Quarterly Commentary

Q2 2026

ABOUT-FACE

For lack of a more eloquent metaphor, Q2's equity markets seemed reminiscent of a proverbial duck on water—a self-satisfied calmness on the surface belying a frenetic churn underneath.

Much of the quarter remained defined by the continuation of the U.S./Israel-Iran conflict, with the promise of a peace deal floated almost daily, yet one which materialized only two weeks before the end of the quarter—and even then, only in tenuous form. The continued closure of the Strait of Hormuz ensured a fifth of the world's oil supply remained shuttered, forcing nations around the world to draw on strategic reserves in an effort to keep energy prices in check and economies functioning. As remarkably successful as these efforts were, where energy prices go, inflation generally follows. Just as consumers and businesses felt the pressure of rising energy costs, so too did central banks and policy makers. Having started the year with broad expectations for further interest-rate cuts and relative price stability, policy makers the world over were forced to contend with another unwelcome inflationary shock. Having just spent years fighting the post-COVID inflation surge, their focus once again shifted to the prospect of hiking rates to keep prices under control, all while questioning just how long the self-inflicted energy crisis might last.

Meanwhile, the unfettered race to build artificial intelligence (AI) infrastructure continued in Q2. As in Q1, the so-called U.S. hyperscalers (Amazon, Alphabet, Microsoft, Oracle, Meta, and now SpaceX) all announced massive increases to their capital spending (capex), committing hundreds-of-billions more to the buildout throughout the latter half of the year. Of course, along with such announcements came equally massive debt issuances to finance that spending. Emblematic of the insatiable need for cash, Google's parent company, Alphabet, completed their first equity financing since 2005, selling a record $80 billion USD of new stock to investors on June 4th. Not one to be outshone, Elon Musk's SpaceX quickly eclipsed that record on June 12th, completing the largest initial public offering (IPO) in history, selling $85.7 billion USD of stock to investors.

While the general themes that characterized the backdrop of Q1 carried over to Q2, market performance did not. Whereas Q1 saw broadening market performance led by a focus on asset-rich companies, a selloff in the technology sector, an international market pressured by a developing energy crisis, and a bond market looking forward to interest-rate cuts. Q2 saw 'old-world', asset-rich stocks give way to a resurgent embrace of everything AI – and even AI in outer space. International markets gained despite a prolonged energy crisis with no clear conclusion in sight. And bond yields surged in the wake of rising inflationary pressures, and massive corporate supply coming to market.

As we enter the latter half of 2026, we discuss our outlook for many of these themes, as well as some closer to home, and what they could hold for investors through the remainder of the year.

GROUND CONTROL TO MAJOR TECH

After a tumultuous Q1—characterized by investors' wariness over the disruptive nature of AI and a gravitation towards businesses appearing to be insulated from such disruption—the technology sector was back in vogue in Q2. Indeed, the enthusiasm for all things AI pushed the tech-heavy NASDAQ 100 Index to its second-best quarter since 2001, after having finished down just shy of 7% in Q1. Perhaps symbolic of the reinvigorated appetite for the sector, SpaceX's IPO proved vastly oversubscribed, allowing the company to raise over $10 billion USD more from investors than originally planned. The initial demand was so insatiable the stock traded through 517 million of the total 555 million shares issued to investors on its first trading day alone, and over 2 billion in the first week. This means almost every share issued by the company was bought and sold by investors nearly four times in the first five days of trading. By the company's own prospectus, most of its future opportunity (as much as 90%) lies not in rocket launches, moon bases, or the company's current money-maker—the Starlink satellite business—but AI.

Not only did investors step in to buy stocks, but the market easily digested all the debt it could throw at it, too. Investment-grade bond issuance from the hyperscalers has already exceeded the total for all of 2025, helping to push full-year expectations for total investment-grade corporate issuance above $2 trillion USD for the first time.

Hyperscalers are now expected to spend over $800 billion in 2026, up from ~$450 billion in 2025. Despite being recognized as some of the most efficient cash generators of all time, capex is expected to exceed 90% of operating cashflows in 2026; a staggering increase from ~33% only three years ago. Bloated cash margins and share buybacks had long been touted as some of the most attractive reasons to own major U.S. tech companies. Today, capital is being reinvested at unprecedented levels, compressing margins and forcing companies to re-evaluate their shareholder return strategies. Alphabet, Meta and Amazon have all halted share buybacks, while Microsoft's repurchases have fallen to their lowest level in almost a decade. Meanwhile, debt is increasing, too. Accordingly, these companies are under increasing pressure to prove the long-term payoff investors are being asked to underwrite truly does come to fruition sooner rather than later.

Indeed, while enthusiasm for AI's potential returned in Q2, evidence of investors growing weary of the risks of such massive spending began to show. Whereas the Magnificent Seven dominated markets for the prior three years, year-to-date returns have been comparably modest, as investors have increasingly shifted focus to the benefactors of all that spending. Nowhere has that been more evident than in memory chips. For example, Micron Technology, a U.S. memory chip manufacturer, has seen its shares jump over 250% this year, singlehandedly accounting for more than one-fifth of the total year-to-date return of the S&P 500, according to Bloomberg. Elsewhere, SK Hynix and Samsung Electronics have helped South Korea's KOSPI Index nearly double through the first half of 2026; a remarkable comeback after having been down 19% in the first quarter.

The first-half of 2026 was a volatile one for the AI theme overall. We anticipate this will continue through the back half of the year—and likely beyond. Each of the hyperscalers is vying for the same end goal: to achieve some level of infrastructure dominance to give their business durable, long-term advantages in the development, wide-scale deployment, and use of AI, and thus a bright future for their shareholders. In chasing the same goal, there will naturally be relative winners and losers, not only among the hyperscalers, but also within the broader sphere of companies participating in its buildout and development. Accordingly, we remain cognizant of the risks of overcapitalization in the near- and medium-term, as well as the risks of disruption to established industries and companies. However, we also believe in the productive potential of the technology, and recognize these are the very early stages in the rollout of an enormously powerful tool that will reshape how we interact with the world for years to come. Our strategy has been to maintain exposure to AI momentum and growth, but do so with an awareness of the concentration risks, and with continued overweight to strategies with downside-mitigation mechanisms built in.

ENERGY, INFLATION AND BOND YIELDS

After months of conflict and seemingly endless rhetoric, the U.S. and Iran announced they had agreed to a joint memorandum of understanding (MOU) to immediately end hostilities and re-open the Strait of Hormuz on June 15th. Two days later, President Donald Trump and Iranian President Masoud Pezeshkian formally signed the agreement, commencing a 60-day period during which the two sides will attempt to negotiate a lasting peace deal.

After having been stranded for nearly four months, oil tankers immediately began leaving the Strait, bringing a symbolic end to one of the worst energy crises in history. With Iran seeking to retain greater control over the Strait, ships have faced ongoing hostilities and periodic disruptions. Data around the number of ships trafficking the waterway remains highly variable, with numerous sources placing it somewhere between 30 and 60% of pre-war levels, and fluctuating daily. Nonetheless, flow is certainly improving relative to the stalemate of the last several months and global crude prices have fallen rapidly in response. At the time of writing (July 2nd), the Brent Crude Oil benchmark is trading near $72 USD per barrel, after having remained above $90 USD per barrel for almost 100 days.

While the glut of stranded Gulf oil provides a much-needed release valve to strained global energy markets, the future path for oil prices remains unclear. Approximately 13 million barrels per day of Middle Eastern oil remained shut-in during the crisis, translating to roughly 1.3 billion barrels of cumulative supply kept from the market. To replace that lost production and prevent a cascading price shock, nations around the world, particularly in Asia, drew-down on strategic oil reserves to keep their economies functioning. With emergency supplies now hovering near minimum levels, nations will become natural buyers of oil as they compete to rebuild—and potentially even expand—their strategic reserves in the months and years ahead. Additionally, current Gulf exports represent energy products that had been trapped inside the Strait while the conflict unfolded. Sustaining exports at pre-war levels will be a broader challenge, as shut-in production is brought back online, infrastructure is repaired, confidence around the security of the Strait rebuilds, and shipping logistics normalize. Accordingly, in an environment of elevated geopolitical tensions, and with many nations having a renewed appreciation for energy security, we believe oil prices are likely to remain higher than pre-war levels over the next 1-2 years.

For much of Q2, fading hope for a swift end to the conflict caused inflation expectations to surge on the back of higher oil prices. Indeed, on May 19th, Bloomberg's gauge of the average yield on sovereign debt climbed to its highest level since July 2008. Combined with higher government outlays and record corporate spending, bond yields have moved rapidly higher. Ten-year U.S. treasury yields rose from a low of 3.96% on February 26th, just before hostilities began, to a high of 4.69% on May 19th. Although falling oil prices have helped stem worsening inflation expectations, realized inflation levels have spiked. Canada's Consumer Price Index (CPI) jumped to 3.2% in May, up from 1.8% in February, whereas the U.S. CPI jumped to 4.2% from 2.4% over the same period. This puts central bank policy makers in a difficult position: leave interest rates steady and they risk getting further behind on inflation that could still worsen as high energy prices translate into higher prices of goods and services in the months ahead; raise rates and you risk pressuring borrowers and slowing down the economy in a situation where monetary policy may have minimal ability to affect the actual cause of inflation from the outset—high oil prices. Several major central banks have already been forced to act. On June 11th, the European Central Bank (ECB) raised rates for the first time since 2023, whereas the Reserve Bank of Australia has raised rates three times already in 2026.

Up until the crisis, the U.S. Federal Reserve (the Fed) was widely anticipated to continue cutting interest rates in 2026. President Trump had increasingly lobbied for such cuts, and had nominated new members to the Board of Governors who ostensibly agreed with his views. Those expectations shifted sharply on June 17th, when President Trump's newly crowned Fed Chairman, Kevin Warsh, broadcast a far firmer stance on fighting inflation than many had anticipated, sending the U.S. dollar soaring in response.

With U.S. economic data remaining resilient and energy prices likely to remain in flux, we believe the Fed will bias towards holding rates at current levels for as long as possible. If inflation continues to remain elevated however, they may be forced to increase. Still, we anticipate future moves are likely to be conservative.

Given anemic economic performance, we expect the Bank of Canada to be even more reticent to raise rates, and will similarly bias towards holding rates steady as long as possible.

To help guard against volatility in response to worsening inflation or a weakening economic backdrop, we remain broadly focused on government and investment-grade corporate bonds with maturities of 5 years or less. Quality remains particularly important for corporate bonds, as spreads between government and corporate bond yields continue to be historically tight and susceptible to widening if economic conditions deteriorate.

OH, CANADA

Canada has had a tough start to 2026. Lagging GDP data showed the economy contracted in Q1 for the second consecutive quarter, pushing Canada into a technical recession (defined as two consecutive quarters of negative GDP growth). Growth for the year is now forecast to be just 0.7% versus 1.2% previously. Though much was made about the ‘technical recession’ moniker, there is no doubt the economy has been struggling to gain momentum, despite what is widely regarded as a more business-friendly backdrop. Overall, Canada continues to fight weak business investment, effects of lower immigration levels, and ongoing uncertainty with its largest trading partner, the U.S.

Indeed, just after the quarter, the U.S. announced it would not approve a long-term extension of the Canada-U.S.-Mexico Agreement (CUSMA), a decision which forces it into a rolling annual review process. Though the protections offered by the agreement continue under this framework, inherent uncertainty over its durability could delay both domestic and foreign business investment; the very thing Canada needs more of. Currently, all CUSMA-compliant goods are largely exempt from President Trump's sweeping tariff policies, with steel, aluminum and autos remaining notable exceptions. Formal applications for CUSMA-compliance skyrocketed in the aftermath of last year's tariff announcements. Approximately 90% of Canadian imports to the U.S. are now CUSMA-qualified products, compared to roughly 50% prior to the initiation of tariffs. In that sense, Canada and Mexico remain in an enviable position relative to most other countries. Yet concerns remain over how long that might last, and what the ultimate outcome of ongoing negotiations will be, despite the acknowledged benefits of the agreement to all parties.

April GDP, released just before the close of Q2, provided a rosier outlook for the country, with growth rising 0.5% on the month. The rebound was driven by the energy sector, along with positive growth in construction, manufacturing and real estate. With energy security being one of the leading global risks over the last several months, Canada has an opportunity to market itself as a secure and dependable supplier of not just oil and gas, but a broad spectrum of commodities. Efforts to seize that opportunity should accelerate meaningfully.

Despite the challenging economic backdrop, Canada's equity market has outperformed in the first-half of 2026, with energy, materials and financials leading returns. We remain focused on quality Canadian companies that have a history of paying dividends, and those less susceptible to ongoing trade uncertainty.

MARKET PERFORMANCE

The second quarter of 2026 marked a reversal from the risk-off sentiment that took hold at the start of the year. Following weeks of turmoil surrounding the Iran war, elevated energy prices, and concerns that AI-related capital spending had become excessive, investors began to look through the headlines and grew more confident that peace talks would be finalized and that the massive investment cycle in artificial intelligence remained intact. As a result, equity markets staged a powerful recovery, with the S&P 500 posting its strongest quarterly gain since 2020, rising approximately 14%, while the technology-heavy NASDAQ surged more than 20% during the quarter. The rally was led by semiconductor, infrastructure, and AI-enablement companies as investors refocused on earnings growth, the long-term implications of the AI buildout, and future adoption.

At home in Canada, equities continued to benefit from the momentum established in 2025, with the S&P/TSX Composite Index posting a 11.2% return year-to-date, supported by strength in financials, healthcare and industrials. Given the composition of the Canadian stock market, strong performance from financials did the heavy lifting, as major Canadian banks benefited from strong capital markets, trading and wealth-management operations, and credit deterioration turned out to be more reasonable that many forecasters feared. The sharp pullback in oil prices following the reopening of the Strait of Hormuz weighed on the energy sector at the end of the quarter, softening what has otherwise been a standout sector so far this year.

International equities also rebounded during the quarter, however, performance was highly fragmented regionally. Emerging Markets recovered from a difficult first quarter, aided by renewed strength in semiconductor supply chains across Asia, and improving investor sentiment toward risk assets. The MSCI Emerging Markets Index gained more than 19% during the quarter, driven largely by South Korea and Taiwan, where AI-related demand fueled blowout earnings forecasts for semiconductor manufacturers and suppliers. European equities also participated in the rally, with the Euro Stoxx 50 advancing over 12% during the quarter, finishing the first half of the year up approximately 8%.

Fixed-income markets experienced another volatile quarter as investors balanced easing energy prices against still-elevated inflation and resilient economic growth. Global bond yields moved higher as investors questioned whether central banks could deliver the rate relief widely anticipated earlier in the year. The European Central Bank, the Bank of Japan, and the Reserve Bank of Australia all raised rates during the quarter to combat inflation concerns. Kevin Warsh added to the upward pressure in his first meeting as Fed Chairman when he surprised many in his steadfast commitment to the Fed's 2% inflation target. By quarter-end, the U.S. 10-year Treasury yield remained elevated, hovering around 4.4%-4.5%, reflecting continued uncertainty around the future path for inflation and monetary policy.

Year-to-Date Market Performance (Local Currency, Total Returns)

S&P/TSX Composite Index: 11.2%

S&P 500: 10.2%

NASDAQ: 13.1%

Euro Stoxx 50: 11.7%

Japan Nikkei 225: 40.4%

Shanghai Stock Exchange (SSE) Composite: 4.1%

Data: FactSet as of June 30, 2026

The Griffiths Underdahl Wealth Management team would like to thank you for your business and continued trust in our team. We look forward to continuing to work with you and your family as we help navigate your financial journey with deep knowledge, diverse experience, and commitment on your side. If you have any questions or issues you would like to discuss, we would be happy to receive your call.

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