July-August 2026

# Highlights

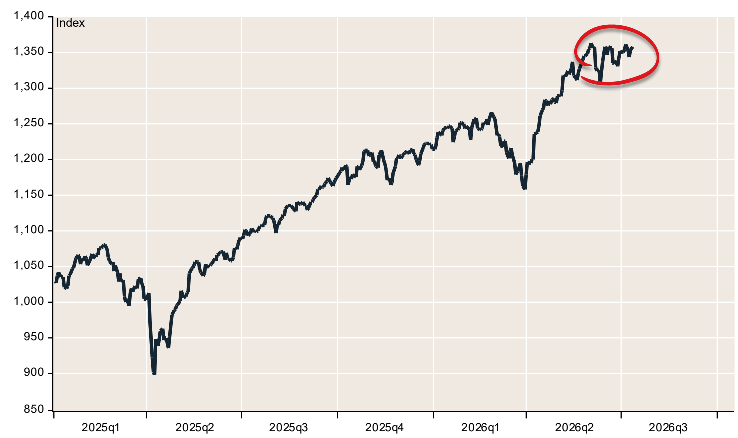
By Stéfane Marion, Matthieu Arseneau and Alexandra Ducharme

- The global equity rally is losing momentum as geopolitical and inflation risks re-emerge. Renewed tensions in the Strait of Hormuz, Russia's diesel export ban and mounting supply-chain pressures are reviving upside risks to inflation and bond yields. With valuations already elevated, markets will increasingly depend on ambitious earnings expectations being delivered.
- U.S. earnings remain supported by the AI investment cycle, but market concentration is becoming harder to ignore. Information Technology earnings estimates have been revised sharply higher, with sector EPS now expected to rise more than 40% over the next 12 months. Yet the growing dependence of the S&P 500 on a narrow group of technology companies leaves the market increasingly vulnerable to any disappointment.
- Canadian banks have surged on expectations of stronger earnings, and the backdrop is becoming more supportive. The yield curve has steepened, prime-age employment has reached a record high, Ottawa has adopted a more pro-growth policy stance and OSFI has eased the Domestic Stability Buffer. These developments should support credit demand and capital deployment, although elevated valuations leave little room for disappointment.
- Our asset allocation remains unchanged, with equities held below benchmark. Markets appear to be pricing in a smooth decline in inflation, lower bond yields, central-bank easing and an orderly unwinding of geopolitical tensions. With core inflation still sticky, risk premiums compressed and earnings expectations ambitious, we believe the risk of higher-for-longer bond yields remains underappreciated.
- We maintain our sector allocation unchanged within Canadian equities. Canadian banks remain supported by a more favourable macroeconomic, policy and regulatory backdrop, while we continue to favour gold, energy and industrials as beneficiaries of heightened geopolitical risks and Canada's reindustrialization. We remain cautious on sectors exposed to slower domestic population growth.

## World: The peace dividend unwinds

The global equity rally has stalled since reaching a record high in early June. Renewed U.S.–Iran tensions in the Strait of Hormuz have marked the unravelling of a ceasefire agreed less than two weeks earlier, reintroducing a geopolitical risk premium into global markets (chart).

**World: Equity rally loses momentum**
MSCI ACWI




NBC Economics and Strategy (data via Bloomberg)

Not surprisingly, the loss of momentum in global equity markets has been widespread, with Emerging Asia hit particularly hard early in Q3. Even so, it remains the best-performing region year to date, with gains exceeding 25% (table).

**World: A broad-based stall**
MSCI price change (in %)

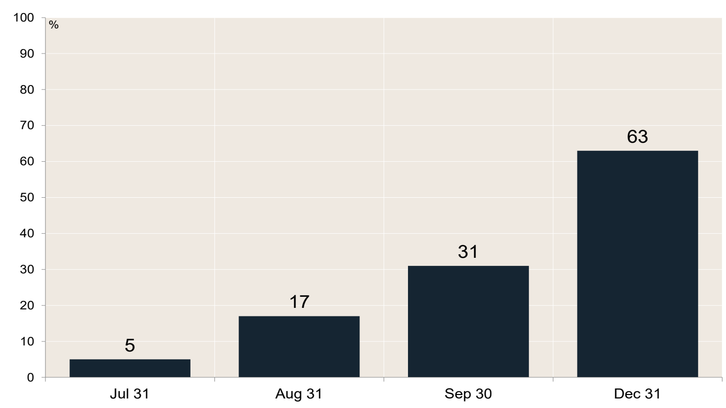
| | Month to date | Quarter to date | Year to date |
|---|---|---|---|
| MSCI ACWI | 0.4 | 0.4 | 11.8 |
| MSCI World | 0.8 | 0.8 | 10.5 |
| MSCI USA | 1.0 | 1.0 | 10.6 |
| MSCI Canada | 1.5 | 1.5 | 11.8 |
| MSCI Europe | -0.5 | -0.5 | 7.9 |
| MSCI Pacific ex Jp | 2.2 | 2.2 | 5.0 |
| MSCI Japan | 0.6 | 0.6 | 19.6 |
| MSCI EM | -2.2 | -2.2 | 22.8 |
| MSCI EM EMEA | 1.3 | 1.3 | 1.8 |
| MSCI EM Latin America | 2.1 | 2.1 | 7.0 |
| MSCI EM Asia | -2.9 | -2.9 | 27.6 |

7/10/2026

NBC Economics and Strategy (data via Refinitiv)

More importantly, the disruption may not prove short-lived. Betting markets suggest there is little prospect of traffic through the Strait of Hormuz returning to normal before the fall (chart).

**World: Normalization unlikely before fall**
Polymarket probability of traffic through Hormuz returning to normal (as of July 12)




NBC Economics and Strategy (data via Polymarket)

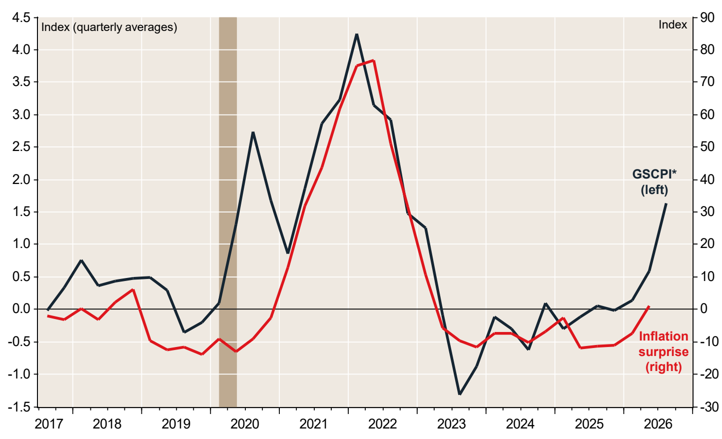
The attacks in the Strait of Hormuz were followed on July 8 by a reminder that another energy-sensitive conflict is still unfolding. Russia's one-month ban on diesel exports, announced amid intensifying Ukrainian drone attacks on its refineries, added to supply concerns in a market already unsettled by uncertainty around Middle Eastern oil flows. That matters: Russia accounts for roughly 10% of global diesel supplies. The price response was sharp, with U.S. ultra-low sulfur diesel futures jumping 11.6%, their largest daily gain in four years[1]. In a tight diesel market, disruptions abroad can still tighten domestic balances, lift consumer prices and revive inflation concerns (chart).

**World: Energy prices back in focus**
Price of WTI and U.S. diesel retail price (national average)


NBC Economics and Strategy (data via EIA and Refinitiv)

Recent developments in refined oil products will only intensify strains on global supply chains, which reached their highest level since 2022 in Q2 2026. This points to renewed upside risks to inflation in the coming months (chart).

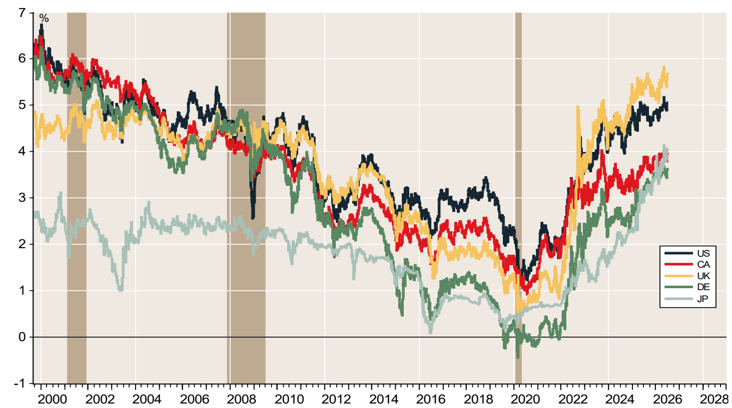
**World: Global supply chains under strain**
NY Fed Global Supply Chain Pressure Index (GSCPI) vs. CITI global inflation surprise index




* Advanced by one quarter
NBC Economics and Strategy (data via the New York Fed)

Potential upside surprises on inflation, combined with a surge in sovereign bond issuance as governments ramp up infrastructure and defence spending, hardly point to lower government bond yields (see our latest **Fixed Income Monitor**). This is especially true with borrowing costs already at generational highs in countries such as the United States, the United Kingdom and Japan (chart).

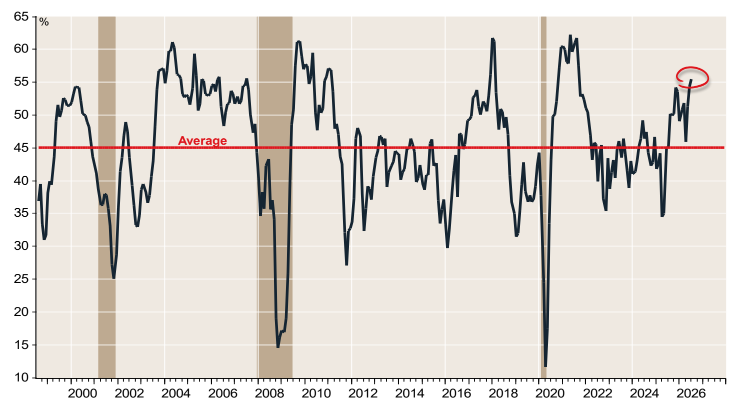
**World: Bond yields at a generational highs**
30-year bond yield: Canada, US, UK, Japan and Germany




NBC Economics and Strategy (data via Refinitiv)

Against this backdrop—and with the equity risk premium already very low, as we argued last month—earnings growth will be critical in determining the direction of global equities. For now, the earnings backdrop remains constructive: upward revisions rose to 55% of total revisions in early July, the broadest positive diffusion since the COVID recovery and well above the historical average of 45% (chart).

**World: Broadest earnings upgrade cycle since the COVID recovery**
Upward revisions as a share of total earnings revisions* for the MSCI ACWI




* Monthly average
NBC Economics and Strategy (data via Refinitiv)

This broadening optimism is reflected in increasingly ambitious earnings expectations. EPS growth of more than 20% is projected for most major regions in 2026, while Europe and Japan are expected to post gains of 17% and 14%, respectively (table).

**World: EPS growth above 20% expected across many regions**
EPS growth: Trailing results and forward estimates

| | 2025 | 2026 | 2027 | 2028 | 12 months forward |
|---|---|---|---|---|---|
| MSCI ACWI | 10.1 | 27.8 | 17.6 | 12.5 | 21.2 |
| MSCI World | 10.1 | 22.0 | 16.2 | 13.0 | 18.3 |
| MSCI USA | 14.0 | 24.6 | 19.3 | 14.7 | 21.2 |
| MSCI Canada | 15.5 | 25.7 | 8.6 | 7.2 | 14.5 |
| MSCI Europe | -0.4 | 17.3 | 10.4 | 10.3 | 13.1 |
| MSCI Pacific ex Jp | 7.5 | 68.2 | 25.0 | 10.2 | 37.6 |
| MSCI Japan | 0.0 | 13.8 | 14.8 | 12.7 | 13.6 |
| MSCI EM | 10.4 | 61.5 | 23.7 | 10.4 | 35.2 |
| MSCI EM EMEA | 17.0 | 21.9 | 12.4 | 6.5 | 15.3 |
| MSCI EM Latin America | -0.1 | 28.9 | 4.6 | 7.0 | 13.3 |
| MSCI EM Asia | 10.7 | 74.3 | 27.4 | 11.2 | 41.0 |

7/10/2026
NBF Economics and Strategy (data via Refinitiv)

[1] See **here**

In the United States, much of the expected EPS growth of more than 20% will hinge on the performance of the Information Technology sector, which now accounts for 38% of the S&P 500 and sits at the heart of the AI industrial revolution. Twelve-month EPS growth expectations for the sector have been revised upward by a record 14 percentage points over the past three months, including six percentage points in the past four weeks alone (table).

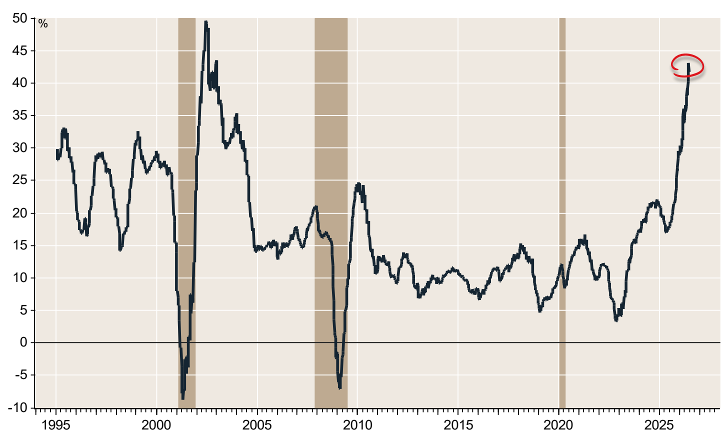
**S&P 500: Record EPS upgrades for Information Technology**
One- and three-month revisions to 12-month EPS growth expectations by sector*

| | 3-month change | | 1-month change | | 1-month diffusion (% up) | |
|---|---|---|---|---|---|---|
| | 3-month change | 10 year historical average | 1-month change | 10 year historical average | 1 month diffusion | 10 year historical average |
| S&P 500 | 7.3 | 0.0 | 2.1 | 0.0 | 61% | 50% |
| ENERGY | 26.6 | 1.6 | 0.2 | 0.0 | 47% | 49% |
| MATERIALS | 7.4 | -0.8 | 0.4 | -0.3 | 58% | 44% |
| INDUSTRIALS | 1.5 | -2.2 | 0.3 | -0.7 | 74% | 51% |
| CONS. DISC. | 2.7 | -1.3 | -0.2 | -0.5 | 42% | 47% |
| CONS. STAP. | -0.1 | -0.7 | -0.1 | -0.2 | 44% | 44% |
| HEALTH CARE | -0.6 | -0.5 | 0.0 | -0.2 | 52% | 50% |
| FINANCIALS | 1.1 | 0.1 | 0.4 | 0.1 | 76% | 54% |
| IT | 14.9 | 1.5 | 6.0 | 0.5 | 72% | 55% |
| TELECOM | 7.4 | 0.1 | 0.3 | 0.1 | 56% | 44% |
| UTILITIES | 0.3 | -0.1 | 0.0 | 0.0 | 59% | 51% |
| REAL ESTATE | 1.6 | NA | 0.4 | NA | 57% | NA |

* Percentage points
NBF Economics and Strategy (data via Refinitiv)

Following these revisions, EPS for the Information Technology sector is now expected to rise 42% over the next 12 months—the strongest growth forecast since expectations approached 50% in 2002 (chart).

**S&P 500: IT earnings growth expected to exceed 40%**
Twelve-month EPS growth expectations for the S&P 500 Information Technology sector

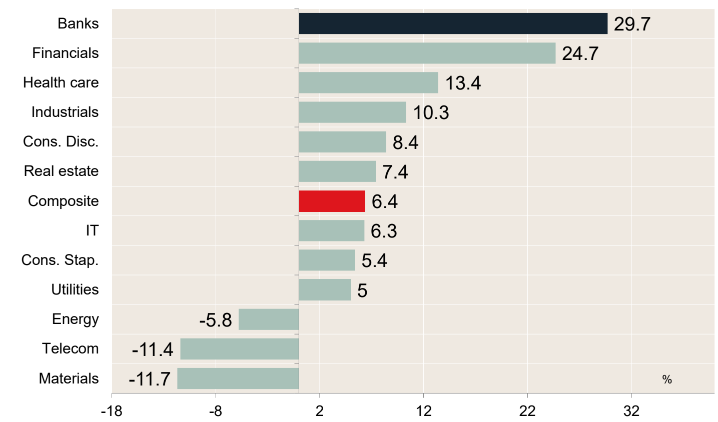



NBC Economics and Strategy (data via Refinitiv)

## S&P/TSX: Banks surge

The S&P/TSX continued to advance in early July following a strong second quarter, when the Canadian benchmark gained 6.4%, lifting its year-to-date return to 9.9%. Leadership came from Financials, which account for 36% of the index's market capitalization, with banks alone representing 25%. The sector surged 29.7% during the quarter, helping offset double-digit declines in Telecommunications and Materials (chart).

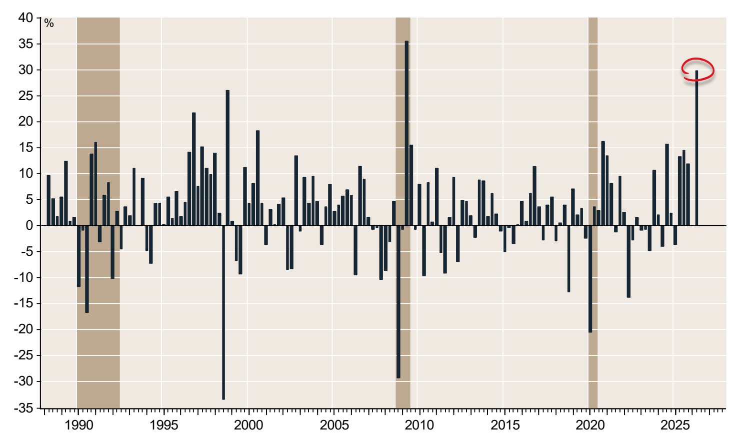
**S&P/TSX: Financials take the lead in Q2**
Price performance in Q2, percentage points




NBC Economics and Strategy (data via Refinitiv)

The performance of banks in Q2 was nearly historic, surpassed only by the 35.5% rebound in Q2 2009 following the losses sustained during the global financial crisis (chart).

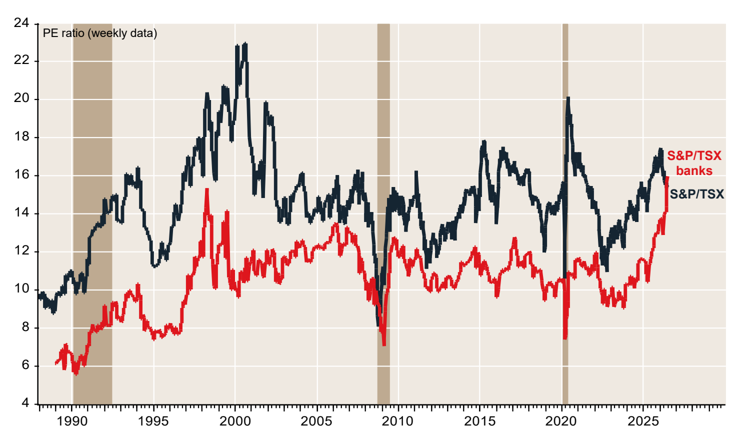
**S&P/TSX Banks: Second-best quarter on record in Q2**
Quarterly performance of the S&P/TSX Bank




NBC Economics and Strategy (data via Refinitiv)

This massive rally has pushed the forward P/E ratio for Canadian banks to 16 times earnings, its highest level since the late 1980s. For the first time on record, the sector now trades at a higher multiple than the overall S&P/TSX Index (chart).

**S&P/TSX: Banks trade at a record premium**
Twelve-month forward P/E ratios: S&P/TSX Index versus S&P/TSX Banks*




*As per Datastream
NBC Economics and Strategy (data via Refinitiv)

So what is driving investors' appetite for bank stocks? The prospect that earnings will outperform expectations. At present, 12-month EPS growth for banks is projected at just 11%, among the weakest of any sector outside Telecommunications and well below the 18% expected for the S&P/TSX overall (table).

**S&P/TSX: Earnings growth across sectors**
EPS growth: trailing results and forward estimates

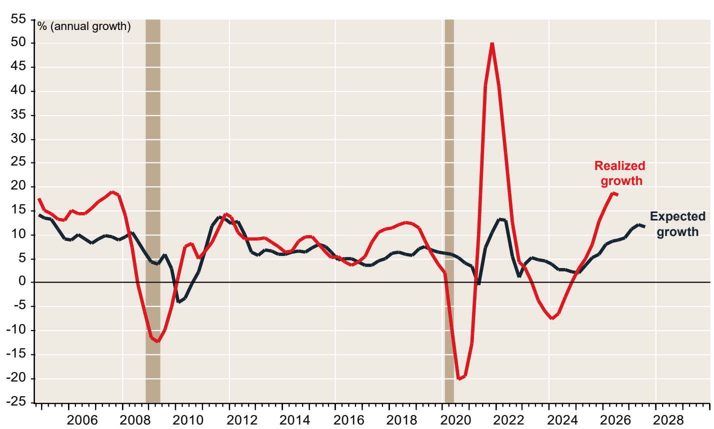
| | Earnings per share | | | | | EPS % growth | | |
|---|---|---|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 12m Trail. | 12m Forw. | 2026 | 2027 | 12m Forw. |
| S&P TSX | 1626 | 2119 | 2354 | 1924 | 2264 | 30 | 11 | 18 |
| ENERGY | 189 | 286 | 280 | 246 | 282 | 52 | -2 | 15 |
| MATERIALS | 303 | 554 | 655 | 449 | 612 | 83 | 18 | 36 |
| INDUSTRIALS | 242 | 271 | 315 | 258 | 296 | 12 | 16 | 15 |
| CONS. DISC. | 210 | 238 | 271 | 225 | 256 | 13 | 14 | 14 |
| CONS. STAP. | 526 | 571 | 634 | 546 | 601 | 8 | 11 | 10 |
| HEALTH CARE | 9 | 12 | 12 | 11 | 12 | 34 | -1 | 11 |
| FINANCIALS | 388 | 434 | 481 | 421 | 467 | 12 | 11 | 11 |
| BANKS | 426 | 492 | 542 | 475 | 530 | 15 | 10 | 11 |
| IT | 29 | 38 | 47 | 35 | 43 | 32 | 21 | 25 |
| TELECOM | 84 | 83 | 87 | 83 | 85 | -2 | 5 | 2 |
| UTILITIES | 109 | 134 | 153 | 123 | 145 | 23 | 14 | 18 |
| REAL ESTATE | 98 | 186 | 238 | 150 | 216 | 91 | 28 | 44 |

7/10/2026 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

That may well prove to be the case, but the 11% growth forecast still sits well above the 7.5% average of the past decade. The key question is whether banks can exceed expectations in a year when Canada's population is projected to decline for a second consecutive year.

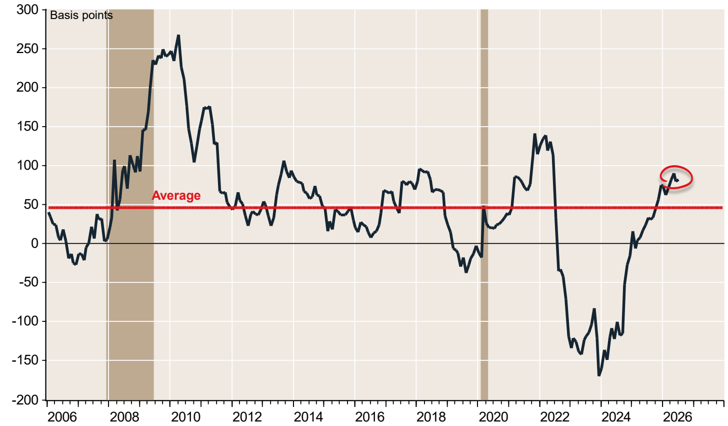
**S&P/TSX Banks: Can earnings beat elevated expectations?**
Realized and expected annual growth in earnings, quarterly data




NBC Economics and Strategy (data via Refinitiv)

Fortunately, several factors should help offset the demographic drag, which remains concentrated among international students who tend to have relatively limited exposure to domestic credit markets. For one, the yield curve has steepened this year and remains roughly 40 basis points steeper than its historical average, providing support to bank profitability (chart).

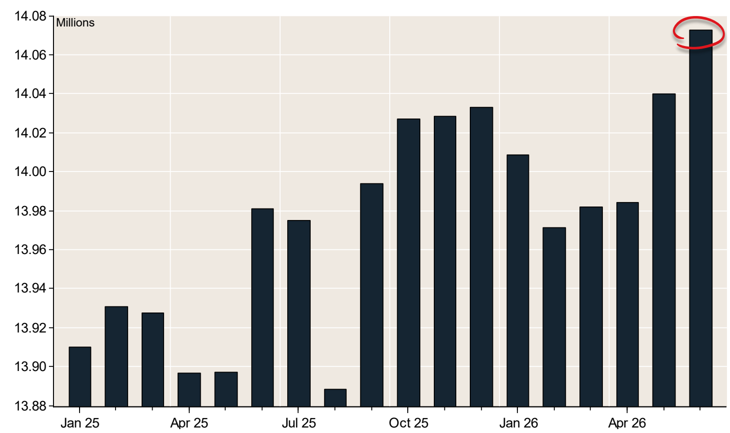
**S&P/TSX Banks: Yield curve remains historically steep**
Canada 5-year government bond yield less 3-month Treasury bill yield




* Monthly average
NBC Economics and Strategy (data via Refinitiv)

Second, the economic backdrop is improving. GDP growth appears to be rebounding and is on track to expand by 2% or more, providing an important foundation for renewed job creation. Employment among prime-age workers—those aged 25 to 54—has surged by 88,000 over the past two months, reaching a record 14.1 million in June (chart).

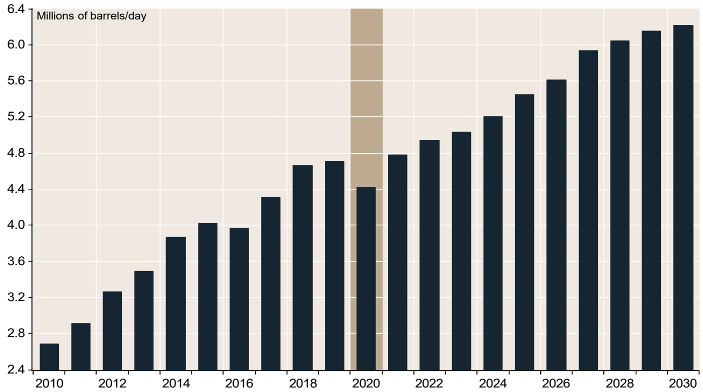
**Canada: Prime-age employment reaches a record high**
Employment among workers aged 25 to 54




NBC Economics and Strategy (data via Statcan)

Third, and not least, Ottawa's policy stance has turned decidedly more pro-growth in recent months. The launch of a new National Electricity Strategy—aimed at doubling Canada's grid capacity by 2050 and, critically, recognizing natural gas as a transition fuel—has already been followed by the country's first large-scale data-center announcement: a 932-megawatt project near Edmonton. On July 2, the federal government also advanced its ambition to make Canada an energy superpower by approving a new oil pipeline capable of transporting one million barrels per day of bitumen from Alberta to British Columbia for export to Asian markets. According to NBC's Energy Research team, Canada's crude oil production is already on track to increase by more than 10% over the next five years (chart).

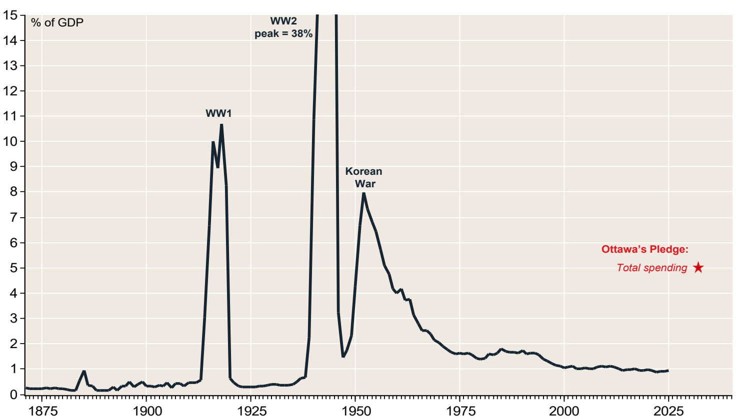
**Canada: Oil production to rise more than 10%**
Canadian crude oil production (annual average)




NBC Economics and Strategy (data via NBC Energy Group)

Together with a new procurement agenda focused on rebuilding Canada's defence sector through domestic reindustrialization, these initiatives could materially strengthen business investment and revive FDI inflows. That would be decidedly bullish for Canadian capital markets and, by stimulating credit demand, deal activity and broader economic growth, positive for bank earnings.

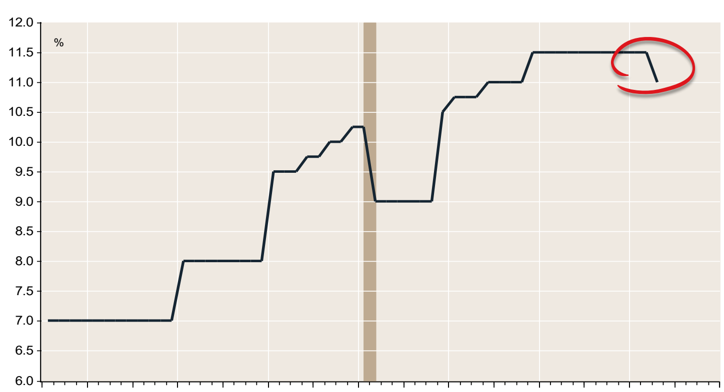
**Canada: "Reindustrialization through Defense"**
Defence spending as a share of GDP




NBC Economics and Strategy (data via Statcan and NBER)

Finally, the regulatory backdrop has also become more supportive. OSFI's recent 50-basis-point reduction in the Domestic Stability Buffer gives Canada's largest banks greater flexibility to deploy capital toward lending, investment or shareholder distributions—another potential tailwind for earnings and valuations.

**Canada: OSFI provides banks greater flexibility to deploy capital**
CET1 capital requirement*




* CET1 capital requirement = Minimum requirement + capital conservation buffer + D-SIB surcharge + Domestic Stability buffer

NBC Economics and Strategy (data via OSFI)

## Asset allocation

Our asset allocation remains unchanged this month, with equities still held below benchmark. Markets appear to be pricing in a relatively smooth decline in inflation, lower bond yields, a gradual easing cycle by major central banks and an orderly unwinding of geopolitical tensions. Yet core inflation remains sticky, equity risk premiums are compressed and earnings expectations remain ambitious. Uncertainty surrounding a new USMCA framework could also slow Washington's reindustrialization agenda, prolong supply constraints and add to inflationary pressures. In that environment, central banks—particularly the Fed—may remain more hawkish than investors expect, keeping interest rates higher for longer.

| NBC Asset Allocation | Benchmark (%) | NBC Recommendation (%) | Change (pp) |
|---|---|---|---|
| **Equities** | | | |
| Canadian Equities | 20 | 21 | |
| U.S. Equities | 20 | 20 | |
| Foreign Equities (EAFE) | 5 | 3 | |
| Emerging markets | 5 | 3 | |
| **Fixed Income** | 45 | 48 | |
| **Cash** | 5 | 5 | |
| **Total** | 100 | 100 | |

*NBC Economics and Strategy*

## Sector rotation

We maintain our sector allocation unchanged within Canadian equities. Despite the banks' spectacular recent performance and elevated valuations, we do not believe this is the right time to reduce their weighting in our benchmark portfolio. While expectations have become more demanding, the macroeconomic and regulatory backdrop has also become increasingly supportive. Banks continue to benefit from the ongoing economic recovery, a steep yield curve, a more business-friendly environment following the political shift in Ottawa, and OSFI's decision to lower the Domestic Stability Buffer, thereby adopting a more accommodative macroprudential stance.

We recommend above-benchmark exposure to energy and industrials. These sectors are well positioned to benefit from Ottawa's renewed focus on resource development and reindustrialization. We are particularly encouraged by the new National Electricity Strategy (NES) and the recently announced pipeline on the West Coast, which signals a more pragmatic approach on the energy front. In addition, we also remain overweight materials, including gold equities. While the yellow metal has certainly lost some of its luster since the start of the year, we believe the recent pullback has brought it toward the lower end of our $4,000–$6,000 target range. We continue to see gold as an attractive hedge against heightened geopolitical uncertainty, persistent inflation risks and ongoing fiscal expansion globally.

That said, the demographic policy is likely to temper demand growth in domestic oriented sectors—including real estate, consumer discretionary, consumer staples, and communication services—which remain underweight in our portfolio. As population growth moderates, these sectors are likely to face softer demand dynamics.

## NBC Market Forecasts

| NBC Market Forecast *Canada* | | | |
|---|---|---|---|
| | | ***Actual*** | ***Q4 2026*** |
| ***Index Level*** | | **Jul-10-26** | ***Target*** |
| S&P/TSX | | 35,305 | 35,700 |
| ***Assumptions*** | | | Q4 2026 |
| Level: | Earnings * | 1924 | 2000 |
| | Dividend | 758 | 788 |
| PE Trailing (implied) | | 18.4 | 17.9 |

** Before extraordinary items, source Thomson*

*NBC Economics and Strategy (data via Refinitiv)*

| NBC Market Forecast *United States* | | | |
|---|---|---|---|
| | | ***Actual*** | ***Q4 2026*** |
| ***Index Level*** | | **Jul-10-26** | ***Target*** |
| S&P 500 | | 7,575 | 7,700 |
| **Assumptions** | | | Q4 2026 |
| *Level:* | Earnings * | 307 | 315 |
| | Dividend | 81 | 83 |
| PE Trailing (implied) | | 24.7 | 24.4 |

** S&P operating earnings, bottom up.*

## NBC Fundamental Sector Rotation

**Fundamental Sector Rotation - July/August 2026**

| Name (Sector/Industry) | Recommendation | S&P/TSX weight |
|---|---|---|
| **Energy** | **Overweight** | **16.6%** |
| Energy Equipment & Services | Overweight | 0.2% |
| Oil, Gas & Consumable Fuels | Overweight | 16.5% |
| **Materials** | **Overweight** | **15.8%** |
| Chemicals | Underweight | 1.0% |
| Containers & Packaging | Market Weight | 0.3% |
| Metals & Mining * | Overweight | 14.3% |
| Gold | Overweight | 11.0% |
| Paper & Forest Products | Market Weight | 0.2% |
| **Industrials** | **Overweight** | **10.6%** |
| Capital Goods | Overweight | 3.1% |
| Commercial & Professional Services | Market Weight | 2.7% |
| Transportation | Overweight | 4.8% |
| **Consumer Discretionary** | **Underweight** | **3.1%** |
| Automobiles & Components | Market Weight | 0.5% |
| Consumer Durables & Apparel | Underweight | 0.3% |
| Consumer Services | Underweight | 0.7% |
| Retailing | Underweight | 1.5% |
| **Consumer Staples** | **Underweight** | **3.2%** |
| Food & Staples Retailing | Underweight | 2.9% |
| Food, Beverage & Tobacco | Underweight | 0.3% |
| **Health Care** | **Market Weight** | **0.3%** |
| Health Care Equipment & Services | Market Weight | 0.3% |
| Pharmaceuticals, Biotechnology & Life Sciences | Market Weight | 0.1% |
| **Financials** | **Market Weight** | **36.3%** |
| Banks | Market Weight | 25.4% |
| Diversified Financials | Market Weight | 3.7% |
| Insurance | Market Weight | 7.1% |
| **Information Technology** | **Market Weight** | **7.4%** |
| **Communication Services** | **Underweight** | **1.6%** |
| **Utilities** | **Market Weight** | **3.6%** |
| **Real Estate** | **Underweight** | **1.4%** |

** Metals & Mining excluding the Gold Sub-Industry for the recommendation.*

## Economics and Strategy

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