CARDINAL POINT
FOCUS PARTNERS CANADA

quarter ending in June 30, 2026

Quarterly Newsletter

The Rally No One Predicted

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As I write this commentary following the Canada Day and Fourth of July celebrations, combined with the exuberance of the World Cup and the easing of Iran headlines, it certainly feels like the vibes are immaculate this summer. That is a stark difference from just three months ago.

If you had asked most observers on April 1 what the second quarter would bring, the answer would have been some version of “more of the same.” The first quarter ended with the S&P 500 down 4.3%, the Strait of Hormuz closed, oil trading near $100 per barrel, and the rate cuts investors expected in January completely priced out of the market. The mood was heavy, and the case for caution felt obvious.

Instead, we got one of the strongest quarters of this century for U.S. stocks. The S&P 500 returned 15.2%, its best quarter since the pandemic recovery in 2020, and gains were remarkably broad. Small company stocks jumped more than 21%, and by quarter end, small- cap, equal weight, and value benchmarks were all setting record highs alongside the familiar technology leaders. Canadian stocks rallied 8.2% for the quarter, international developed markets tacked on 10.8%, and emerging markets rocketed up 24.1%. This was not a narrow rally carried by a handful of mega caps. Just about anyone invested in stocks anywhere participated.

What makes the quarter such a useful lesson is the timing. Markets bottomed in late March and early April, while the strait was still closed and the news was still getting worse. The diplomatic breakthrough that reopened the waterway did not arrive until June 17. Ironically, June was the worst performing month of the quarter, essentially flat for most investments. An investor who waited for that all-clear signal before getting back in missed most of a 15% quarter. By the time a resolution feels certain, markets have long since moved. It is a tale as old as time.

2026 Q2 Index Returns

Just as notable as what markets did is what they did it through. The worries that dominated the first quarter did not disappear. The truce in the Middle East remains fragile, inflation is still running above target, and the Federal Reserve spent the quarter signaling that its next move is more likely a hike than a cut. And the loudest debate of all, whether AI enthusiasm has inflated a bubble, grew louder still.

June brought a remarkable concentration of high-profile bubble warnings. In a recent article, Ben Carlson of *A Wealth of Common Sense* summarized a wave of prominent AI bubble warnings from several well-known market commentators. Financial publisher Jim Grant described AI as one of history’s greatest bubbles, short seller Jim Chanos argued today’s

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AI capital spending boom exceeds the dot-com era, and investment veterans Jeremy Grantham and Ray Dalio issued similar cautions, with Dalio suggesting his indicators point to negative real equity returns over the next five to ten years. Carlson then offered some needed perspective: many of these same voices have been issuing similar warnings for more than a decade, and headlines calling technology stocks a bubble stretch back to at least 2017.[i]

Carlson's conclusion is one we share: "No one can call tops on a consistent basis." In his years working with affluent families, he notes he has never met anyone who built their wealth by picking tops and calling bubbles. Someone will eventually appear to call the next one correctly, but doing it repeatedly is a different matter entirely, and building a plan around that hope is not a strategy.

Market history offers a humbling illustration of just how hard that game is. In December 1996, Alan Greenspan famously wondered aloud whether "irrational exuberance" had unduly escalated asset values. The S&P 500 closed near 740 the day he gave that speech. The index went on to more than double over the next three plus years before finally peaking in March 2000, and even the bottom of the brutal bear market that followed, in October 2002, came in slightly above the level on the day he spoke. The most influential central banker in the world spotted a genuine bubble and still, for all practical purposes, got it wrong, because he was more than three years early. In markets, being right too early is indistinguishable from being wrong.

None of this means the skeptics are wrong today. AI valuations may well prove excessive, and we wrote at length in our year-end letter about why elevated valuations warrant genuine caution even though today's market leaders, unlike their late-1990s counterparts, are highly profitable and cash generative. That assessment still holds. Second quarter earnings for the S&P 500 are expected to grow more than 20% year over year for a second consecutive quarter, with revenue growth the fastest since 2022. Earnings, not multiple expansion, continue to do most of the work.

At the same time, there are real signs of speculative enthusiasm worth watching. A recent Harris Poll conducted for Northwestern Mutual found that 73% of people who invest in or are considering high-risk or speculative investments said they do so because they feel financially behind and believe those investments offer a faster path to their financial goals. Among Gen Z respondents, that figure rose to 80%.[ii] Signals like these tell conflicting stories, and that is precisely the point: tea leaves, earnings forecasts, economic reports, and pundit predictions are simply not reliable indicators of what happens next. The past six months proved it twice, first when a calm start to the year gave way to conflict and a sharp selloff, and again when a gloomy spring gave way to a historic rally.

As always, your guess is as good as mine on where markets go in the short term. Sentiment can change quickly, and if we can see a +15% quarter, there is no reason we can't see a -15% quarter at some point. In the meantime, investors have seen a year's worth of expected returns in just six months, and we are coming up on four years of double- digit stock market gains. Rebalancing and asset allocation reviews remain as important as ever; systematically trimming what has run the furthest and adding to what has lagged is the one discipline that requires no forecast at all. So does setting expectations: these returns are wonderful to enjoy and help make significant progress towards your long-term financial goals, but they won't continue at this pace forever.

In the meantime, enjoy the summer. The vibes may not stay immaculate forever, but a durable plan does not need them to.

From Our Blog: Understanding Dual Tax Residency in Canada

This article examines how dual tax residency can arise for individuals with ties to Canada and another country, and why it has become more common in a cross-border context. It outlines how Canadian tax residency is determined, the role of tax treaties in resolving competing residency claims, and the potential application of subsection 250(5) of the Income Tax Act. The discussion also highlights the tax implications of residency status, including exposure to worldwide taxation, and underscores the importance of careful analysis before filing or amending returns.

Key Takeaways

• Dual tax residency can occur when an individual is considered a resident under the domestic tax rules of more than one country.

• Canada taxes based on residency, with residents subject to tax on worldwide income and non-residents generally taxed only on Canadian-source income.

• Residency status is determined based on primary and secondary ties, as well as overall living circumstances.

• Tax treaties may resolve dual residency through tie-breaker rules, though these tests are often subjective and fact-specific.

• Subsection 250(5) of the Income Tax Act may deem an individual to be a non-resident of Canada where a treaty assigns residency to another country.

•Filing positions and any changes to prior tax filings should be evaluated carefully, as they may trigger additional tax consequences.

• Paragraph 250(1)(a) deems individuals who sojourn in Canada for 183 days or more in a year to be Canadian residents for the entire year, though treaty tie-breaker rules may override this.

Full article at https://tinyurl.com/9knezhy

[i] Ben Carlson, "Spotting Bubbles and Calling Tops," A Wealth of Common Sense, June 21, 2026, https://awealthofcommonsense.com/2026/06/spotting-bubbles-and-calling-tops/.

[ii] Northwestern Mutual, 2026 Planning & Progress Study, survey conducted by The Harris Poll, 2026, https://news.northwesternmutual.com/planning-and-progress-study-2026.

Financial Markets Review

The U.S. View

The U.S. economy spent the quarter defying the gloomier forecasts. Despite the conflict in the Middle East and elevated uncertainty, economic activity continued to expand at a solid pace, supported by strong productivity growth and heavy capital investment in AI infrastructure. The labor market proved sturdier than expected, with meaningful gains throughout the quarter, including a May number that was more than double forecasts and the June unemployment rate coming in at 4.2%, essentially unchanged over the past year.

The growth numbers back that up. First quarter real GDP was revised up to a 2.1% annualized pace in the final June estimate, a marked improvement from just 0.5% in the fourth quarter, helped by a rebound in federal spending after the shutdown and, more importantly, a surge in business investment. Equipment spending jumped nearly 16% and intellectual property investment rose almost 14%, much of it tied to the AI buildout in data centers, power generation, and computing. Early second quarter indications from the Atlanta Fed's GDPNow model have cooled from around 4% in mid-May to roughly 1.3% as of early July, pointing to continued, if more moderate, expansion. The composition highlights a key source of confusion in the markets: massive business spending on transformative technology is carrying an outsized share of growth, while consumer spending slowed to a crawl in the first quarter and housing remains in a prolonged slump. The economy is expanding, but it is leaning heavily on one engine.

That resilience cut both ways. Inflation remains above the Federal Reserve's 2% goal, boosted by the energy price shock from the Iran conflict, and a strong economy gives the Fed little reason to ease. The Fed held rates steady at 3.50% to 3.75% at both meetings this quarter, and the June meeting, the first chaired by Kevin Warsh, delivered a decidedly hawkish message. The committee raised its 2026 inflation projections to 3.6% headline and 3.3% core, and the median projection now implies the next move is more likely a hike than a cut. Markets currently price no cuts in 2026, a striking reversal from the two to three cuts expected in January.

Longer-term interest rates drifted higher on the same logic. The 10-year U.S. Treasury yield ended the quarter around 4.5%, up from 4.3% at the end of March. Even with that headwind, the Bloomberg U.S. Aggregate Bond Index eked out a 0.7% gain for the quarter.

US Stocks

Q2 2026

	Value	Blend	Growth
Large	13.9%	15.1%	16.7%
Mid	13.4%	13.8%	14.5%
Small	17.2%	21.5%	25.7%

Equity markets were the story. The S&P 500 returned 15.2% for the quarter, bringing its year-to-date return to 10.2%, while the technology-heavy Nasdaq 100 surged 27.7%. Notably, smaller companies led over the first half: the Russell 2000 gained 21.5% in the quarter and now sits up 22.6% on the year, well ahead of large caps. Despite growth stocks powering the second quarter rebound, value remains ahead year to date, with the Russell 1000 Value index up 16.3% through June.

International developed markets (MSCI EAFE Index) added 10.8% for the quarter and are up 9.4% year to date in USD. Emerging markets were even stronger, jumping 24.1% in the quarter to bring their first-half gain to 23.9%.

International Stocks

Q2 2026

	Value	Blend	Growth
Large	9.2%	11.3%	13.7%
Mid	4.3%	6.1%	8.1%
Small	5.5%	7.9%	10.5%

One diversification footnote worth mentioning: gold, a star performer during the height of the conflict, fell roughly 13% in the quarter as tensions eased, though it remains up over 20% for the trailing year. Diversifiers work in both directions, and that is exactly what we ask of them.

Asset classes ranked by annual returns (in USD)

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 YTD	2026 Q2
Emerging Markets 37.3%	Cash 1.9%	US Stocks 31.5%	US Stocks 18.4%	US Small Value 28.3%	Commodities 16.1%	US Stocks 26.3%	US Stocks 25.0%	Canadian Stocks 35.6%	Emerging Markets 23.8%	Emerging Markets 24.1%
Intl Stocks 25.0%	US Bonds 0.0%	Canadian Stocks 29.5%	Emerging Markets 18.3%	Commodities 27.1%	Cash 1.5%	Intl Stocks 18.2%	Canadian Stocks 13.0%	Emerging Markets 33.6%	US Small Value 23.0%	US Small Value 17.2%
US Stocks 21.8%	Alternatives -3.2%	US REITs 23.1%	Intl Stocks 7.8%	US REITs 24.5%	Alternatives -5.7%	Canadian Stocks 16.0%	US REITs 8.1%	Intl Stocks 31.2%	US REITs 17.6%	US Stocks 15.2%
Canadian Stocks 16.8%	US REITs -4.2%	US Small Value 22.4%	US Bonds 7.5%	Canadian Stocks 19.8%	Canadian Stocks -11.4%	US Small Value 14.6%	US Small Value 8.1%	US Stocks 17.9%	Commodities 14.4%	US REITs 12.4%
US Small Value 7.8%	US Stocks -4.4%	Intl Stocks 22.0%	Canadian Stocks 6.6%	US Stocks 15.9%	Intl Stocks -14.5%	US REITs 14.0%	Emerging Markets 7.5%	Commodities 15.8%	US Stocks 10.2%	Intl Stocks 10.8%
Alternatives 7.1%	Commodities -11.2%	Emerging Markets 18.4%	Alternatives 6.4%	Intl Stocks 11.3%	US Bonds -13.0%	Emerging Markets 9.8%	Commodities 5.4%	US Small Value 12.6%	Intl Stocks 9.4%	Canadian Stocks 6.2%
US REITs 3.8%	US Small Value -12.9%	Alternatives 9.3%	US Small Value 4.6%	Alternatives 7.2%	US Small Value -14.5%	US Bonds 5.5%	Cash 5.2%	US Bonds 7.3%	Canadian Stocks 7.6%	Alternatives 2.6%
US Bonds 3.5%	Intl Stocks -13.8%	US Bonds 8.7%	Cash 0.7%	Cash 0.1%	US Stocks -18.1%	Alternatives 4.4%	Alternatives 4.3%	Alternatives 6.0%	Alternatives 2.6%	Cash 0.9%
Commodities 1.7%	Emerging Markets -14.6%	Commodities 7.7%	Commodities -3.1%	Emerging Markets -1.2%	Emerging Markets -20.1%	Cash 5.0%	Intl Stocks 3.8%	Cash 4.2%	Cash 1.8%	US Bonds 0.7%
Cash 0.8%	Canadian Stocks -15.3%	Cash 2.3%	US REITs -11.2%	US Bonds -1.6%	US REITs -26.0%	Commodities -7.9%	US Bonds 1.3%	US REITs 3.7%	US Bonds 0.6%	Commodities -8.1%

The Canadian View

The Canadian economy remains the softer half of the North American story. GDP edged down 0.1% in the first quarter, which marked a second consecutive quarterly contraction, though the Bank of Canada was quick to note the economy is weak but not clearly in recession. The labor market offered a pleasant surprise late in the quarter, adding 88,000 jobs in May and pulling the unemployment rate down to 6.6%, but employment is little changed since the start of the year and the jobless rate continues to fluctuate in the 6.5% to 7% range. The ongoing review of the Canada-United States-Mexico Agreement (CUSMA, known as USMCA in the United States) trade agreement adds another layer of uncertainty for exporters.

Inflation tells a two-track story. Headline CPI rose to 2.8% in April, lifted by higher energy prices and the carbon tax elimination falling out of the annual calculation. Core measures, however, remained close to the 2% target, with limited evidence of energy costs passing through to other goods and services. That gave the Bank of Canada room to stay on hold, and it did, leaving the overnight rate at 2.25% at both the April and June meetings, its fifth consecutive pause. The Bank has been clear it is looking through the war's near-term impact on headline inflation but will not let higher energy prices become persistent inflation.

The 10-year Government of Canada yield drifted down to around 3.4% by late June, slightly below where it started the quarter, helping the Bloomberg Global Canada bond index return 1.4% for the quarter and 1.8% year to date.

Canadian equities continued their impressive run. The S&P/TSX 60 gained 8.2% in the quarter and is up 11.6% year to date, an over 31% gain for the trailing 12 months. Leadership has shifted within the market: Canadian large value stocks surged 15.9% in the quarter and are up over 26% on the year, while small caps, last year's standouts, cooled considerably with a roughly flat quarter.

For Canadian dollar investors, U.S. stocks returned 17.1% in the quarter and 14.1% year to date, helped by the loonie slipping about 1.6% against the U.S. dollar during the quarter and about 3.3% so far this year. International developed stocks gained 12.7% in CAD for the quarter, and emerging markets jumped 26.2%.

Cdn Stocks
Q2 2026

	Value	Blend	Growth
Large	15.9%	8.6%	-0.2%
Mid	7.4%	4.1%	1.7%
Small	-0.4%	1.5%	3.3%

Asset Classes Ranked By Annual Returns (In CAD)

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 YTD	2026 Q2
Intl Stocks 16.8%	US Stocks 4.2%	US Stocks 24.8%	US Stocks 16.3%	Canadian Stocks 17.5%	Canadian Stocks -5.8%	US Stocks 22.9%	US Stocks 36.4%	Canadian Stocks 29.1%	US Stocks 14.1%	US Stocks 17.1%
US Stocks 13.8%	Canadian Bonds 2.5%	Canadian Stocks 22.9%	Canadian Bonds 7.4%	US Stocks 15.3%	Intl Stocks -8.2%	Intl Stocks 15.1%	Canadian Stocks 21.0%	Intl Stocks 25.1%	Intl Stocks 13.3%	Intl Stocks 12.7%
Canadian Stocks 9.1%	Intl Stocks -6.0%	Intl Stocks 15.8%	Intl Stocks 5.9%	Intl Stocks 7.7%	Canadian Bonds -9.9%	Canadian Stocks 12.1%	Intl Stocks 13.2%	US Stocks 12.4%	Canadian Stocks 11.6%	Canadian Stocks 8.2%
Canadian Bonds 0.1%	Canadian Stocks -8.9%	Canadian Bonds 3.7%	Canadian Stocks 5.6%	Canadian Bonds -3.8%	US Stocks -12.2%	Canadian Bonds 5.0%	Canadian Bonds 2.9%	Canadian Bonds 1.4%	Canadian Bonds 1.8%	Canadian Bonds 1.4%

Indexes used: Cash represented by Bloomberg US Treasury Bills TR. MSCI Canada, MSCI World Ex USA and U.S. Russell series used for Large Value, Large Blend, Large Growth, Mid Value, Mid Blend, Mid Growth, Small Value, Small Blend, Small Growth representations. Alternatives in USD and CAD charts represented by Credit Suisse Liquid Alternative TR USD . Commodities represented by Bloomberg Commodity TR. Nominal Broad U.S. Dollar index for USD comparisons. Additional representations in CAD: Canadian Bonds- Bloomberg Barclays Global Canada, Canadian Stocks- S&P/TSX Composite TR, U.S. Stocks S&P 500 TR, International Stocks- MSCI EAFE NR. Additional representations in USD: Short International Bonds- FTSE WGBI 1-5Yr Hdg, U.S. stocks- S&P 500, U.S. Value- Russell 1000 Value, U.S. Small- Russell 2000, U.S. REITs- DJ U.S. Select REIT, Canadian Stocks- FTSE Canada, Intl Stocks- MSCI World Ex USA Large, Emerging Markets- MSCI EM NR.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Statistics Canada, Bank of Canada, U.S. Department of the Treasury, CME Group, Trading Economics, Federal Open Market Committee Statement and Summary of Economic Projections, June 17 2026, FactSet Earnings Insight, July 2026, Standard & Poor's historical index data, YCharts, Morningstar Direct 2026, Spotting Bubbles and Calling Tops, Ben Carlson, A Wealth of Common Sense, June 21 2026.

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