Market Update

July 2026

Important Topic : The Economic Impact of Data Centers

There has been a lot of talk about Artificial Intelligence (AI) and how it is changing the world. Today I would like to set aside the cultural and personal effects it will have and focus on economics. Specifically, are valuations too high? Are we in a bubble? Is a crash inevitable?

In short, no.

AI requires huge amounts of data and processing power. Both are in short supply, and both are needed at a scale that is astonishing. To meet the current expected needs (and this keeps growing), we are likely going to need to multiply existing capacity several times. For example, current US Data Center capacity is less than 15 gigawatts. There are currently plans for more than 150 gigawatts of new capacity.

The resulting scramble for such scarce resources is what is driving the market.

Each data center requires the purchase of boards, chips, CPUs, capacitors, motors, fans, cooling systems, power generators, cables and much more. The companies that make these parts are seeing their orders increase exponentially. Some have orders that will require all of their output through 2028.

These orders are for real products. This is not theoretical. Actual products are being made and paid for. The result is real and growing profits/earnings.

Earnings are growing faster than the stock prices. A bubble would be the reverse, whereby investors bid up prices faster than the growth in earnings on the assumption (hope) that the necessary level of earnings will emerge.

In July we saw a few episodes of “profit-taking in the AI-related stocks and data center-related stocks”, which meant their prices fell. But looking at the earnings, one could describe such times as opportunities to buy inexpensive growth stocks. Our managers are looking at this carefully.

The negative media (redundant?) thinks AI is becoming a bubble and that it is going to lead to a financial crisis. We do not see much merit in this argument.

For example, Micron Technology, Inc. (MU) is trading at 7.4 times forecasted 2027 earnings. NVIDIA Corporation (NVDA) is trading at 15.4 times forecasted 2027 earnings. These are low multiples for companies in general and are very low for companies experiencing very high growth rates.

It is possible that those paying for all of this equipment find, in a few years from now, that they over expanded. They may find it difficult to turn all of their investments into profits. Maybe. Maybe not. But in the meantime, real profits are being made off of real products.

TD Wealth

While AI's biggest beneficiaries have so far been the large technology companies building the infrastructure, evidence is emerging that AI is creating measurable value across a wide range of industries. Our friend Kai Wu of Sparkline Capital has done a deep dive into corporate AI adoption, analyzing earnings calls to identify companies reporting quantifiable returns on their AI investments. His research shows that businesses across industries are already seeing benefits through improved productivity, lower costs, increased sales, and operational efficiencies. Below are a few real examples of companies benefiting from AI adoption.

Exhibit 4

AI-Driven ROI Examples

ESTÉE LAUDER	AI has driven a 31% increase in ROI from our North America media campaigns	Public Storage	[AI staffing] has reduced labor hours by more than 30%, while also lowering turnover
UnitedHealthcare	The average ROI for any provider system investing in Crimson AI has been 13:1	RTX	Proprietary digital AI tools … [have] contributed to output more than doubling
ADIENT	$60 million in AI… on a run rate basis, that will yield almost $40 million in savings	BANK OF AMERICA	We have 17,000 programmers using AI coding… saving 10% to 15% in code generation costs
Meta	[AI has] driven roughly 5% more ad conversions on Instagram and 3% on Facebook	C.H. ROBINSON	AI has enabled us to respond to more quotes and win more business
PHILIPS	In customer support, our AI agents … [have reduced] support costs by 80%	Pfizer	We expect … $500 million in [R&D] savings [from AI] to be realized by the end of 2026
TARGET	Autonomous inventory robots … [have cut] the time required to pick an item by over 45%	ING	We are investing in digitizing KYC and also get this supported with AI and GenAI

Source: S&P, Sparkline. As of 12/31/2025.

While AI adoption is still in its early stages, the number of companies reporting tangible economic gains continues to grow, suggesting AI's impact may extend far beyond the technology sector.

In many ways we are living through a very special time. The earnings environment is stunning and there is real activity underpinning it all. We could be positioned for continued market appreciation.

Market Update – July 2026

Markets were volatile during July as they reacted to world events and changing views on the impact of building out the number of needed data centers. As a whole, the markets were relatively flat.

On the positive side the blended second quarter earnings growth rate for the S&P 500 EPS currently stands at 50.4%! (Source: FactSet). This is well above the already high 23.2% expected growth rate. As long-time readers will recall, earnings are the underpinning of long-term prices. Earnings growing this quickly supports the strong gains we have seen this year. In fact, earnings are growing faster than prices resulting in stocks becoming cheaper on a price/earnings (PE) basis.

While the positive news dominates, concerns such as discussed above, as well as the never ending (and hard to see an ending) Iran War, dampen market movements. This is not a bad thing. Markets that move higher too quickly can get ahead of themselves (grow faster than earnings) and having a dampener temper such movement is healthy for the markets long-term. Of course, the resulting volatility can cause whiplash – which is one of many reasons we do not recommend following the day-to-day gyrations.

Looking forward we see the short term as volatile but quite positive and remain positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

For the month, the bond market was down 1.6%, the Canadian market was up 1.8%, the US market was down 0.2%, International markets were up 1.6%, Global Small Companies were down 3.5%, the Emerging markets were down 7.3%, the Real Estate market was up 2.9% and the preferred market was up 2.0%. (YCharts 7/31/26)

Year to date, the bond market was up 0.5%, the Canadian market was up 13.5%, the US market was up 8.4%, International markets were up 11.7%, Global Small Companies were up 16.8%, the Emerging markets were up 20.3%, the Real Estate market was up 15.3% and the preferred market was up 6.5%. (YCharts 07/31/26)

Portfolio Update

For the month the portfolio was % and year to date the portfolio was %.

Attached please find a summary of account totals as of June 30th, 2026

Index	Month	Quarter	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	0.50%	2.10%	2.20%
Canadian Equity - S&P/TSX 60 Index - CAD	1.90%	8.20%	11.50%
US Equity – S&P 500 - CAD	-1.30%	14.30%	8.60%
International – MSCI EAFE Index - USD	0.70%	8.60%	9.90%
Global Small Companies - CAD	4.70%	17.10%	21.00%
Emerging Markets - MSCI Emerging Markets Index - CAD	3.00%	23.30%	29.70%
Real Estate - Dow Jones® Global Real Estate Index - USD	2.10%	9.60%	12.10%
S&P/TSX Preferred Share Index - CAD	0.50%	4.30%	4.40%

Have a great month and let us know if there is anything we can do for you,

Meir & Adam

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