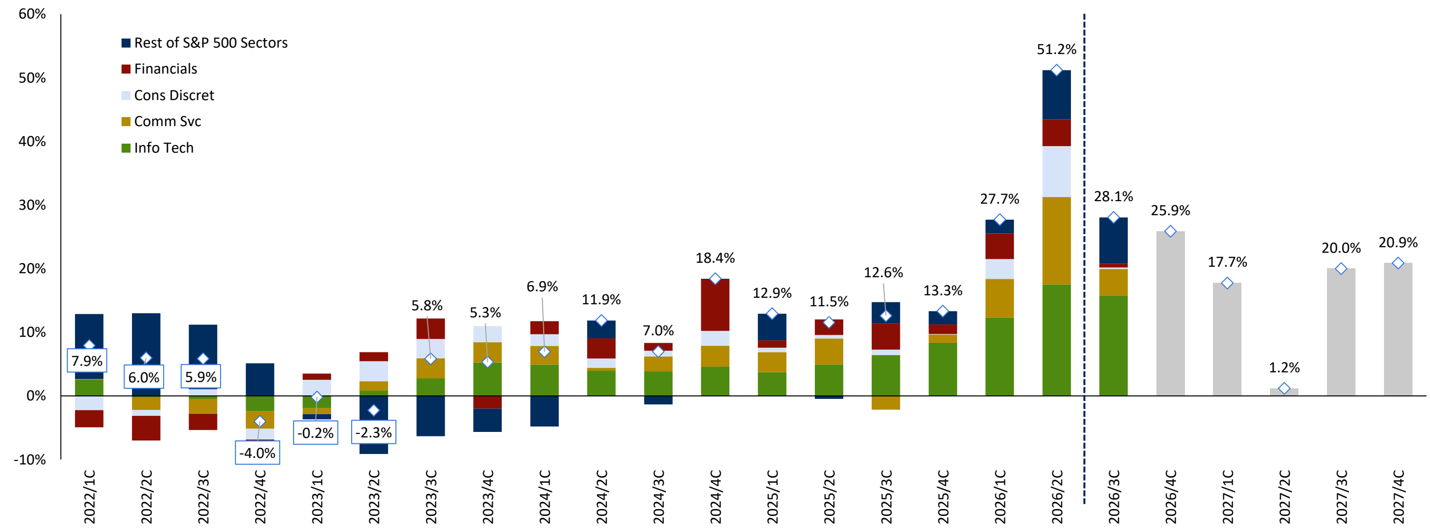
Looking somewhat further ahead, however, the historical pattern becomes more constructive. Once the uncertainty surrounding midterm elections has passed, U.S. equities have generally performed well over the subsequent three to 12 months, providing a more favourable seasonal backdrop heading into the post-election period.

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



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

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



Source: FactSet; Raymond James Ltd.; Data as of September 3, 2026.

Chart 28 - S&P 500 & Sector Performance Quilt

S&P 500 & Sector Performance Quilt

	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
S&P 500	-5.6%	-0.7%	6.3%	5.1%	2.2%	2.0%	3.7%	2.3%	0.2%	0.1%	1.5%	-0.8%	-5.0%	10.5%	5.3%	-1.0%	-0.1%	2.7%
Communication Services	9 -8.3% 18.3x	3 0.8% 17.9x	2 9.6% 19.4x	2 7.3% 20.5x	6 2.4% 20.2x	4 3.6% 20.8x	2 5.6% 22.0x	5 1.9% 22.1x	2 6.4% 23.2x	7 -1.0% 22.7x	5 5.8% 23.5x	10 -5.1% 22.0x	8 -7.3% 20.1x	1 18.5% 21.5x	6 -0.9% 21.2x	11 -7.8% 19.4x	7 0.6% 17.8x	8 -1.2% 17.6x
Consumer Discretionary	11 -8.9% 25.4x	6 -0.3% 26.3x	3 9.4% 28.8x	7 2.2% 29.1x	5 2.6% 29.6x	5 3.4% 29.5x	4 3.2% 30.4x	3 2.4% 30.6x	10 -2.4% 29.7x	4 0.8% 29.6x	7 1.7% 30.4x	11 -5.4% 28.7x	5 -5.6% 26.8x	3 11.7% 28.6x	2 2.6% 29.0x	9 -4.7% 27.2x	6 0.8% 25.0x	6 0.0% 25.2x
Consumer Staples	5 -2.4% 23.0x	2 1.2% 23.5x	8 1.8% 23.9x	11 -1.9% 23.3x	10 -2.4% 22.5x	8 1.6% 22.7x	10 -1.6% 22.3x	8 -2.3% 21.7x	4 4.0% 22.6x	9 -1.6% 22.1x	3 7.7% 23.6x	4 7.9% 25.5x	9 -7.4% 23.5x	7 3.1% 24.2x	9 -3.2% 22.9x	6 0.5% 22.7x	5 2.1% 22.9x	7 -0.7% 22.4x
Energy	1 3.9% 15.1x	11 -13.6% 14.2x	9 1.0% 14.6x	3 4.8% 15.1x	4 2.9% 15.3x	3 3.6% 15.5x	9 -0.4% 15.4x	7 -1.1% 15.6x	5 2.5% 15.6x	5 0.2% 16.0x	1 14.4% 19.2x	2 9.4% 20.8x	1 10.4% 19.4x	11 -3.5% 15.1x	11 -5.6% 13.1x	10 -5.1% 12.5x	1 12.6% 13.7x	1 7.0% 14.1x
Financials	8 -4.2% 16.3x	8 -2.1% 16.0x	5 4.4% 16.7x	5 3.2% 17.1x	7 0.0% 16.6x	6 3.1% 16.9x	8 0.1% 16.7x	10 -2.8% 15.8x	7 1.9% 15.9x	1 3.1% 16.3x	11 -2.4% 15.6x	8 -3.7% 14.8x	3 -3.5% 14.2x	6 5.6% 14.7x	8 -1.1% 14.4x	3 4.4% 14.8x	2 6.2% 15.2x	5 1.3% 15.2x
Health Care	3 -1.7% 17.8x	10 -3.7% 17.3x	11 -5.5% 16.4x	8 2.1% 16.6x	11 -3.3% 16.4x	2 5.4% 16.9x	6 1.8% 17.1x	2 3.6% 17.6x	1 9.3% 19.0x	8 -1.4% 18.6x	9 0.0% 18.8x	7 3.5% 19.2x	10 -8.1% 17.4x	10 -0.4% 17.0x	3 2.5% 17.6x	2 6.6% 18.5x	4 2.4% 18.6x	4 4.9% 19.0x
Industrials	7 -3.6% 21.4x	4 0.2% 22.0x	4 8.8% 23.5x	4 3.6% 24.2x	3 3.0% 24.6x	10 0.0% 24.3x	5 1.9% 24.5x	6 0.5% 24.5x	9 -0.9% 24.0x	3 1.3% 23.9x	4 6.7% 25.2x	5 7.1% 26.7x	11 -8.4% 24.2x	5 7.9% 25.4x	5 -0.8% 24.6x	1 7.3% 26.2x	10 -3.0% 24.7x	10 -2.6% 23.6x
Information Technology	10 -8.8% 24.3x	1 1.6% 24.6x	1 10.9% 27.0x	1 9.8% 29.2x	1 5.2% 30.0x	9 0.3% 29.1x	1 7.2% 30.3x	1 6.2% 31.1x	11 -4.3% 28.3x	6 -0.3% 26.6x	10 -1.7% 25.2x	9 -3.9% 23.5x	4 -3.8% 20.9x	2 17.5% 23.8x	1 16.0% 25.9x	8 -3.3% 23.3x	11 -3.4% 21.6x	2 6.2% 21.4x
Materials	6 -2.6% 20.1x	9 -2.2% 20.0x	7 3.0% 20.4x	6 2.3% 20.6x	9 -0.4% 20.0x	1 5.8% 21.0x	11 -2.1% 20.6x	11 -5.0% 19.0x	3 4.2% 19.5x	2 2.2% 19.3x	2 8.7% 20.3x	3 8.4% 21.5x	7 -6.9% 19.2x	8 2.7% 18.4x	4 -0.7% 17.7x	7 0.0% 17.5x	8 -1.7% 17.2x	3 6.0% 18.1x
Real Estate	4 -2.4% 18.3x	7 -1.2% 18.0x	10 1.0% 18.0x	10 0.2% 17.8x	8 -0.1% 17.8x	7 2.2% 18.1x	7 0.5% 17.9x	9 -2.6% 17.4x	6 2.0% 17.7x	10 -2.2% 17.1x	6 2.8% 17.6x	6 6.4% 18.7x	6 -6.0% 17.4x	4 8.8% 18.6x	7 -1.1% 18.3x	5 0.8% 18.1x	3 2.5% 18.6x	9 -1.9% 18.1x
Utilities	2 0.3% 17.7x	5 0.1% 17.7x	6 3.8% 18.1x	9 0.3% 18.0x	2 4.9% 18.7x	11 -1.6% 18.2x	3 4.2% 18.7x	4 2.1% 19.0x	8 1.8% 19.1x	11 -5.1% 17.9x	8 1.4% 18.0x	1 10.3% 19.6x	2 -3.2% 18.8x	9 2.1% 19.0x	10 -5.1% 17.8x	4 2.7% 18.1x	9 -2.2% 17.6x	11 -4.8% 16.6x

Legend
Sector Rank
Return
P/E NTM

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

Canadian Equity Markets

In August, performance across S&P/TSX Composite sectors was highly varied, driven largely by changes in valuations as macro factors and sentiment outweighed shifts in underlying fundamentals. Softer U.S. labour market and inflation data reduced expectations for a near-term Fed rate hike in the first half of the month and, alongside renewed concerns over U.S. fiscal sustainability and heightened geopolitical tensions, supported gold and the Materials sector. Renewed optimism toward software helped lift Information Technology. Conversely, higher 10-year yields weighed on rate-sensitive sectors such as Real Estate and Utilities, while Industrials, Retail and Wholesale faced renewed uncertainty from the latest round of U.S. tariffs. The month also saw some catch-up among previous laggards, alongside consolidation in sectors that had led earlier in the year.

The 2Q26 earnings season also came to a close, with S&P/TSX Composite earnings growth reaching 34.2% year over year and 15.9% quarter over quarter. Energy, Materials and Information Technology delivered the strongest gains, while most other sectors also posted double-digit growth. Consumer Staples was the exception with more modest growth, while Communication Services and Real Estate were the only two sectors to report declines. Reflecting the strength of the earnings backdrop, the CY2026 earnings estimate has been revised higher to C$2,089, from C$1,912 at the beginning of the year.

Top 3 Sectors (August 2026):

- **Materials:** The sector surged 25.8% in August, driven largely by multiple expansion, yet its forward P/E of 15.3x remains at only the 32nd historical percentile. As discussed previously, gold's consolidation around US$4,100 appeared broadly consistent with the prevailing macro expectations at the time. More recently, Treasury Secretary Bessent's intervention at the 10- to 30-year portion of the Treasury curve renewed attention on U.S. fiscal sustainability, while softer macro data early in the month reduced expectations for a near-term Fed rate hike. Together, these developments provided the catalyst for gold to break out of its consolidation. Looking ahead, gold is likely to remain sensitive to the Fed's next policy decision, with markets roughly evenly divided on the outcome, leaving room for near-term volatility in either direction. Over the medium to long term, however, we remain constructive on Materials, as the structural tailwinds for gold remain intact, including continued central bank purchases, increased allocations from retail and institutional investors, and persistent concerns around the U.S. fiscal outlook.

- **Information Technology:** Sector performance has been particularly volatile as it continues to recover from earlier losses. Given the sector's heavy weighting toward Software & Services, performance had been pressured by concerns over the disruptive impact of A.I. More recently, sentiment has improved following stronger-than-expected earnings results and encouraging business outlooks from several leading software companies. After the recent multiple expansion, the sector is trading at a forward P/E of 29.1x, around the 66th historical percentile. The broad negative sentiment toward Software & Services may now be easing, and with the leading TSX software company emerging as an important player in agentic commerce, we believe the rebound has further room to run. That said, the market is likely to become increasingly selective at the company level as competition intensifies, particularly as mega-cap technology companies expand further into the application layer.

- **Communication Services:** Despite a 4.0% rebound in August, we view the move as a modest recovery following meaningful losses over the previous two months, rather than a clear change in trend. The rebound was driven primarily by multiple expansion, with limited improvement in underlying fundamentals. 2026 remains a transition year for the sector. Absent external support from a risk-off environment or a rotation toward more defensive areas of the market, structural headwinds are likely to limit investor interest in the near term. These include rising competitive pressures, a less favourable regulatory backdrop, increasingly price-sensitive consumers and market saturation, none of which appears likely to improve materially in the near term. Valuation remains inexpensive, with the sector trading at 12.7x forward earnings, around the 15th historical percentile.

Bottom 3 Sectors (August 2026):

- **Consumer Staples:** The sector declined 6.9% in August, giving back a large portion of its gains from the previous two months. The decline was driven primarily by multiple contraction, although valuations remain relatively elevated. After trading at 19.3x forward earnings, or the 99th historical percentile, at the end of July, the sector now trades at 17.9x, around the 91st percentile. Earnings growth among grocers, the sector's largest segment, was modest in 2Q26 relative to the broader S&P/TSX Composite, leaving the group more vulnerable as capital rotated toward areas where earnings growth has re-accelerated, including Materials and Information Technology. We maintain our cautious view on the sector. With food inflation and oil prices still elevated, consumers remaining value-oriented, and U.S. tariff uncertainty still present, further upside appears limited in the current macro backdrop.

- **Utilities:** The sector's underperformance in August was broad-based. Elevated valuations, with the sector trading at 25.7x forward earnings or the 96th historical percentile at month-end, left this rate-sensitive area particularly vulnerable to the recent rise in 10-year government bond yields. Relatively moderate earnings growth also weighed on its appeal as capital rotated toward areas where earnings have re-accelerated, including Materials and Information Technology. We remain constructive on the longer-term outlook, supported by rising power demand from A.I.-related infrastructure and broader electrification. However, long development timelines and regulatory constraints mean these benefits may take time to materialize. Given the near-term valuation and interest-rate backdrop, we maintain a neutral stance on the sector.

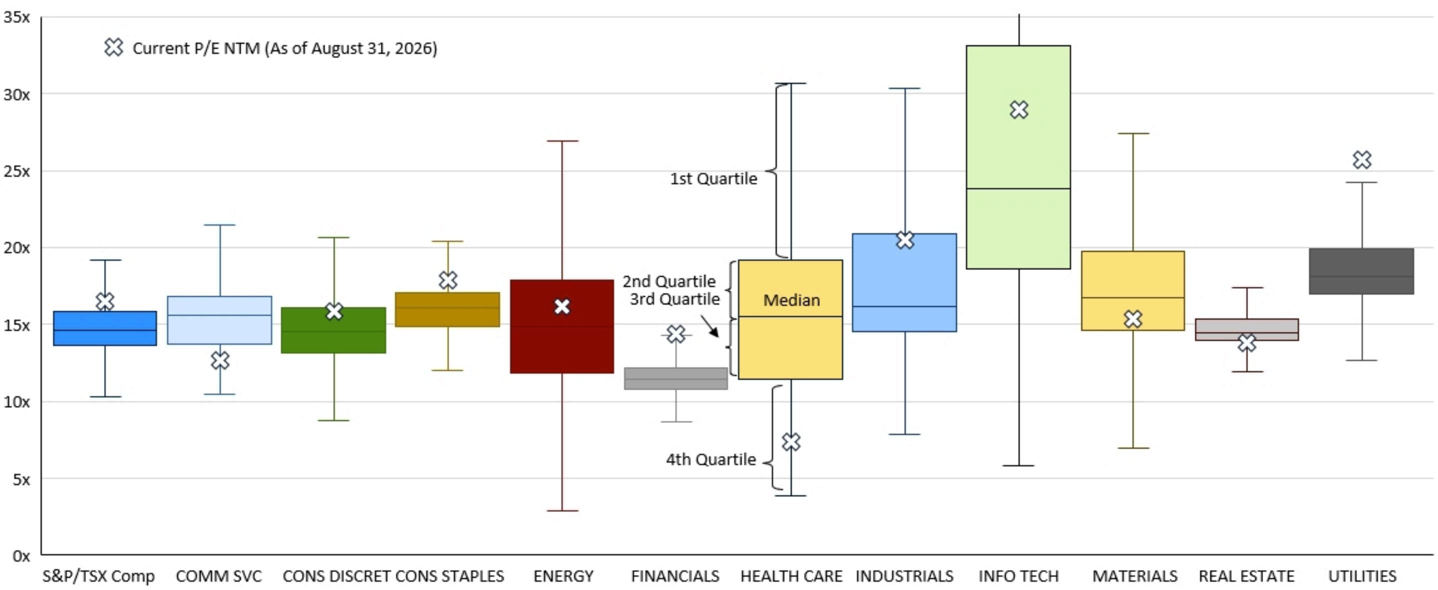
- **Real Estate:** The sector's underperformance in August was also broad-based, with weakness across most REIT segments, while Real Estate Management held up relatively better. Despite valuations remaining near the lower end of their historical range, the sector's rate sensitivity left it particularly vulnerable to the recent rise in 10-year government bond yields. Negative earnings growth, the weakest among S&P/TSX Composite sectors, also weighed on its relative appeal as capital rotated toward areas where earnings have re-accelerated, including Materials and Information Technology. Looking ahead, Retail and Industrial REITs may continue to stand out on a relative basis. At the sector level, however, limited exposure to higher-growth areas such as data centres may constrain the potential for sustained outperformance.

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

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	19.0%	19.4%	21.9%	25.8%	15.3	16.7
Information Technology	8.0%	-6.0%	14.0%	12.9%	29.1	23.7
Energy	16.8%	32.5%	7.2%	0.3%	16.2	14.8
S&P/TSX Composite	--	16.0%	4.4%	3.1%	16.3	14.6
Communication Services	1.6%	-4.3%	0.6%	4.0%	12.7	15.6
Financials	34.0%	20.8%	-1.9%	-2.9%	14.3	11.5
Industrials	10.0%	8.1%	-2.0%	-2.5%	20.6	16.2
Consumer Discretionary	2.9%	1.4%	-3.1%	-4.2%	15.8	14.5
Real Estate	1.2%	-0.6%	-4.2%	-4.6%	13.4	14.5
Health Care	0.3%	3.7%	-4.8%	-7.0%	7.4	15.5
Utilities	3.2%	12.1%	-4.8%	-5.6%	25.7	18.1
Consumer Staples	3.0%	3.0%	-5.5%	-6.9%	17.9	16.1

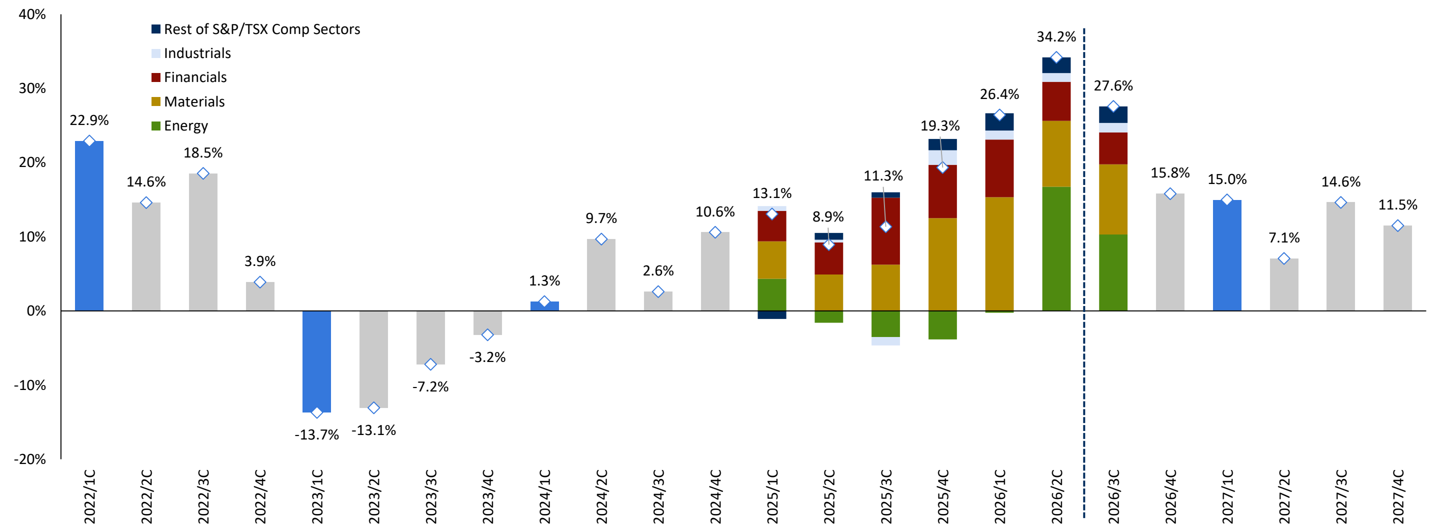
Source: FactSet, Raymond James Ltd.; Data as of August 31, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 29 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2026. Historical P/E: 1/1/2000 – 8/31/2026. Excluding outliers.

Chart 30 - S&P/TSX Composite EPS YoY Growth Contribution By Sector & Expectation



Source: FactSet; Raymond James Ltd.; Data as of September 3, 2026.

Chart 31 - S&P/TSX Composite & Sector Performance Quilt

TSX Composite & Sector Performance Quilt

TSX Composite	-1.5%	-0.1%	5.6%	2.9%	1.7%	5.0%	5.4%	1.0%	3.9%
	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Communication Services	6 -1.5% 12.4x	9 -2.5% 12.3x	8 2.2% 12.4x	7 2.9% 12.5x	1 5.0% 13.1x	4 4.4% 13.7x	11 -1.8% 13.3x	6 0.3% 13.2x	8 -1.3% 13.0x
Consumer Discretionary	7 -2.4% 15.3x	3 1.8% 16.1x	2 8.1% 17.3x	4 3.7% 17.8x	6 2.1% 17.8x	8 0.7% 17.6x	7 0.9% 17.3x	5 1.6% 17.0x	3 7.5% 18.0x
Consumer Staples	3 2.6% 17.2x	1 5.6% 18.3x	10 1.2% 18.5x	11 -2.1% 18.3x	7 2.1% 18.4x	11 -0.8% 18.1x	8 0.3% 17.8x	9 -1.2% 17.3x	2 8.8% 18.7x
Energy	2 4.2% 13.9x	10 -6.3% 13.9x	5 4.5% 15.3x	6 3.4% 16.1x	4 2.6% 16.4x	6 4.0% 16.6x	2 5.6% 17.4x	8 -0.9% 17.6x	4 4.4% 18.1x
Financials	8 -3.6% 11.3x	5 1.6% 11.4x	4 6.5% 12.0x	5 3.6% 12.4x	8 1.5% 12.4x	5 4.3% 12.6x	3 4.5% 13.0x	4 1.7% 13.0x	5 4.1% 13.3x
Health Care	9 -4.5% 4.6x	11 -6.8% 5.7x	11 1.1% 5.9x	1 9.4% 4.7x	11 -6.2% 4.5x	2 9.2% 4.9x	5 3.0% 7.2x	2 4.3% 7.3x	10 -4.7% 6.9x
Industrials	10 -4.6% 20.9x	8 -1.0% 21.1x	1 8.9% 22.8x	9 0.3% 22.7x	10 -0.5% 22.5x	10 0.0% 22.2x	9 -0.8% 21.9x	7 -0.7% 21.5x	7 -1.3% 21.4x
Information Technology	11 -12.7% 32.0x	6 0.8% 32.7x	3 8.0% 35.7x	2 4.9% 37.2x	3 4.5% 37.9x	3 6.2% 39.3x	6 2.1% 39.5x	1 13.8% 43.1x	11 -7.1% 39.4x
Materials	1 7.2% 17.4x	4 1.7% 16.2x	7 2.5% 16.1x	3 3.7% 16.5x	9 0.0% 14.9x	1 15.9% 16.6x	1 18.9% 18.3x	11 -5.0% 14.8x	1 14.6% 16.0x
Real Estate	5 -1.4% 13.6x	7 -0.9% 13.4x	6 4.4% 14.0x	8 1.4% 14.1x	2 4.7% 14.6x	7 3.7% 15.0x	10 -1.0% 14.8x	10 -4.0% 14.1x	9 -1.8% 13.9x
Utilities	4 1.8% 21.8x	2 2.6% 21.6x	9 1.9% 21.7x	10 0.2% 21.3x	5 2.5% 22.0x	9 0.3% 22.9x	4 3.9% 23.4x	3 4.1% 24.1x	6 0.2% 23.6x

TSX Composite	1.3%	0.8%	7.7%	-4.3%	3.8%	2.5%	0.5%	1.2%	3.1%
	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Communication Services	7 -0.6% 12.8x	3 3.7% 13.2x	8 2.8% 14.1x	4 -0.7% 13.8x	11 -6.5% 12.9x	1 6.9% 13.7x	10 -9.9% 12.2x	11 -3.3% 12.4x	3 4.0% 12.7x
Consumer Discretionary	4 1.6% 17.9x	10 -5.3% 16.8x	2 10.5% 17.8x	10 -8.2% 16.2x	4 6.2% 17.2x	8 0.3% 17.0x	6 2.3% 17.2x	4 1.2% 16.7x	7 -4.2% 15.8x
Consumer Staples	8 -0.7% 18.5x	8 -3.9% 17.8x	3 10.0% 19.3x	5 -2.5% 18.6x	9 -0.8% 18.5x	9 -1.3% 18.1x	2 8.0% 19.0x	3 1.5% 19.3x	10 -6.9% 18.0x
Energy	9 -1.7% 17.8x	1 10.6% 21.6x	4 8.8% 23.4x	1 8.2% 23.4x	7 2.0% 17.0x	10 -2.8% 15.7x	9 -4.1% 15.2x	1 6.9% 16.3x	4 0.3% 16.2x
Financials	1 4.4% 13.6x	7 -1.5% 13.2x	9 2.7% 13.2x	6 -3.0% 12.6x	2 10.6% 13.8x	3 4.4% 14.1x	1 8.8% 15.2x	5 1.0% 15.1x	6 -2.9% 14.3x
Health Care	3 2.0% 6.9x	9 -4.2% 6.7x	6 8.6% 7.4x	9 -8.2% 6.6x	1 13.2% 7.6x	11 -5.0% 6.9x	3 6.0% 8.3x	2 2.4% 8.2x	11 -7.0% 7.4x
Industrials	5 0.5% 21.2x	6 0.4% 21.2x	7 6.3% 22.5x	8 -6.5% 20.9x	3 6.3% 21.8x	6 0.9% 21.5x	4 3.1% 21.7x	8 0.6% 21.4x	5 -2.5% 20.6x
Information Technology	11 -2.8% 38.4x	11 -17.6% 31.2x	11 -6.2% 29.0x	3 0.4% 28.7x	5 5.4% 29.1x	5 2.5% 29.0x	8 -1.6% 27.8x	6 1.0% 26.4x	2 12.9% 29.1x
Materials	2 2.7% 15.2x	2 8.9% 15.2x	1 21.7% 17.5x	11 -16.4% 13.9x	10 -5.3% 13.2x	2 6.2% 13.5x	11 -12.1% 11.7x	10 -3.1% 12.1x	1 25.8% 15.3x
Real Estate	6 -0.5% 13.8x	5 1.7% 13.9x	10 -0.3% 14.2x	7 -5.6% 13.3x	6 4.6% 13.9x	7 0.6% 14.0x	5 3.1% 14.3x	9 0.4% 14.1x	8 -4.6% 13.4x
Utilities	10 -2.4% 21.6x	4 2.0% 21.8x	5 8.7% 23.5x	2 0.4% 24.1x	8 0.1% 23.7x	4 3.6% 23.9x	7 2.1% 24.1x	7 0.9% 24.8x	9 -5.6% 25.7x

Legend

Sector Rank Total Return P/E NTM

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

Table 3 - Global Equities Performance

Select Global Equity Indices	Aug (in LCL)	Aug (in USD)	Aug (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)*	2.5	2.5	1.3	2.3	2.3	3.0	13.2	13.2	14.4	18.4	16.2	2.2
EAFE (DM ex U.S. & Canada)*	1.7	1.7	0.5	3.9	3.9	4.5	13.7	13.7	15.0	15.3	13.8	1.6
EM (Emerging Markets)*	4.2	4.2	3.0	-1.5	-1.5	-0.9	23.3	23.3	24.7	10.0	11.5	-1.5
Selected Developed Markets												
Nikkei 225 (Japan)	3.1	2.8	1.6	0.1	-0.2	0.5	32.9	30.1	31.8	20.1	17.4	2.7
Euro STOXX 50 (Europe)	1.0	1.9	0.7	6.4	5.6	6.3	13.5	9.6	10.9	15.5	13.4	2.1
FTSE 100 (U.K.)	0.2	0.5	-0.6	4.9	4.7	5.5	11.7	10.0	11.4	12.6	12.3	0.2
CAC 40 (France)	-2.1	-1.1	-2.3	2.2	1.7	2.4	4.9	3.8	5.0	14.7	13.6	1.1
DAX (Germany)	2.5	3.4	2.2	4.6	4.1	4.8	7.2	5.9	7.3	15.2	12.8	2.4
Hang Seng (Hong Kong)	-1.0	-1.0	-2.1	2.8	2.8	3.4	2.0	1.2	2.4	10.6	11.6	-1.0
Selected Emerging Markets												
CSI 300 (China)	1.0	1.5	0.3	-4.3	-3.6	-3.2	1.6	5.7	6.8	14.9	14.0	0.9
Nifty 50 (India)	-1.1	-0.8	-2.0	3.0	2.7	3.2	-6.7	-11.8	-11.0	19.3	19.2	0.1

Source: FactSet, Raymond James Ltd.; Total returns, data as of August 31, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 08/31/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

There was plenty of activity in the fixed-income market in August, although the net moves in U.S. Treasury yields were relatively modest. Compared with the end of July, yields out to the 10-year maturity edged higher, while the 20- and 30-year yields moved slightly lower. Early in the month, lower oil prices on hopes of progress in U.S.-Iran negotiations, followed by a softer U.S. labour-market report and weaker-than-expected retail sales, helped pull intermediate- and longer-term yields moderately lower. However, the relief proved short-lived. On August 19, Treasury Secretary Bessent announced an expansion of long-dated Treasury buybacks, aimed at supporting liquidity in the 10- to 30-year segment of the curve. Yields initially declined following the announcement, but the move quickly reversed.

While such intervention may provide temporary relief, artificially suppressing long-term yields does little to address the underlying issue: the U.S. fiscal trajectory. Delaying the necessary fiscal adjustment risks making the eventual correction more costly. Moreover, if persistent intervention distorts price discovery at the long end, investors may face greater uncertainty over the “true” price of duration and fiscal risk. That uncertainty could itself command a higher risk premium, potentially putting upward pressure on the very yields policymakers are seeking to contain.

Against this backdrop, and looking beyond the recent swings in oil prices, we expect term premiums at the long end of the Treasury curve to remain elevated in the coming years, particularly in the absence of meaningful fiscal improvement. That said, while a 5% 10-year Treasury yield has become something of a psychological threshold in market headlines, the greater risk to markets and the economy may be the speed of any move higher rather than the absolute level itself, unless yields reach materially restrictive levels. With the 10-year yield having spent much of the period since 2024 above 4%, markets and the economy have already demonstrated some capacity to absorb structurally higher rates.

Monetary policy remains another important source of uncertainty for the Treasury market. As discussed in the U.S. economics update, Fed Chair Warsh struck a hawkish tone at Jackson Hole. While he characterized current financial conditions and reiterated his determination to return inflation to the 2% target, Warsh continues to offer few clues about his economic forecasts or reaction function, reflecting his broad interpretation of what constitutes “forward guidance”. One new takeaway, however, was that he needs to see further improvement in underlying inflation trends; absent such progress, additional tightening may be warranted.

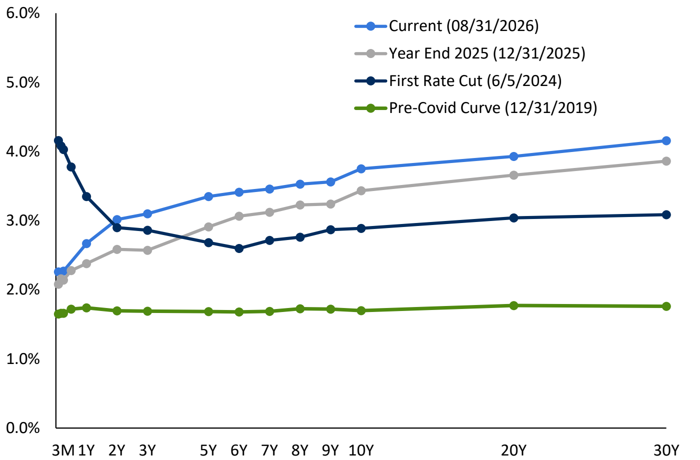
Markets responded accordingly, repricing the probability of a September rate hike from roughly 35% before the speech to 58% the following day, with yields moving higher across both the front and long ends of the curve. If the August inflation and labour-market data leave the September decision a close call, the follow-through at the FOMC meeting, and particularly Warsh’s communication around the decision, will be important for the Fed’s credibility and the direction of Treasury yields.

In credit, investment-grade spreads widened moderately in August but remain tight by historical standards. Quality therefore remains important in the current market environment. One area warranting closer attention is U.S. hyperscaler bond issuance, which has increased sharply since 2024. The growing volume of these jumbo deals has added supply pressure to the market, contributing to a more pronounced widening in technology-sector investment-grade spreads relative to the broader market.

In Canada, the government yield curve continued to steepen in August, with little change at the front end but yields moving higher across the belly and long end of the curve. The move partly reflected renewed inflation concerns following the rebound in oil prices, while an improving economic backdrop likely also contributed through firmer real growth expectations. The 10-year Government of Canada yield rose 8 bps over the month, although the path was volatile, reflecting spillovers from moves in U.S. and global bond markets.

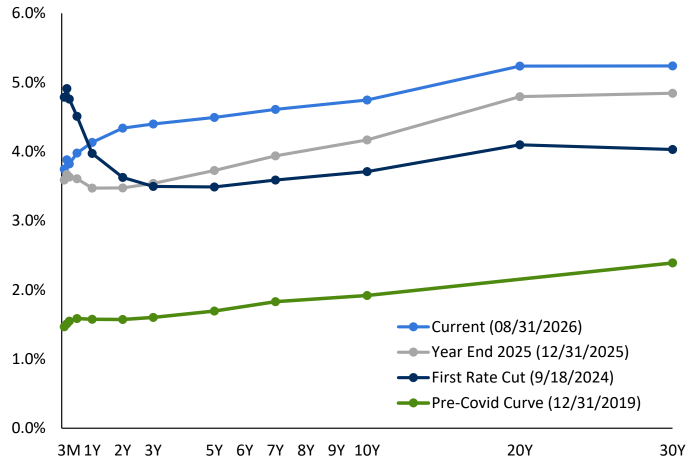
In credit, investment-grade spreads were little changed for maturities under seven years, as recent strength in macroeconomic indicators helped ease concerns over a near-term slowdown. Further out the curve, spreads widened modestly, potentially reflecting greater uncertainty around tariffs and the longer-term Canada-U.S. trade relationship. Against this backdrop, we continue to favour quality in the current credit environment.

Chart 32 - Canada Government Yield Curves



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

Chart 33 - U.S. Treasury Yield Curves



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

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