2026 SECOND QUARTER MARKET REVIEW
AND MID-YEAR COMMENTARY

Earnings, AI and emerging markets found another gear

IG Investment Strategy Team

Market leadership broadens as investors rotate beyond AI

The second quarter demonstrated the resilience of financial markets. Investors faced a steady stream of challenges, including conflict in the Middle East, commodity-price volatility, shifting interest-rate expectations and renewed inflation concerns. Yet global equities continued to advance, as corporate earnings and economic activity remained stronger than expected.

The S&P 500 gained 14.9%, in U.S. dollars, (13.4% in Canadian-dollar terms), while the S&P/TSX Composite Index advanced 6.4%. The strength in equities was supported by resilient earnings expectations, with earnings growth coming in very healthy at 21% year-over-year for the S&P 500 in Q2 2026, up from 19% at the start of the quarter.

Importantly, market leadership broadened. While artificial intelligence remained a key investment theme, returns became less dependent on a small group of mega-cap technology companies. Strength expanded across sectors and regions, with financials, industrials and international markets contributing more meaningfully to returns. Emerging markets were among the strongest performers, led by South Korea and Taiwan, as demand for AI infrastructure continued to support the global technology supply chain.

Inflation concerns resurfaced during the quarter, as energy prices and economic data remained firm. Bond yields moved higher, while some of the G10 central banks shifted to a tightening bias. Fixed income returns were more muted ahead of the potential for higher interest rates.

The defining feature of the quarter was not the absence of risk, but the ability of markets to absorb it. Fundamentals remained intact, earnings continued to improve, and investors were rewarded for maintaining a disciplined, diversified approach.

> *The quarter reinforced a familiar lesson: markets can tolerate uncertainty when the fundamentals remain intact.*
>
> *– Philip Petursson*

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2026 equity price returns and fixed income total returns

Table 1 - 2026 equity price returns

	Currency	Q2	YTD	1-year
S&P/TSX Composite Index	CAD	6.4%	9.9%	29.8%
S&P 500 Index	USD	14.9%	9.6%	20.9%
	CAD	13.4%	13.4%	26.0%
MSCI EAFE Index	USD	9.8%	7.7%	17.4%
	CAD	11.9%	11.6%	22.4%
MSCI Europe Index	EUR	10.5%	8.8%	18.9%
	CAD	11.4%	9.6%	20.3%
MSCI Emerging Markets Index	USD	23.3%	22.7%	40.9%
	CAD	25.7%	27.0%	46.9%

Table 2 - 2026 fixed income total returns

	Currency	Q2	YTD	1-year
FTSE Canadian All Government Bond	CAD	2.0%	2.3%	3.1%
FTSE Canada Universe Bond	CAD	2.0%	2.2%	3.5%
ICE BofA U.S. Corporate Bond	USD	1.4%	1.0%	4.5%
	CAD	3.1%	4.5%	8.6%
ICE BofA U.S. High Yield Composite	USD	2.5%	1.9%	5.7%
	CAD	4.2%	5.5%	9.9%
Bloomberg Global Aggregate Bond	USD	0.9%	-0.2%	0.6%

Source: IG Wealth Management; Bloomberg; 1-year, June 30, 2025-June 30, 2026.
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to June 30, 2026.

Drivers of market performance

Canadian equities

The S&P/TSX Composite Index advanced by 6.4%, led by a strong rebound in financials, as better-than-expected bank earnings, resilient credit quality and improved capital markets activity lifted sentiment.

Strength also broadened beyond financials, with gains extending across much of the market as investors looked past a still-muted domestic economy and focused on corporate fundamentals.

Commodity sectors told a different story. Energy gave back some of its first-quarter gains, as oil prices retreated from their conflict-driven highs, and materials weakened as gold consolidated after a strong run. Even so, those declines did little to derail the broader market.

Market gains reflected improving breadth rather than reliance on a single sector. While financials were the primary driver, strength across health care, industrials, consumer discretionary, real estate and technology reinforced the advance, despite ongoing economic softness.

U.S. equities

The S&P 500 Index advanced 14.9% (in U.S. dollar terms), supported by earnings strength rather than a simple risk-on rally. Information technology led, rising 31.6%, as AI infrastructure spending and upward earnings revisions continued to anchor sentiment.

Still, investors became more selective among AI-related companies. The AI theme remained intact, but expectations were already high, requiring companies to show not just solid results, but a clear path to continued growth.

Participation broadened beyond technology, with industrials, communication services and financials also contributing, while energy and utilities lagged.

Rate expectations remained the primary macro constraint. As investors priced in higher inflation, long-term bond yields moved higher and financial conditions tightened. Even so, earnings growth remained strong enough to offset any valuation risk from rates.

International equities

International equities did more than participate this quarter. In several regions, they led. South Korea and Taiwan markets gathered momentum, as accelerating investment in AI infrastructure continued to support demand across the global technology supply chain.

Emerging markets were the clear standout, with the MSCI EM Index gaining 23.3% during the quarter and 40.9% (in U.S. dollar terms) year-over-year.

Technology drove much of the advance, with semiconductor, memory and hardware companies at the forefront. South Korea and Taiwan were central to that strength, reflecting their pivotal role in supplying the infrastructure behind the AI buildout. European equities advanced alongside improving global risk appetite.

Leadership broadened globally, but the drivers remained familiar: earnings growth, AI investment and exposure to the technology supply chain, rather than a wholesale rotation away from U.S. markets.

Fixed income

Fixed income delivered positive returns, despite a less favourable rate backdrop. The FTSE Canada Universe Bond Index gained 2%, with income helping offset the impact of higher long-term yields.

Markets spent much of the quarter reassessing inflation and interest-rate expectations. Stronger U.S. economic data and elevated energy prices pushed long-term yields higher, creating headwinds for duration.

Canada’s softer economic backdrop told a different story. Weaker growth reinforced expectations that the Bank of Canada may not raise rates alongside the U.S. Federal Reserve later this year, contributing to Canadian dollar weakness.

Credit performed better than duration. U.S. high-yield bonds outperformed investment-grade bonds, returning 2.5% versus 1.4% in U.S. dollar terms. Healthy fundamentals and steady risk appetite supported credit spreads.

Canadian equities

Chart 1 - S&P/TSX Composite Index performance

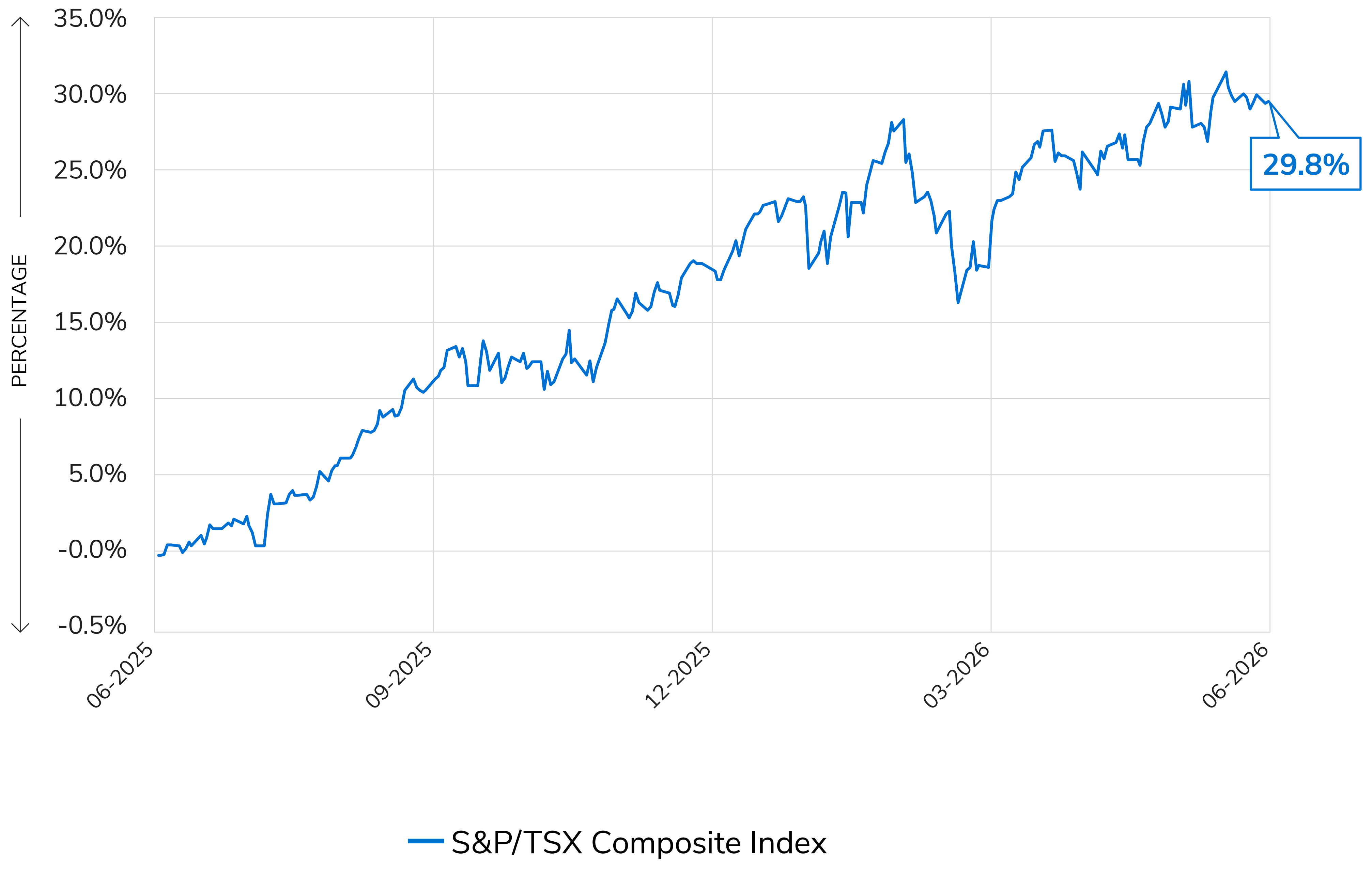
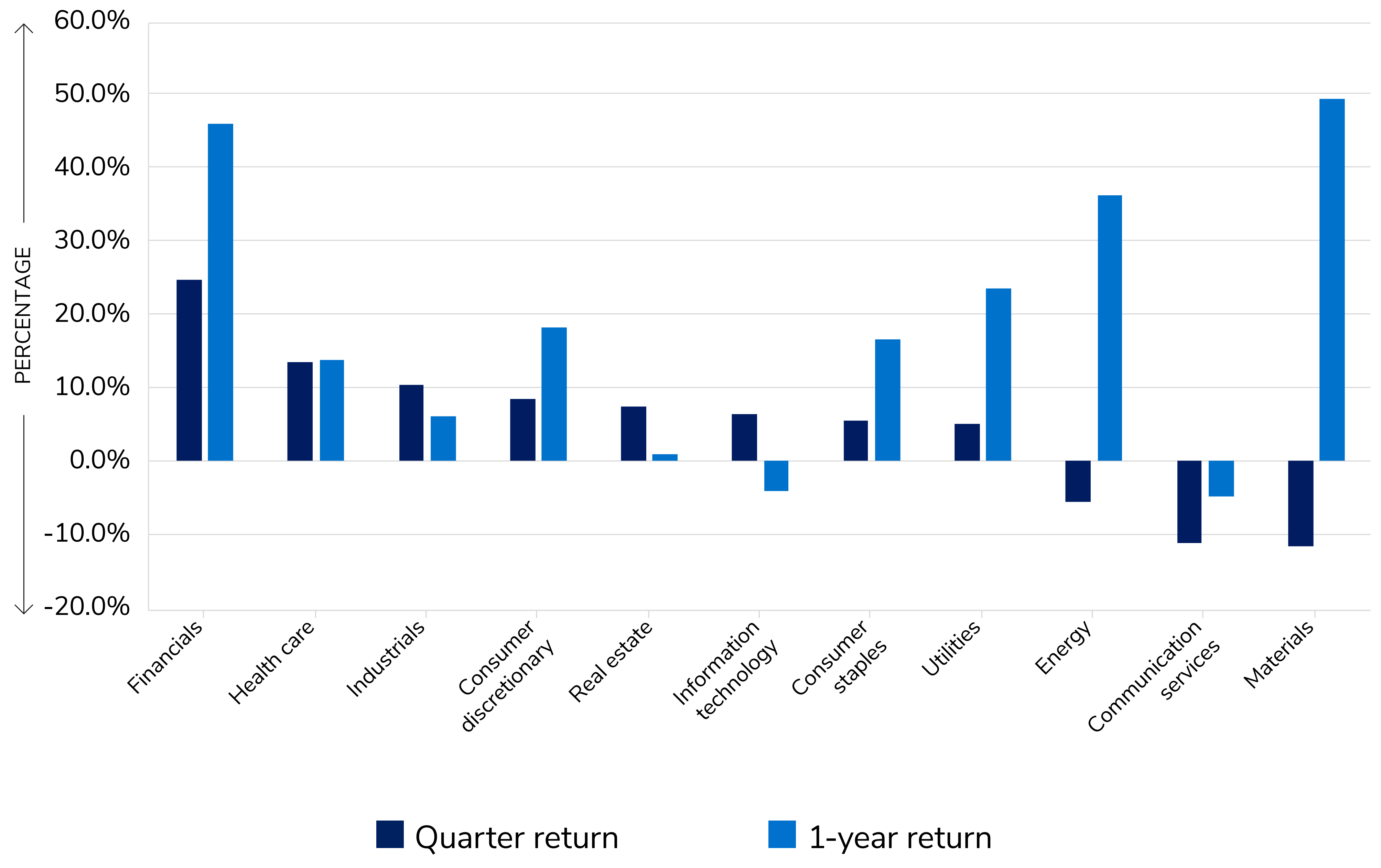


Chart 2 - S&P/TSX Composite sector level returns



Source: IG Wealth Management, Bloomberg, as of June 30, 2026.

U.S. equities

Chart 3 - S&P 500 Index performance (USD)

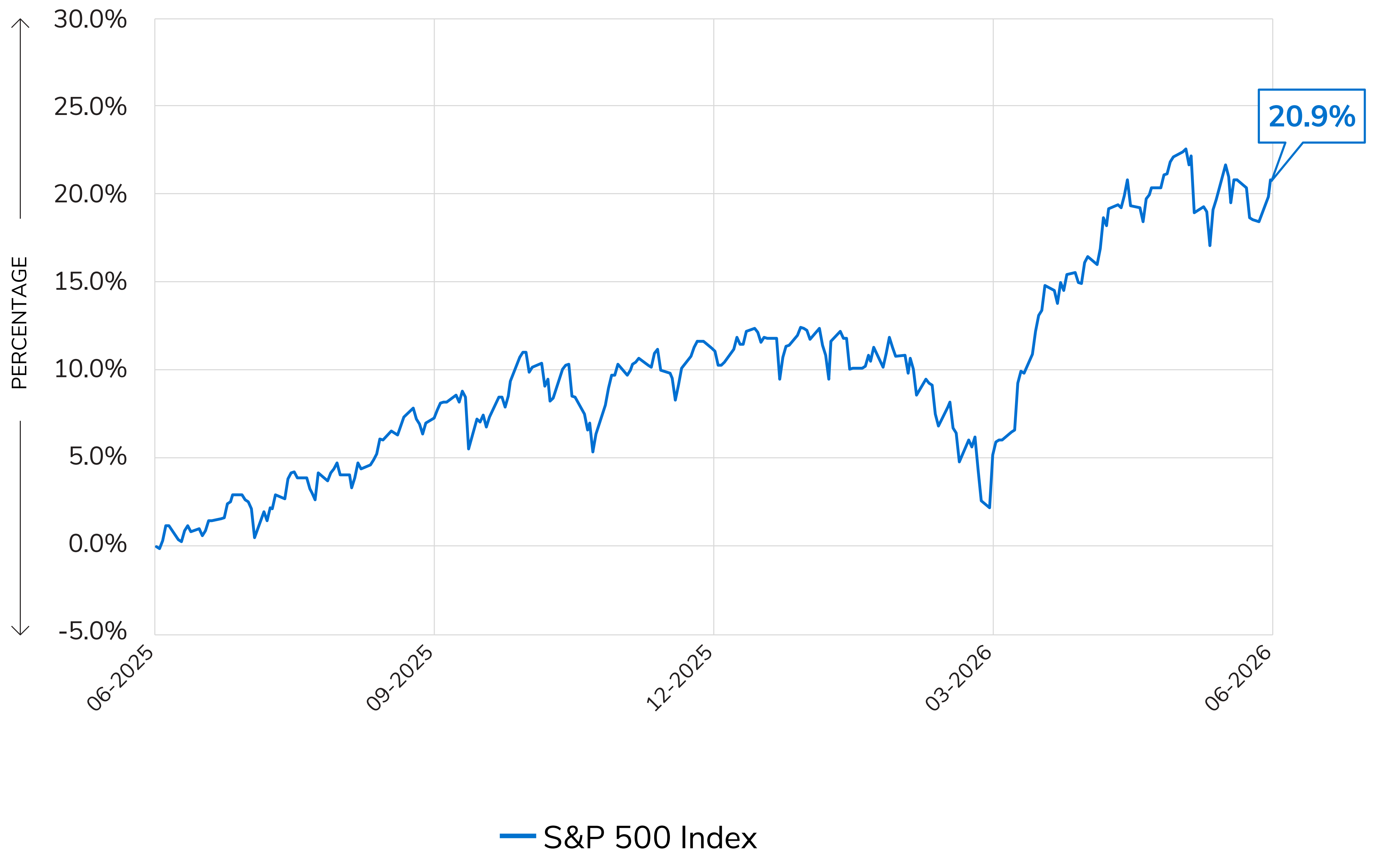
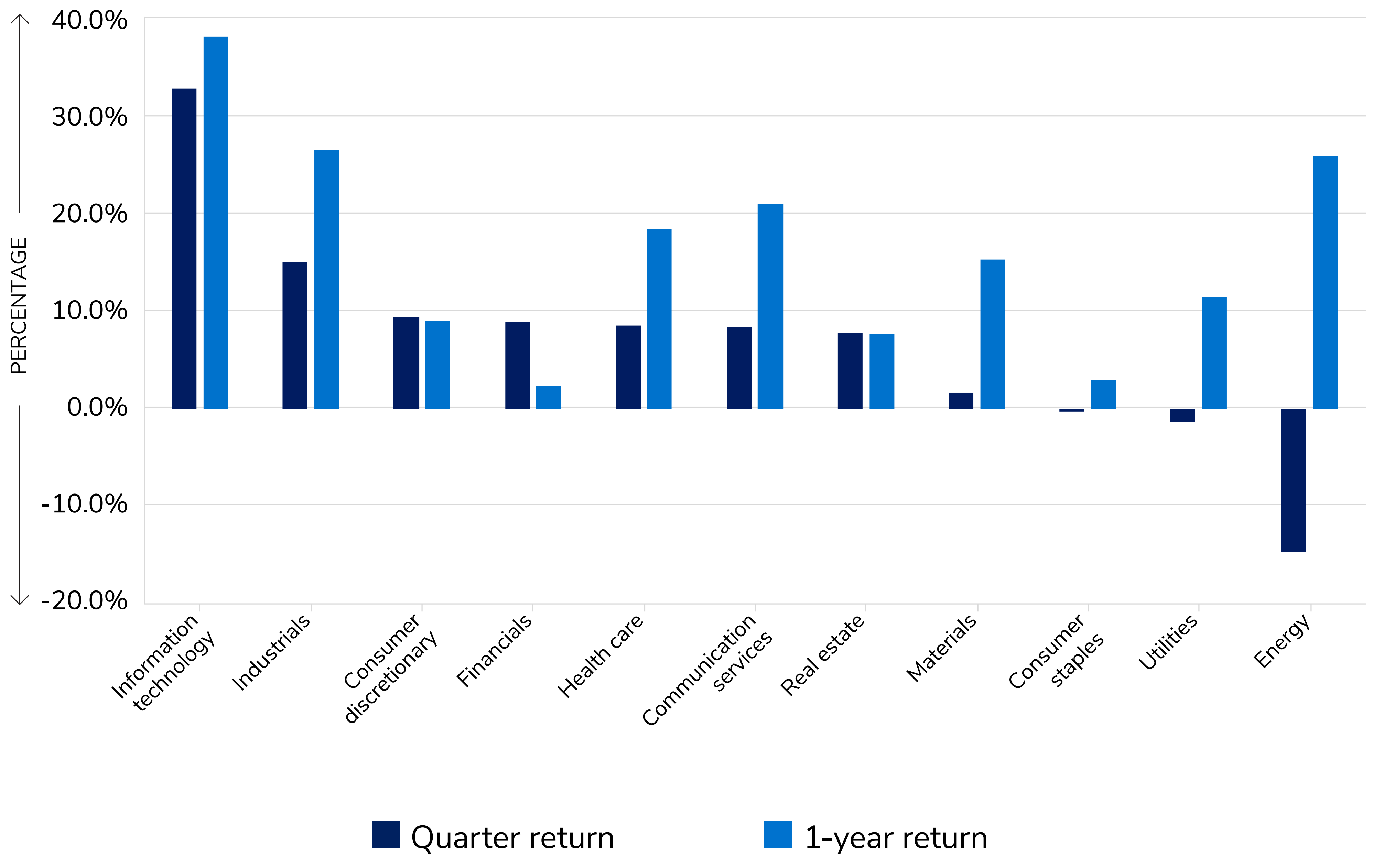


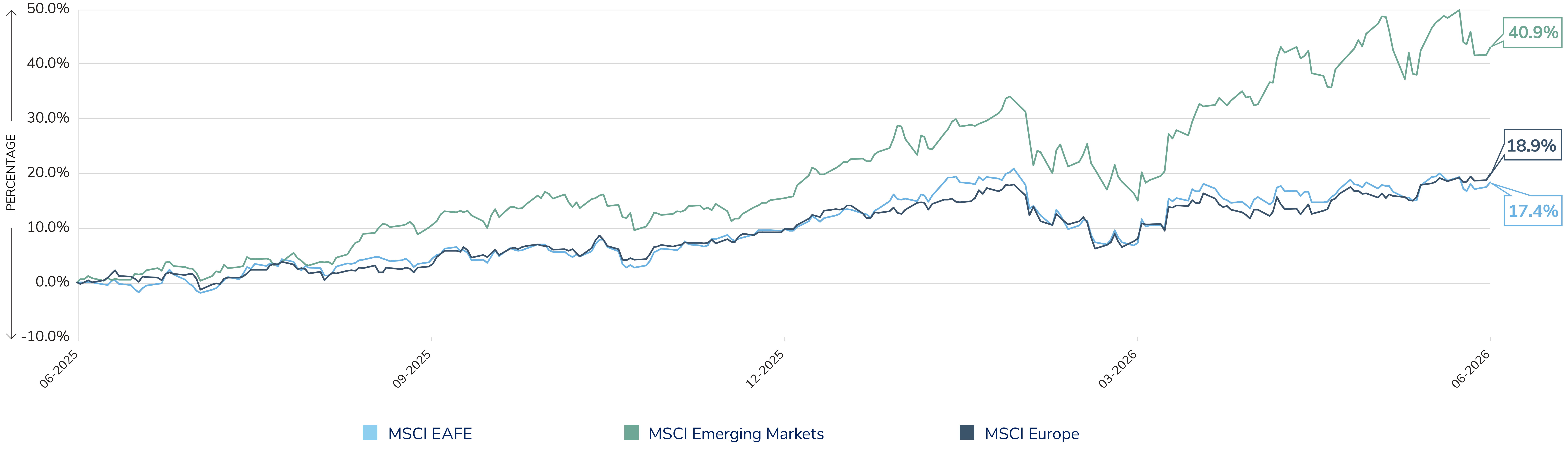
Chart 4 - S&P 500 Composite sector level returns



Source: IG Wealth Management, Bloomberg, as of June 30, 2026.

International equities

Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg, as of June 30, 2026.

Fixed income

Chart 6 - Global central bank policy rates

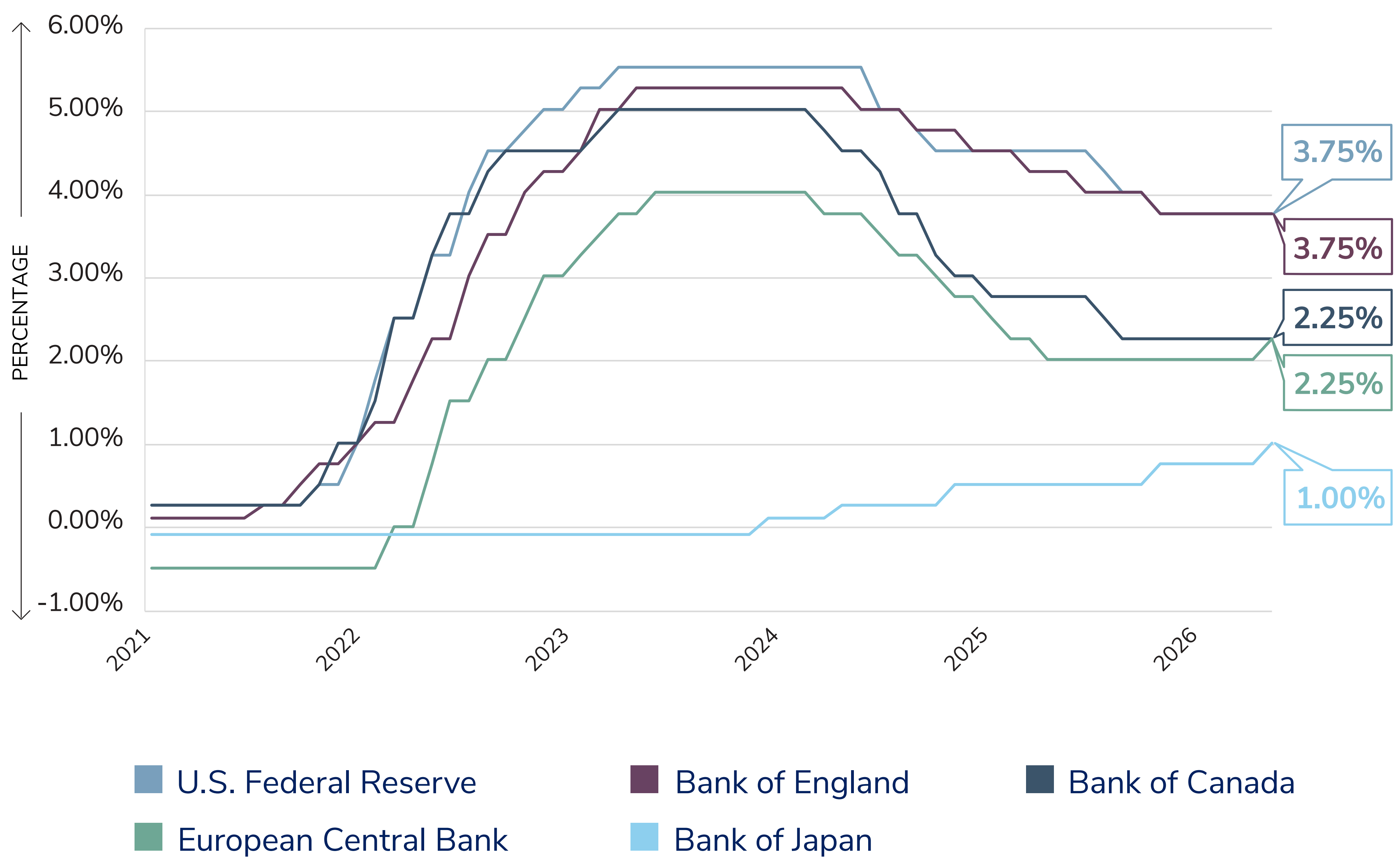
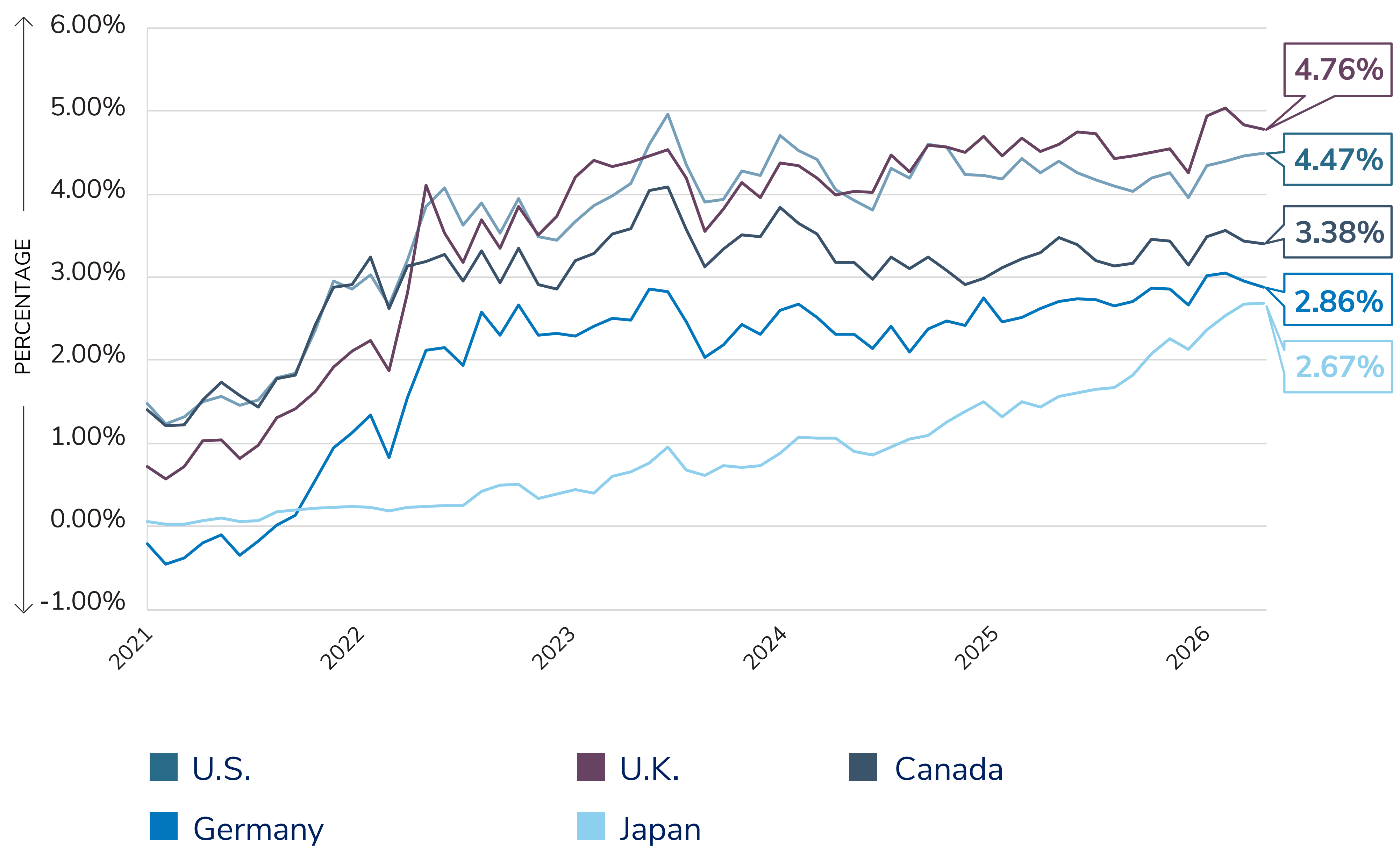


Chart 7 - Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg, as of June 30, 2026. Previous five years.

Key benchmark performance

Chart 8 - Canadian dollar/U.S. dollar cross

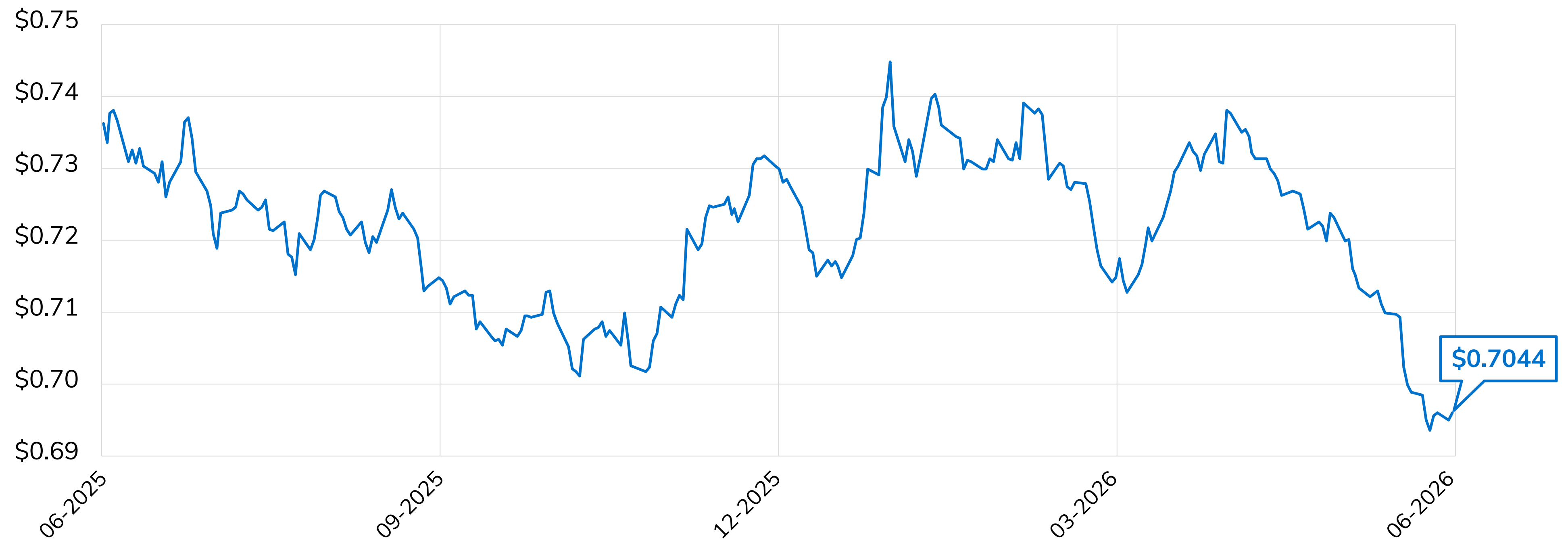


Chart 9 - Crude oil (WTI) US$/bbl

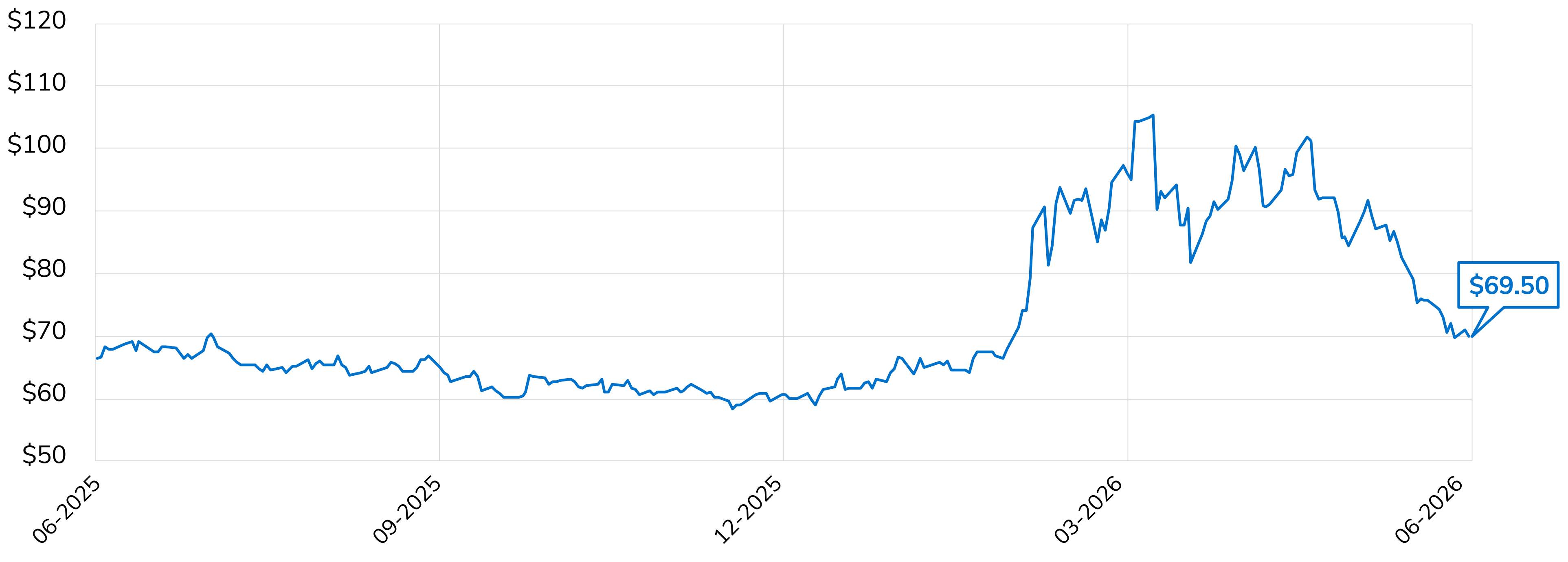


Chart 10 - Gold US$/oz.

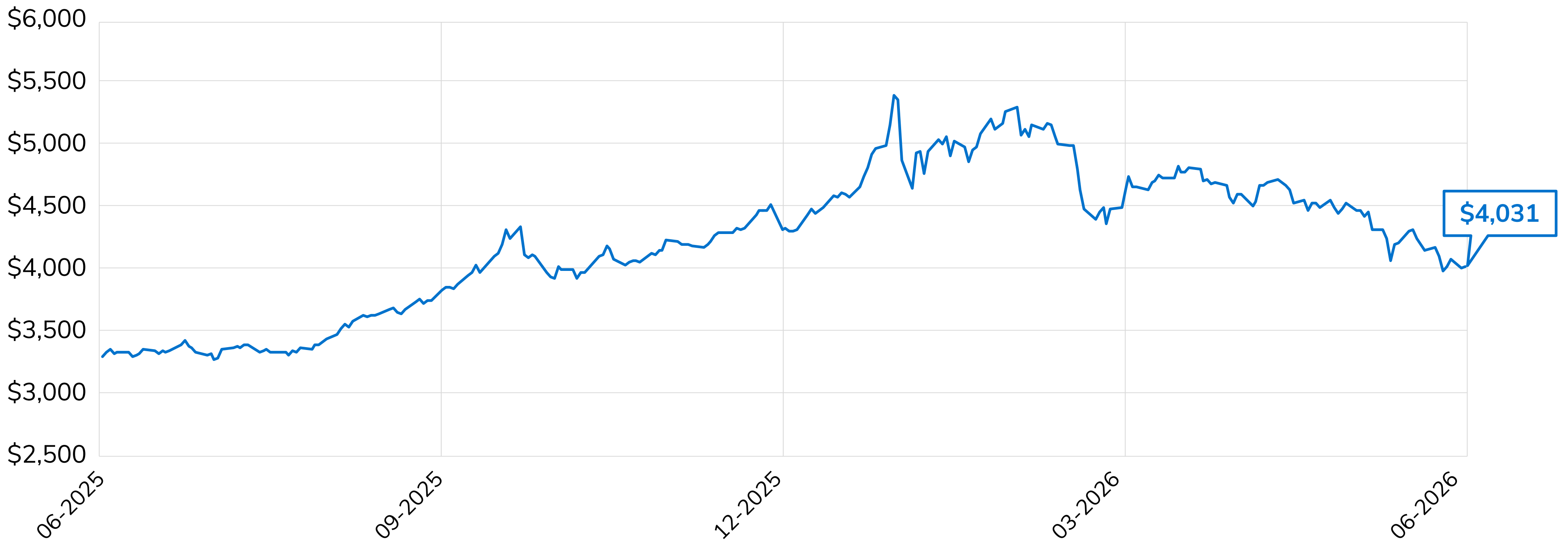
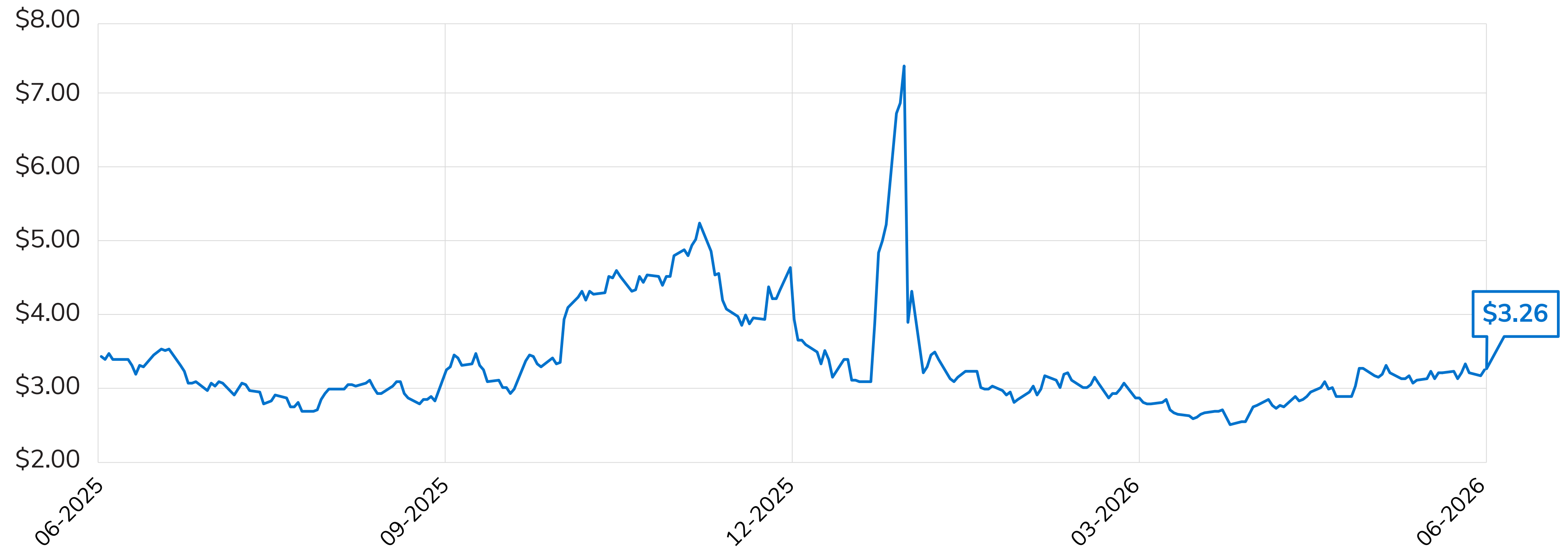


Chart 11 - Natural gas US$/mmbtu



Source: IG Wealth Management, Bloomberg, as of June 30, 2026.

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Market outlook

Markets enter the second half of 2026 on a constructive footing. The first half demonstrated that headline risks, including conflict in the Middle East, inflation concerns and commodity price volatility, can create uncertainty without derailing markets when economic and corporate fundamentals remain intact.

Corporate earnings remain the primary support for equities. Manufacturing activity continues to expand, consumer spending has proven resilient and global trade has improved, providing a favourable backdrop for earnings growth. We expect those trends to continue into the second half of the year.

Valuations are less forgiving after a strong first half, and seasonal weakness, U.S. mid-term elections and shifting rate expectations could create periods of volatility. However, we view those setbacks as opportunities rather than a change in trend.

Diversification continues to reward investors. A focus on quality and fundamentals, not headlines, have led to better outcomes.

Earnings drove this rally, but valuations will define what comes next.

– Philip Petursson