



Economic Outlook

Second quarter 2026



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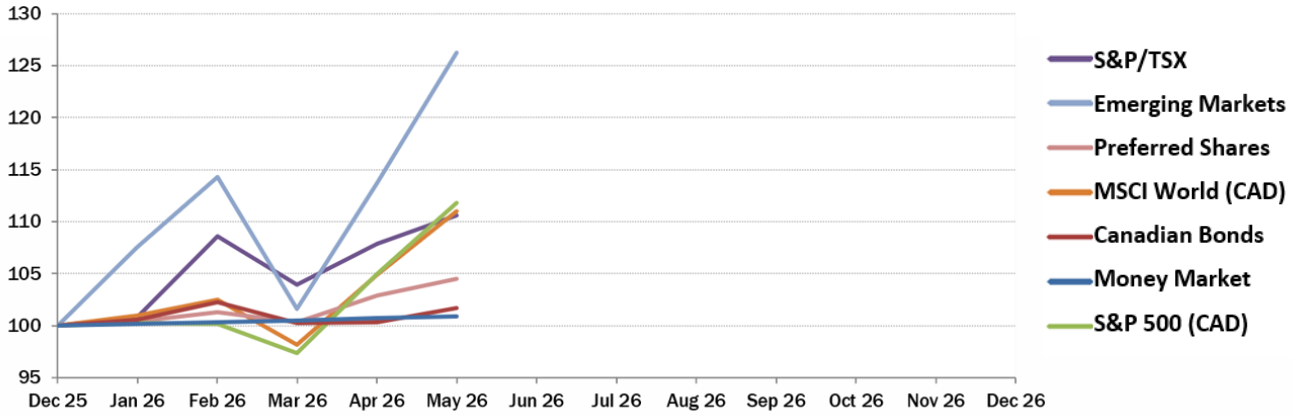
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- Preferred shares and their alternatives



SUMMARY

Financial market returns¹



¹ Source: Bloomberg – Data as of May 31, 2026

Key takeaways

Neutral on U.S., Canadian and international equities. **We** are in a phase of heightened momentum, so caution is warranted.

Overweight in alternative income strategies. Current yields are sufficiently attractive to offset downside risk.

Underweight in fixed income due to unattractive interest rates.

Overall portfolio positioning (3–12 month horizon)



N indicates neutral



Global economic analysis

UNITED STATES

The U.S. economy rebounded modestly in the first quarter, supported by business investment related to AI, despite a slowdown in consumption. The labor market remained resilient, with job creation exceeding expectations in May. However, inflation accelerated significantly due to the energy shock in the Middle East, with the CPI reaching 4.2% in May, although core inflation remained more contained. The Fed maintained the status quo at its June meeting—the first under the chairmanship of Kevin Warsh—adopting a decidedly cautious tone.

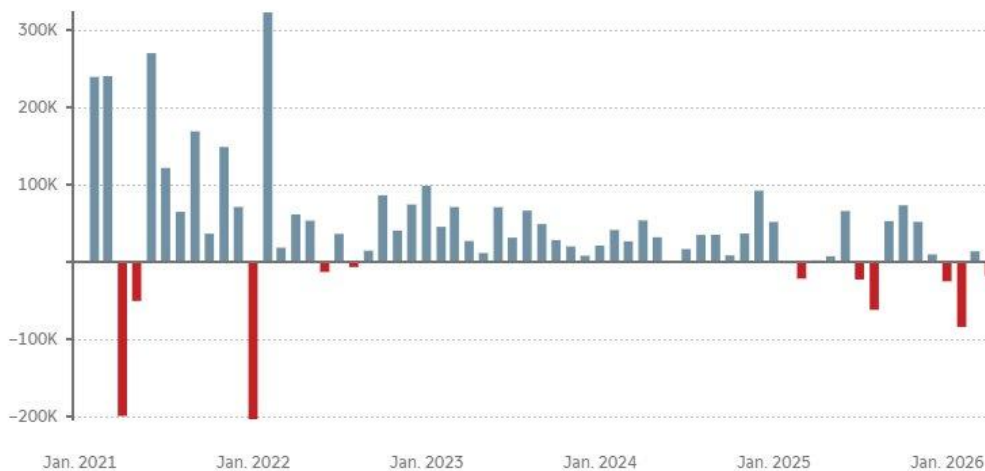
U.S. inflation trends (CPI, year-over-year change, Jan. 2021–May 2026)²



CANADA

The Canadian economy stagnated in the first quarter, confirming a technical recession following the contraction recorded in the previous quarter. Both residential and non-residential investment declined; however, the labour market delivered an upside surprise in May, with the creation of 88,000 jobs, largely offsetting the losses recorded in preceding months. Inflation edged up to 2.8% in April, driven primarily by higher energy prices, while core inflation measures remained close to 2%. The Bank of Canada kept its policy rate unchanged at 2.25% for a fifth consecutive decision, reflecting a delicate balance between economic weakness and persistent inflationary pressures.

Monthly employment change³



² Source: U.S. Bureau of Labor Statistics (BLS), via CNBC. Consumer Price Index (CPI) data, year-over-year change, January 2021–May 2026. Data as of June 10, 2026.

³ Source: Statistics Canada, *Labour Force Survey*, May 2026, Table 14-10-0287-01; CBC News.



Global economic analysis

INTERNATIONAL

The IMF has revised its global growth forecast downward to 3.1% for 2026, reflecting the impact of the conflict in the Middle East and its repercussions on energy markets and global supply chains. Inflation across the OECD surged to 4.0% in March, driven by the oil price shock, significantly constraining central banks' policy flexibility. The euro area continues to post modest growth, weighed down by elevated energy costs, while several emerging economies are facing heightened inflationary pressures.

Euro area energy price trends (2001–2026)⁴



In the euro area, energy prices remain a significant source of inflationary pressure. The chart shows that, following the sharp energy price shock of 2022, prices have remained elevated and have recently rebounded, weighing on economic growth and complicating the path toward monetary policy easing.

⁴ Source: Eurostat, via FRED (Federal Reserve Bank of St. Louis).



ASSET CLASS REVIEW

Fixed income

FTSE Russell index performance in the second quarter of 2026 (%)*

Term	Federal	Provincial	Municipal	Corporate
Short	-0.08	-0.05	-0.05	-0.07
Mid	-0.11	-0.12	-0.11	-0.12
Long	-0.07	-0.17	-0.14	-0.13
Universe	-0.10	-0.12	-0.10	-0.11

Source: FTSE Russell

Review

Against a backdrop of fragile economic growth and persistent inflation, both the Bank of Canada and the Federal Reserve held policy rates unchanged, adopting a cautious stance in response to energy-related inflationary pressures. Canadian bond yields traded within a broad range over the quarter, initially moving higher following the oil price shock before retracing as tensions in the Middle East began to ease. In credit markets, spreads widened after reaching multi-year lows earlier in the year, reflecting the combined impact of geopolitical tensions, concerns surrounding private credit, and record levels of primary issuance—particularly the substantial debt offerings by major technology companies to finance their artificial intelligence investments.

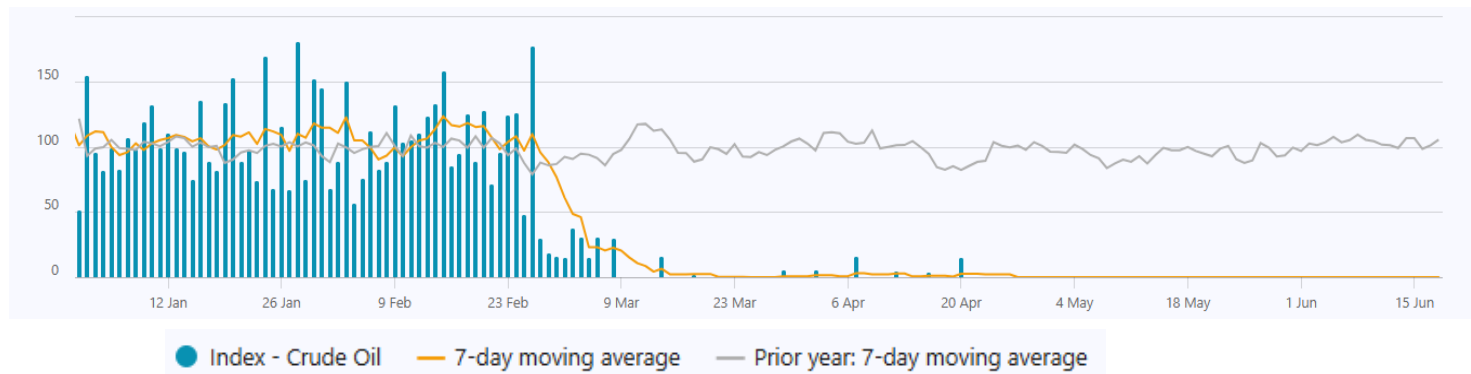
Outlook

The U.S.–Iran ceasefire agreement and the anticipated reopening of the Strait of Hormuz could represent a turning point for fixed-income markets by significantly alleviating energy-driven inflationary pressures. We maintain an extended duration position to benefit from this potential easing in interest rate pressures, while remaining vigilant to the risk of a rebound in economic growth or a resurgence of inflation. Within credit markets, our positioning remains defensive, as current tight valuations do not provide adequate compensation for the risks being assumed.

Analytical framework:

- **Fundamentals: U.S. strong, Canada weak**
- **Seasonality: Neutral**
- **Sentiment: Neutral**
- **Technical: Neutral**
- **Valuation: Structurally attractive level**

Trend in crude oil shipments through the Strait of Hormuz (index, 2025 average = 100)⁵



⁵ Source: WTO (World Trade Organization) & AXSMarine, AIS data on oil flows through the Strait of Hormuz (*Trade Tracker*).

The chart shows a sharp decline in crude oil shipments through the Strait of Hormuz beginning in early March, following elevated and highly volatile volumes in January and February. This near-complete disruption underscores the vulnerability of global oil flows to a geopolitical shock in this strategically critical region.

*The performance shown corresponds to the change in yield to maturity between March 31, 2026 and June 30, 2026, expressed in basis points. It does not represent a total return.



ASSET CLASS REVIEW

Alternative fixed income



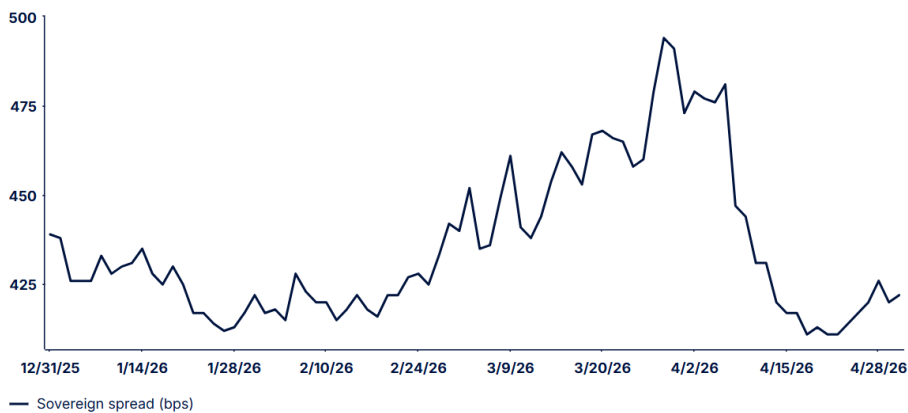
Review

The second quarter was marked by a strong rebound following the geopolitical shock experienced in Q1. Bank loans posted their strongest monthly performance in a year in April, bringing year-to-date returns back into positive territory. Collateralized Loan Obligations (CLOs) maintained stable credit metrics despite a number of downgrades within the software sector. Business Development Companies (BDCs) continued to face pressure on net investment income, exacerbated by redemption requests in non-listed vehicles. Emerging market debt experienced the most significant turnaround. Sovereign spreads tightened materially in April following the U.S.–Iran ceasefire, while investor flows returned decisively to positive territory. Canadian preferred shares extended their momentum, supported by attractive reset yields and a contracting supply base. Insurance-Linked Securities (ILS) reached a record level of assets under management, although pricing softened during the Florida renewal season.

Outlook

The U.S.–Iran ceasefire remains the dominant catalyst. The normalization of energy markets should support further spread compression in emerging market debt and reinforce risk appetite. Bank loans and CLOs continue to benefit from supportive fundamentals—including declining default rates, a recovery in M&A (Mergers and Acquisitions) activity, and attractive coupon levels—although deteriorating documentation standards warrant increased selectivity. BDCs remain under pressure, with dividend reductions likely across parts of the sector; however, leading managers continue to benefit from improving transaction activity. ILS enter a hurricane season that is expected to be less active than normal and remain structurally attractive despite softening premium levels. Canadian preferred shares should continue to benefit from constrained supply, while the USD-to-CAD currency hedge pickup enhances the attractiveness of all U.S.-dollar-denominated asset classes.

Emerging Market High-Yield Sovereign Spreads⁶



Emerging market debt experienced the most pronounced turnaround, with sovereign spreads tightening significantly in April amid renewed risk appetite following the announcement of the U.S.–Iran ceasefire. Investor flows also returned to strongly positive territory.

⁶ Source: State Street Investment Management, Bloomberg, and J.P. Morgan. Data as of April 30, 2026.



ASSET CLASS REVIEW

Equities

Review

Since the beginning of the second quarter, global equity markets have regained positive momentum, supported by the gradual easing of geopolitical tensions, lower energy prices, and solid corporate earnings. In Canada, equities posted strong gains, driven in particular by the strength of precious metals, resilience in the materials sector, and the stability of major financial institutions. In the United States, the market rebounded sharply following a more challenging start to the year, fueled by continued investment in artificial intelligence and a stronger-than-expected earnings season. In Europe, equities advanced more modestly, supported by a gradual improvement in economic conditions, encouraging corporate earnings, and an ongoing accommodative monetary policy environment. In Asia and emerging markets, performance stood out, driven by technology-exporting countries and sustained investor enthusiasm for companies positioned at the forefront of the latest wave of digital innovation.

Analytical framework:

Fundamentals: Positive

Seasonality: Negative

Sentiment: Negative

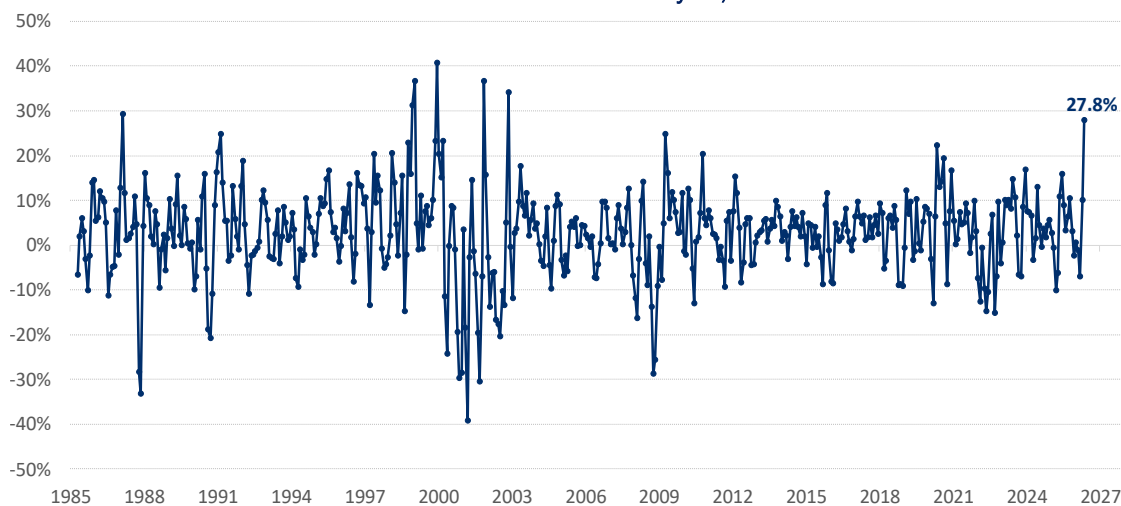
Technical: Positive

Valuation: Neutral

Outlook

Within Canadian equities, we are increasing our exposure to the Industrials, Consumer Discretionary, and Financials sectors, supported by North American reindustrialization, the Bank of Canada's monetary easing cycle, and strong earnings momentum among Canadian banks. Conversely, we are reducing our exposure to Materials, Consumer Staples, and Energy, where valuations already reflect the geopolitical premium associated with the Strait of Hormuz and the recent surge in gold prices. At the global equity level, we are further emphasizing Financials, Consumer Discretionary, and Information Technology, supported by U.S. banking deregulation and the continuation of the historic artificial intelligence investment cycle. At the same time, we are reducing exposure to Health Care, Industrials, and Consumer Staples, which face headwinds from regulatory pressures, elevated valuations, and the erosion of household real income. We remain constructive on the global technology sector but continue to apply rigorous relative risk controls in order to capture long-term value creation opportunities while preserving capital.

Nasdaq-100
Two-month total return as of May 31, 2026



Source: Bloomberg, data as of May 31, 2026.

Over the past two months, the Nasdaq-100, an index comprising the 100 largest non-financial companies listed on the Nasdaq and heavily weighted toward technology stocks, gained nearly 28% across April and May 2026, marking its strongest two-month performance since 2002.



HISTORICAL ASSET ALLOCATION DECISIONS AND VALUE ADDED

Strategy evolution (deviation from target)

	Money market	Canadian bonds	Canadian equities	Global equities	Income private market	Income public market core+
2019-05-31	2%	-4%	5%	-3%	-1%	0%
2019-07-12	2%	-2%	5%	-3%	2%	0%
2021-02-16	0%	-4%	4%	-1%	1%	0%
2021-03-26	0%	-6%	5%	0%	1%	0%
2021-07-27	1%	-10%	5%	1%	3%	0%
2021-09-10	1%	-12%	5%	1%	5%	0%
2021-12-22	1%	-9%	5%	1%	1%	0%
2023-07-26	1%	-8%	4%	3%	0%	0%
2024-02-12	3%	-10%	4%	3%	0%	0%
2024-12-10	4%	-2%	-2%	2%	-1%	-1%
2025-01-09	4%	-7%	-3%	2%	2%	2%
2025-07-22	3%	-6%	-1%	3%	0%	0%
2025-12-05	4%	-6%	2%	0%	0%	0%
2026-02-11	-3%	-3%	-2%	0%	4%	4%

This table illustrates the asset allocation decisions implemented over time for an actual private wealth management client portfolio. These decisions are determined by the Asset Allocation Committee based on sentiment analysis, macroeconomic assessments, and fundamental and technical analysis, with an investment horizon of 3 to 12 months.

Cumulative value added

Cumulative value added reflects the impact of asset allocation decisions implemented in an actual portfolio, as measured by deviations from the target weights established under the client's investment policy.

Cumulative value added – Asset allocation



Source: Bloomberg, Optimum Asset Management, data as of June 18, 2026.



Economic scenarios

> Base scenario

Persistent inflation and higher rates

This remains the most plausible scenario. Inflation declines, but too slowly to allow rapid monetary easing, leading central banks to maintain a cautious stance for longer. In this context, global growth slows without tipping into recession, while markets remain sensitive to the rate path and cost pressures.

1 Growth rebound supported by economic policy

In this scenario, global economic activity strengthens as a result of a more supportive policy mix, combining fiscal stimulus with an acceleration in investment, particularly in innovation-driven sectors. The macroeconomic backdrop gradually improves, bolstering confidence, supporting risk assets, and enabling a moderate acceleration in economic growth.

2 Soft landing

The global economy continues on a path of moderate growth following the reopening of the Strait of Hormuz and supported by increased investment in AI. Inflation is gradually converging toward levels that are more consistent with central bank targets. Lower inflation is enabling a gradual easing of monetary policy in a relatively stable environment.

3 Geopolitical and trade shock

This scenario assumes a renewed escalation of geopolitical and trade tensions, with the potential to disrupt supply chains, reignite inflationary pressures, and weaken confidence. The result would be a marked slowdown in global growth, accompanied by heightened financial market volatility and a significantly more fragile macroeconomic environment.

Expected return by scenario	Persistent inflation	Growth rebound	Soft landing	Geopolitical and trade shock	Weighted average
Probabilities (internal assumptions)	35%	25%	25%	15%	-
Fixed income					
Money market	2.50%	2%	2.30%	1.50%	2.18%
Canadian bonds	1%	1%	3.50%	7%	2.53%
Alternative fixed income					
Diversified credit	3%	8%	6%	-2%	4.25%
ILS	7%	7%	7%	7%	7%
Equities					
Canadian equities	-7%	8%	12%	-21%	-0.6%
U.S. equities	-12%	12%	6%	-24%	-3.3%
International equities	-13%	9%	10%	-22%	-3.1%

Source: Internal Economic Research – Scenario and assumptions as of June 25, 2026.

Intended for an informed audience. The returns and probabilities presented are hypothetical and provided for illustrative purposes only. They are based on internal assumptions that may change without notice and do not constitute a guarantee of future performance. Past performance does not guarantee future results.



SPECIAL TOPIC: Preferred shares

Preferred shares and their alternatives*

This special feature outlines the principal regulatory capital instruments issued by Canadian banks. Its purpose is to clarify the differences among four types of instruments that, while sharing certain characteristics, have distinct structures, risk profiles, and tax treatments.

Since the 2008 financial crisis, regulators have strengthened capital requirements. In Canada, the Office of the Superintendent of Financial Institutions (OSFI) requires banks to maintain adequate capital buffers. The charts below illustrate the hierarchy of these institutions' capital structure.

HIERARCHY OF A BANK'S CAPITAL STRUCTURE



RANK IN THE STRUCTURE	RISK / RETURN
1	Lowest
2	Low
3	Moderate
4	Moderately high
5	High



Capital instruments absorb losses in this order of priority. The further down the structure, the higher the risk, but also the greater the return potential.



Instruments 4 and 5 make up the bank's equity capital and are essential for absorbing losses during periods of stress.



Their features (perpetual, subordinated, with incentives to defer payments or to convert/write down) determine their regulatory and tax treatment.

PREFERRED SHARES (PS)



- Perpetual capital instrument, redeemable, issued at \$25
- Pays dividends (not tax-deductible for the issuer)
- Ranks between debt and common shares in the capital structure
- "Fixed-reset" structure, dividend rate resets every 5 years, often with an option to convert to a floating rate
- Redeemable at the issuer's discretion

REGULATORY TREATMENT:
Tier 1 (CET1) hybrid capital

TAX TREATMENT:
Non-deductible dividends

LRCN – LIMITED RECOURSE CAPITAL NOTES



- Very long-dated bank hybrid instrument, generally issued privately with a distant first call date
- Dividend payments, not tax-deductible
- In the event of non-payment, the investor's recourse is limited to the preferred shares held in a trust
- Economically, similar to preferred shares

REGULATORY TREATMENT:
Tier 1 capital (CET1)

TAX TREATMENT:
Non-deductible dividends

INSTITUTIONAL PREFERRED SHARES



- Issued for institutional investors, generally off-exchange
- Par value of \$1,000, like an unlisted bond
- Dividend payments, not tax-deductible
- Used only in the LRCN structure; they serve as the recourse asset in the trust if the bank does not pay interest or principal

REGULATORY TREATMENT:
Tier 1 capital (similar to LRCN)

TAX TREATMENT:
Non-deductible dividends

CORPORATE HYBRID BONDS



- Subordinated debt issued by non-financial companies
- Features similar to LRCNs (long maturity, subordination, deferred payments, \$1,000 par value)
- Rating agencies often grant partial equity treatment, generally around 50%
- Attractive to issuers because of this regulatory capital support

REGULATORY TREATMENT:
Partial equity treatment (typically around 50%)














TAX TREATMENT:
Interest deductible for the issuer

*The information presented above is provided for educational purposes only and does not constitute investment advice.



SPECIAL TOPIC: Preferred shares

Preferred shares and their alternatives

CRITERIA	 INSTITUTIONAL PREFERRED SHARES	 PREFERRED SHARES	 LRCN	 CORPORATE HYBRID BONDS
 Market	~ 7 GS	~ 50 GS	~ 35 GS	~ 15 GS
 Maturity	Perpetual	Perpetual	60 years	60 years
 Type	Preferred share	Preferred share	Hybrid subordinated debt	Hybrid subordinated debt
 Structure	<ul style="list-style-type: none"> Non-voting share Fixed semi-annual dividend for the first 5 years at the initial credit spread + 5-year Canada yield 	<ul style="list-style-type: none"> Non-voting share Fixed quarterly dividend for the first 5 years, reset every 5 years Option to convert to floating rate or revert to fixed rate every 5 years Non-cumulative 	Structure composed of two instruments: <ol style="list-style-type: none"> Subordinated LRCN with fixed interest for 5 years, reset every 5 years Institutional preferred shares issued with a BPV reduction for the benefit of LRCN holders 	Structure composed of two instruments: <ol style="list-style-type: none"> Subordinated debt with fixed interest for 5/10 years, reset every 5/10 years Institutional preferred shares issued with a BPV reduction for the benefit of noteholders
 Tax treatment	Tax-advantaged dividends	Tax-advantaged dividends	Taxable interest	Taxable interest
 Par value	\$1,000	\$25	\$1,000	\$1,000
 Investors	Institutional	Retail and institutional	Institutional	Institutional
 Secondary market	Over the counter (OTC)	Stock exchange	Over the counter (OTC)	Over the counter (OTC)
 Redemption	After 5 years, subject to OSFI approval	Similar conditions to institutional preferred shares	Callable after 5 years, subject to OSFI approval	Callable after 5 or 10 years, at the issuer's discretion

Thanks to its recognized expertise in preferred share investment strategies, Optimum Asset Management is well positioned to effectively support you in navigating this complex asset class.

As at March 31, 2026	3 months	6 months	1 year	2 years	3 years	4 years	5 years	7 years
 Preferred shares	0.83	5.16	16.83	16.77	15.98	8.34	8.48	9.17



Disclaimer

Performance is shown in Canadian dollars, before management fees, and is annualized for all periods longer than one year.

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