

2Q26 | PROGRESS IN THE MIDDLE EAST ALLOWS UNDERLYING MARKET DYNAMICS TO SHINE

INVESTMENT ENVIRONMENT

- A Middle East ceasefire reopens the Strait of Hormuz easing energy crisis fears. The new Fed Chair’s policy shift forces independent market interpretation.

EQUITY MARKETS

- Structural AI winners continue to shine, though prospects for broadening earnings growth could bring new leaders to the forefront.

FIXED INCOME MARKETS

- Chair Warsh sets new tone on Fed Policy. Corporate issuance remains strong as tech giants debut maple bonds in the Canadian market.

INVESTMENT ENVIRONMENT | UNLOCKING HORMUZ, WHILE NEW FED CHAIR SUPPORTS INDEPENDENT THOUGHT

Amid much uncertainty and several impasses, a fragile ceasefire that began in early April led to the signing of a more comprehensive Memorandum of Understanding (MOU) between the U.S. and Iran in June. The agreement paused the active conflict and established a 60-day window to negotiate a more permanent peace. Of importance to the global economy, this derisking event led to the Strait of Hormuz being reopened, allowing the resumption of oil and gas flows from the region and averting a potential energy crisis. Some friction points driven by differing interpretations of aspects of the MOU have led to intermittent flare-ups, suggesting a non-linear route to achieve a permanent resolution on a timeline that may be meaningfully extended.

Energy exporters reliant on the Strait of Hormuz quickly searched for bypass solutions at the onset of the conflict, eventually re-routing an estimated 6–7 million bbl/d via cross-country pipelines and easing the call on Persian Gulf transit down to 13–14 million bbl/d, from 20 million bbl/d pre-conflict. Oil tanker activity has started to recover in the region, though it appears to remain well below the rebased requirements, even accounting for a portion of vessels not activating their transponders (Figure 1). Despite the tanker tracking data, there have been some reports that as much as half of pre-conflict oil volumes are currently transiting the strait. Looking at oil prices, it would appear that a decent amount of normalization is priced in, though Iran’s continued desire to fully control traffic through the strait hints at the potential for at least some volatility around this dynamic moving forward.

In a much-anticipated event, Kevin Warsh assumed office as Chair of the U.S. Federal Reserve (The Fed) in late May, succeeding Jerome Powell, who remains a voting member of the Board of Governors. **Against a backdrop of persistent inflation and hot economic reports, Chair Warsh quickly broke away from his**

predecessor’s practice of providing forward guidance, effectively removing the traditional roadmap for financial market expectations. Essentially, markets must now interpret economic data and its influence on future Fed actions more independently. These shifts led to a swift recalibration of near-term rate outlooks, with market participants pricing out rate cuts and instead adding a potential hike to their forecasts.

To find clues regarding the future path of inflation, the views of supply chain executives on input prices can be instructive. Service components carry a greater weight within the Consumer Price Index (CPI), and focusing on the services prices paid component of recent ISM surveys does not signal immediate relief, as readings remain pinned above the 50 expansion threshold (Figure 2). With that said, the most recent labour update signaled slower job growth which may reduce the likelihood of Fed tightening should it persist.

Echoing trends from recent periods, AI continues to be a vital driver of economic expansion. AI-related business investments contributed materially to U.S. first-quarter GDP growth, while multi-billion-dollar capital expenditure hikes from tech giants signal an intensifying infrastructure buildout. We analyze these dynamics further in the Equity Markets section, noting that Canadian-focused AI investment plans have also started scaling up, though they are doing so from a much lower baseline.

As we go to print, the situation in the Middle East has escalated to levels unseen since the signing of the MOU. We do not expect a return to full combat operations, though each side seems eager to project strength. While prior episodes were ultimately defused by high economic stakes, current events highlight that geopolitical stabilization is rarely free of disruptive setbacks.

FIGURE 1: TRAFFIC IN STRAIT OF HORMUZ SLOWLY CLIMBING

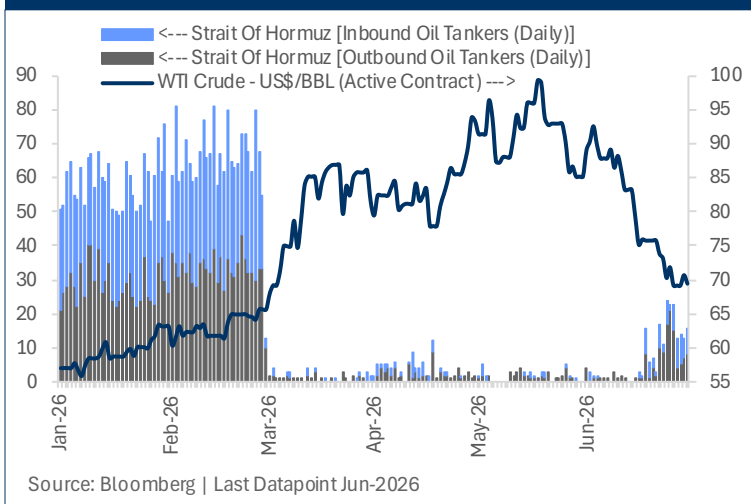
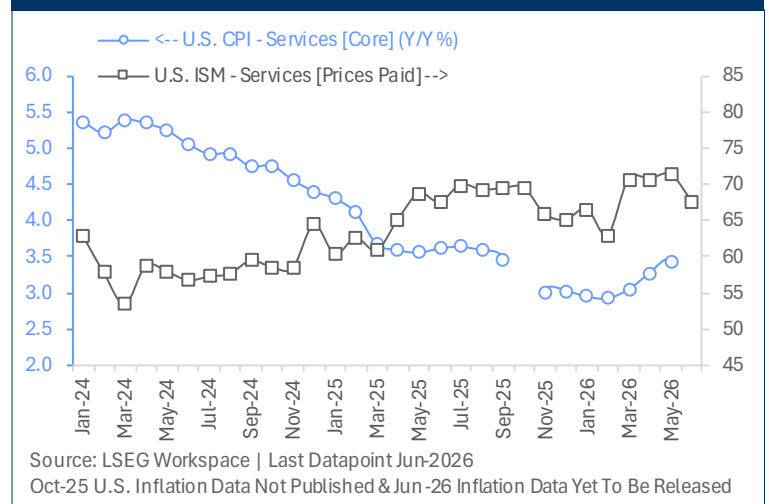


FIGURE 2: SURVEYS STILL IMPLY SOME INFLATIONARY PRESSURE



EQUITY MARKETS | EXPECTING EARNINGS GROWTH COULD BROADEN FROM HERE

Equity Index Returns

	2Q26 (CAD)	2Q26 (USD)	YTD26(CAD)	YTD26(USD)
Global (Net)	15.6%	13.8%	13.5%	9.7%
Canadian	7.0%		11.2%	
CDN Small Cap	5.9%		18.0%	

Equities posted a strong rally in the second quarter, with positive contributions from a majority of sectors. Global markets were led by a standout showing from technology shares, where areas benefiting from the accelerated adoption and buildout of AI, including semiconductors and memory, fared best. Financials highlighted the Canadian markets, driven by a stellar performance across the banking sector. The industry benefited from major tailwinds, including a strong earnings season, robust capital markets, and a regulatory easing of capital requirements. Underperforming the broader indices, commodity-linked sectors faced headwinds from a stronger U.S. dollar and easing supply constraints, highlighted by progress toward reopening the Strait of Hormuz.

BIM EQUITY FRAMEWORK

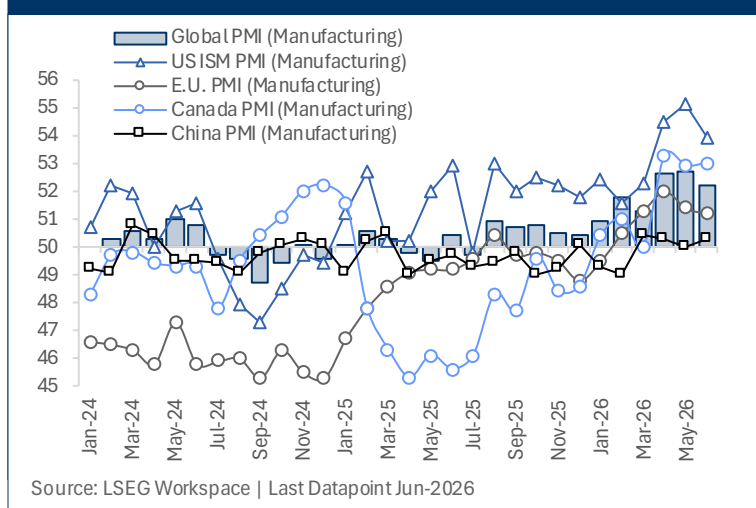
Looking ahead, we expect the breadth of earnings growth to become an increasingly important theme for equity markets.

For the past eighteen months, companies routinely delayed capital spending amid tariff uncertainty and heightened geopolitical tensions. As these headwinds ease, improving manufacturing activity and stabilizing economic indicators should pave the way for more synchronized global and sectoral earnings growth (Figure 3). Furthermore, if growth rates for AI structural winners decelerate faster than expected, we could see a broader market rotation into economically sensitive sectors and select small- and mid-cap companies.

GLOBAL MARKETS

The global equity rally broadened during the second quarter, though leadership remained highly dependent on sector and sub-sector fundamentals rather than uniform industry gains. While AI remains a dominant long-term investment theme, market participation has expanded significantly. AI-related capital spending is broadening out to include supply-constrained compute semiconductors, memory, equipment, power infrastructure, networking, and select industrial automation companies. At the same time, improving economic expectations are driving a cyclical recovery. Conversely, higher interest rate expectations continue to pressure housing and other rate-sensitive sectors, limiting their participation in the broader rally.

FIGURE 3: MANUFACTURING UPSWING CONTINUES



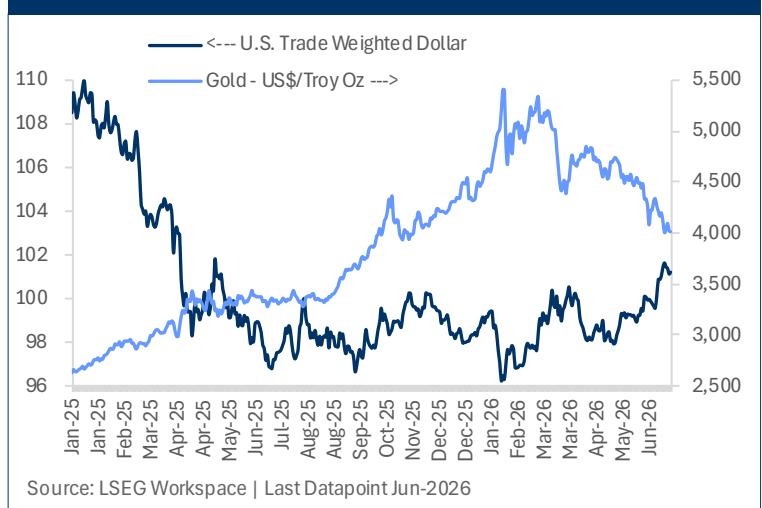
Performance dispersion within sectors remained unusually wide. The Magnificent Seven generated strong earnings growth, though returns decoupled as investors prioritized valuation, monetization timelines, and capital allocation discipline. Regionally, U.S. equities benefited from superior earnings growth and secular AI investment, while European markets outperformed in several cyclical sectors on stabilizing manufacturing activity and attractive valuations. This widening opportunity set created a more constructive environment for active management than the concentrated leadership seen last year. This backdrop favors small-cap industrial and automation firms like Regal Rexnord, where a recovery in residential markets and manufacturing activity should combine with structural AI trends to accelerate earnings growth.

CANADIAN ALL-CAP MARKET

While the U.S. has been the epicenter for data center build-outs, Canada is embarking on its own expansion, driven by a push for data sovereignty, government support, and inherent power and cooling advantages. Reflecting this momentum, Bird Construction recently announced a partnership with Bell as its preferred contractor for a multi-year national build-out under the Bell AI Fabric strategy. Marking the first project under this long-term agreement, Bird will serve as lead construction partner for the Sherwood, Saskatchewan facility, with phase one expected to be operational in 2027. In another major development for the sector, Meta announced a landmark 1 GW data center north of Edmonton. The tech giant secured a dedicated tolling arrangement with Pembina's Greenlight Electricity Centre alongside a long-term power supply agreement with Capital Power to support the site. We expect more news flow on this topic as the year progresses.

Independent supply and demand dynamics always matter, though a strengthening U.S. dollar historically creates headwinds across the commodities complex. Within precious metals, gold has felt this pressure acutely since the greenback bottomed in late January. This specific currency dynamic is discussed further in the Canadian Small-Cap commentary that follows (Figure 4). This macro pressure also extended to the energy sector during the quarter, where prices softened as transit disruptions in the Middle East eased. Despite these broader commodity headwinds, positive headlines regarding potential long-term egress options for Canadian producers provided a bright spot. Most recently, the federal government effectively co-sponsored a potential 1 million bbl/d West Coast oil pipeline utilizing the existing TMX right-of-way. While much needs to fall into place for the concept to materialize, the initial spirit of cooperation between interested parties is encouraging.

FIGURE 4: A STRONG U.S. DOLLAR CAN PRESSURE COMMODITIES



CANADIAN SMALL-CAP MARKET

The strong start to 2026 continued into the second quarter. Despite geopolitical upheaval and commodity volatility, Canadian equity benchmarks marched higher. Global oil prices spiked in April as conflicts intensified—boosting energy sector performance following a strong first quarter—before ceding those gains by June as the MOU took effect. Thus, energy equities finished down, reflecting oil markets that swung from intense optimism to unbridled pessimism within a three-month span.

Another key commodity given its weight in Canada—gold—also had a bumpy ride. After peaking in January, with related equities topping out in February, the precious metal has come under considerable pressure. Driven by higher energy prices, rising inflation expectations and an increased likelihood of interest rate hikes have put a bid under the U.S. dollar, dealing a blow to the "debasement" trade that previously propelled gold higher. Now that the primary driving force behind the small-cap benchmark over the last few years looks fallible, investors are actively broadening out to other areas of the market.

One theme that continues to resonate in 2026 is enthusiasm for companies exposed to the "Build Canada" opportunity, which appears to have multiple years of runway. Secular investment flows and expanding major project backlogs are being driven by a broad range of sectors, including construction, defense, power generation, data centers, the space economy, and Arctic development. Many small-cap industrial names in your portfolio sit in the sweet spot of these tailwinds, generating strong returns.

FIXED INCOME MARKETS | HAWKISH FED TRANSITIONS AND DOVISH BOC CREATE DIFFERING DYNAMICS

Fixed Income Index Returns		
	2Q26	YTD26
Canadian	2.0%	2.2%

Bond volatility entered the quarter at recent highs driven by geopolitical tensions, before settling at levels well below the 5-year average by mid-year. **Amid differing economic circumstances, North American central bank policies diverged sharply despite unchanged overnight rates.** The Bank of Canada (BoC) maintained a dovish tone in the face of negative GDP growth, mixed consumer data, and unemployment north of 6.5%, pushing Canadian government yields roughly 12 basis points lower across the curve (Figure 5). Conversely, the Fed skewed hawkish during a historic leadership transition from Jerome Powell to Kevin Warsh. Against a backdrop of healthy economic growth and above-target inflation, Chair Warsh marked the start of his tenure by ending forward market guidance and launching five task forces focused on communications, balance sheet reductions, real-time data, AI productivity, and core inflation frameworks. These actions, paired with a dot plot signaling that half of the committee expects a rate hike before year-end, caused short-dated U.S. Treasury yields to surge by 25 basis points or more, while long-dated yields nudged just 4 basis points higher.

Primary market supply remained robust across many sectors, highlighted by record-setting, debut Maple bond offerings from Alphabet and Amazon to fund AI and cloud infrastructure. Despite this heavy issuance, credit spreads tightened universally. AA corporate spreads compressed 2–4 basis points, single-A spreads tightened 1–5 basis points, and BBBs narrowed 3–6 basis points, led by the 5-to-10-year maturity segment. Provincial curves also flattened; long-dated provincial bonds outperformed, tightening 5–10 basis points, while the belly and short end of the curve compressed 2–8 basis points.

BIM EQUITY THESIS SPOTLIGHT

Starbucks (SBUX) is a more recent addition to the global portfolio. We identified it as a classic fallen angel opportunity, believing that temporary operational issues under previous management had overshadowed the company's premium global brand and favorable exposure to a healthy specialty coffee-away-from-home industry segment.

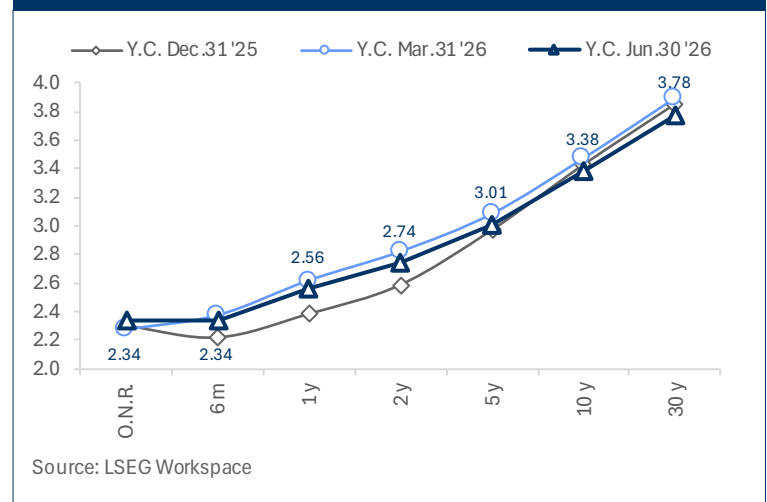
While the brand remained strong, the company had suffered from a confluence of issues including weakening traffic, operational complexity, slower service, margin pressure, and a loss of investor confidence. The turnaround began with the appointment of Brian Niccol as CEO who is a strong restaurant operator with an excellent track record of fixing issues similar to those that Starbucks was facing during his time leading organizations such as Chipotle and Taco Bell. His arrival, together with early signs of execution against the turnaround plan, increased our confidence that Starbucks' challenges were primarily fixable operational issues rather than evidence of a deep-rooted structural decline.

The turnaround strategy is sensible, covering operational improvements along with brand and product initiatives. Key elements include better aligning labor with demand, improving speed of service to help rebuild traffic, and upgrading store aesthetics, while also leveraging traditional strengths like menu innovation to appeal to younger customers. With continued execution of the plan, we expect the shares to unlock significant value as the future prospects for the company become clearer.

BIM FIXED INCOME FRAMEWORK

Portfolio duration remained strictly in line with the benchmark. Tactically, we increased our corporate bond overweight, targeting the mid-curve segment to capture spread compression and incremental yield. While maintaining an overall high-quality profile, we selectively added to BBB exposures where market valuations diverged from underlying credit fundamentals. To fund these corporate allocations, we marginally reduced our provincial exposure, concentrating remaining holdings in the mid- and long-dated segments to harvest term premium. Driven by disciplined liquidity management and rigorous credit assessment, this positioning successfully extracted alpha from relative-value opportunities while preserving capital against market volatility.

FIGURE 5: CANADIAN YIELD CURVE (%)



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