Market in Review

The second quarter opened under the shadow of the U.S.–Iran war, but Q2 2026 turned out to be a story of relief and recovery. A ceasefire reached in April—later formalized in a 60-day memorandum of understanding that reopened the Strait of Hormuz—allowed the fear premium built up in Q1 to unwind.

Nowhere was that more visible than in oil. Brent crude, up more than 60% in the early stages of the conflict, fell 19.3% in April and another 20.8% in May—its worst month since the COVID-19 pandemic—to end roughly where it stood before the war. Cheaper energy removed a major source of inflation anxiety and gave equities room to run.

And run they did. The rebound was led by the large indices heavy in large-cap technology stocks, but by quarter-end, it had broadened dramatically, with the small-cap Russell 2000 advancing more than 26% from its early-April lows. The ceasefire faltered twice in May, briefly lifting oil and stalling the stock advance, but each time, negotiations resumed and markets moved on.

Risk factors

The peace between the US and Iran remains fragile with the ceasefire resting on a 60-day memorandum of understanding rather than a durable settlement.

Inflation has replaced war as the market's primary preoccupation. In the US, Core PCE (Personal Consumption Expenditures) rose for a third consecutive month to 3.4% in May, and markets that began the year expecting interest rate cuts now price in hikes by year-end, with some forecasters calling for as many as three.

Signs of speculative excess are accumulating. American households hold a record 45.8% of their financial assets in equities—above the dot-com era peak—and SpaceX's mega-IPO crossed a US$2 trillion valuation within days of listing.

KEY TAKEAWAYS

- A ceasefire between the U.S. and Iran, first reached in April, ended the war that upended markets in Q1 and set the stage for a powerful global relief rally.
- The S&P 500 surged approximately 14% in Q2-its best quarter since Q2 2020, erasing its Q1 losses and finishing at record highs.
- The S&P/TSX Composite rose 7%, its eighth consecutive quarterly gain and hit a record high in early June.
- Oil prices fully reversed their war-driven spike, falling roughly 20% in both April and May to end near pre-war levels.
- Semiconductor stocks led global markets, with the Philadelphia Semiconductor Index gaining 87.8%, its best quarter since its inception in 1994.
- Kevin Warsh took over as Fed Chair in May and struck a hawkish tone in June; markets now price rate hikes, not cuts by year-end.
- The Bank of Canada held its policy rate at 2.25% in April and June, its fifth consecutive hold while Canada added 88,000 jobs in May, pushing unemployment down to 6.6%.
- The U.S. dollar broke out higher after the June Fed meeting, pushing the loonie down to roughly $1.42.

On trade, the flat 10% U.S. tariff regime remains in place and Canadian exports in tariff-exposed industries are still running roughly 2% below 2024 levels. The Russia–Ukraine war remains a persistent overhang.

Global Outlook

International markets were positive but highly uneven in Q2, as falling oil prices helped energy importers, while renewed U.S.-dollar strength weighed on local-currency returns. South Korean and Taiwanese equities soared on the global semiconductor boom, while Chinese and Indian equities lagged significantly.

Japan extended its strong run, with the Nikkei 225 climbing above 60,000 for the first time in April, though persistent yen weakness has raised the odds of Bank of Japan currency intervention. European markets advanced as retreating energy prices eased inflation fears.

In the U.S., Kevin Warsh, newly installed as the Chair of the Federal Reserve, used his first meeting in June to refocus the central bank aggressively on its 2% inflation mandate, prompting investor concerns about future interest rate hikes.

United States Snapshot

U.S. equities advanced strongly in Q2, with the S&P 500 gaining approximately 14%—its best quarter since Q2 2020—while the Nasdaq-100 recorded its second-best quarter in 25 years.

Semiconductors were the engine of the rally. Driven by AI-related capital spending and surging memory-chip demand, the Philadelphia Semiconductor Index gained 87.8%, its best quarter since its creation in 1994. The rally has not lifted all Big Tech, however: the “Magnificent Seven” mega-caps remain negative year-to-date as investors question the payback on massive AI investments.

June brought a shift in leadership: as the Fed turned hawkish, investors rotated into industrials, financials and healthcare. Industrials are now the top U.S. sector of 2026 with a 20.1% year-to-date total return, while energy lagged as oil normalized.

The earnings backdrop remains supportive: analysts expect S&P 500 earnings to grow 23.1% year-over-year in Q2 on the strongest revenue growth since 2022. Valuations remain elevated, however, at roughly 20 times forward earnings.

Spotlight on Canada

Canada's equity market extended its remarkable run in Q2. The S&P/TSX Composite recorded its eighth consecutive quarterly gain and achieved a record high. Returns were +7.00% in the quarter and +11.20% year-to-date, all figures in CAD.

Of the 226 stocks that were in the TSX Composite at some point during Q2, 114 (50%) recorded a gain.

Index leadership broadened well beyond the energy trade that dominated Q1, with top performers spanning technology, industrials, materials, healthcare and consumer discretionary. Energy cooled as oil retreated but remains among the strongest sectors year-to-date, while gold stocks corrected sharply in June alongside the metal itself.

The US market outperformed the Canadian market, returning +14.9% in local currency and +17.1% in Canadian dollar terms.

The Bank of Canada held its policy rate at 2.25% in April and June, its fifth consecutive hold. After contracting in Q1, real GDP rebounded at an estimated 2.4% annualized pace in Q2, and the labour market surprised with 88,000 new jobs in May, pulling unemployment down to 6.6%.

The loonie weakened to roughly $1.42 per U.S. dollar, boosting the Canadian-dollar value of foreign investment returns.

What's next?

If Q1 2026 was a reminder of how quickly markets can be upended, Q2 was a reminder of how quickly they can recover: investors who stayed invested through the first quarter's turbulence were made whole—and then some—within months.

Looking to the second half, several questions stand out: Will the US-Iran ceasefire hold? Will the Federal Reserve follow through on rate hikes? How would richly valued markets handle a rate increase? History adds one more: U.S. midterm elections will be held this year. Typically, midterm election years experience volatile third quarters. Will history repeat itself this year?

With markets at record highs and investor enthusiasm running hot, the fundamentals of sound investing matter more, not less. The investors who fare best over time are those who remain disciplined, diversified and focused on their long-term financial goals.

MARKET MONITOR (Returns in CAD)				
MARKET INDICATORS	MARKET CLOSE*	2025 ANNUAL RETURN	2026 Q2 ACTUAL*	2026 YTD ACTUAL*
S&P/TSX Composite	34,856.99	31.68%	7.00%	11.20%
S&P 500	7,499.36	12.35%	17.10%	14.10%
Dow Jones	52,319.20	9.53%	15.30%	13.60%
MSCI World	4,825.50	15.90%	15.80%	13.80%

*As of June 30, 2026

TOP GIC RATES					
ACCOUNT TYPE	1YR	2YR	3YR	4YR	5YR
Non-Registered	3.20	3.45	3.64	3.67	3.76
RRSP	3.13	3.41	3.60	3.65	3.71
RRIF	3.13	3.41	3.60	3.65	3.70

*As of June 30, 2026

Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.