CIBC

CIBC PRIVATE WEALTH
WOOD GUNDY

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

Volume 17– Issue 5 July 2026

STAN CLARK
Senior Wealth Advisor

Welcome to our 2026 midyear review issue.

Michael Chu and I have collaborated on a mid-year review of how Canadian, U.S. and international markets performed in the first half of 2026 – and what the major influences were over the last six months. We hope you find this review both informative and useful in understanding the current economic context – and how we're keeping your portfolio firmly on course.

Enjoy your summer!

Stan

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

MID-YEAR REVIEW

CORPORATE EARNINGS OVERPOWERING GLOBAL UNCERTAINTY

By Stan Clark, Senior Wealth Advisor, and Michael Chu, Senior Wealth Advisor

We trust you are enjoying the summer! Being the midpoint of the year, summer is also a good time to review 2026 so far – and to look ahead.

Geopolitics and technology remained the dominant themes in the markets. As the war in the Middle East began to de-escalate, coupled with a market rotation back into artificial intelligence (AI), stocks propelled to record highs.

The World Equity Index, a gauge of stocks around the world, was up 13.5% (in C$) in the first six months of 2026. At home, the TSX was up 11.2%. The chart below shows the returns of major markets around the world. Note that these returns are in Canadian dollars, so the effects of currency changes are included.

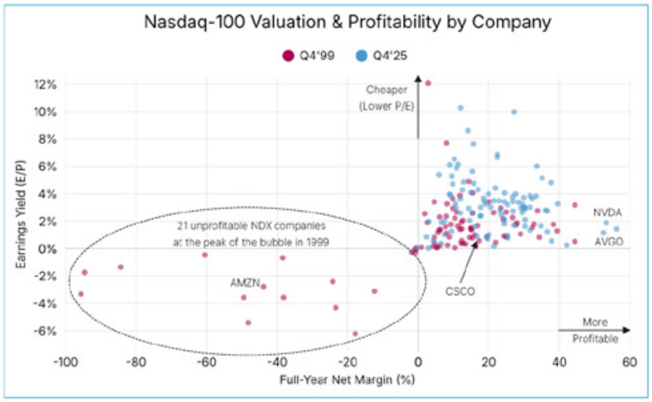
	Q1 2026	Q2 2026	H1 2026
Canada (S&P/TSX)	3.9%	7.0%	11.2%
U.S. (S&P 500)	-3.0%	17.5%	14.0%
Europe	-1.3%	13.8%	12.4%
Japan	2.3%	36.8%	40.0%
EAFE (Europe, Australia, Far East)	0.1%	13.0%	13.2%
Emerging Markets	1.2%	26.5%	28.1%
World	-2.2%	16.0%	13.5%

Source: Bloomberg

Is this a bubble?

With stock markets reaching new highs, it's natural to ask if we're in bubble territory. Interestingly, much of the current market run is being fuelled by fundamentals. Corporate earnings are going up, so stocks are, too.

Nasdaq published a study comparing today to the dot-com bubble. As you can see in the chart, there were far more unprofitable companies back in 1999 (purple) compared to now (blue).



Source: Nasdaq Global Indexes, Factset as of 11/14/25. Q4'99 data reflects index composition and P/E ratios as of 12/31/99, with net profit margins shown for full-year 1999. Q4'25 data reflects index composition and P/E ratios as of 11/14/25, with net profit margins calculated as full-year 2025 consensus Net Income divided by Sales. P/E ratios displayed as earnings yields (E/P) for visualization purposes. Not shown: MSTR (2025 forecasted net margin >2,000%); CHTR (2025 E/P = 18%); CMCSA (2025 E/P = 22%); PCAR (1999 E/P = 17%); NWA (1999 E/P = 16%). 4Q'99 data unavailable for Legato Systems & Smurfit-Stone Container.

Companies today also have much higher profit margins. For example, 70% of the companies in the Nasdaq 100 (essentially a technology company index) now have good profit margins, contrasted with just 25% in 1999. Valuations today are also much cheaper: 60% of companies are in a reasonable price-earnings (P/E) ratio bucket, compared to just 16% in 1999. And, only 18% of companies today have a P/E greater than 60x, vs 76% in 1999.

It wasn't just a handful of tech stocks in the dot com bubble that were overvalued. It was almost all of them! Furthermore, Nasdaq 100 earnings growth over the past 20 years has been 14%, while annual returns have been 16.3%. Pretty close for such an extended period of time – meaning that the fundamentals are supportive. Usually, asset bubbles involve a big disconnect between prices and fundamentals. But this doesn't mean the market can't fall or crash. That is always a possibility – and it doesn't need a good reason either.

AI fatigue

Investors seem to be experiencing AI fatigue, questioning whether *hyperscaler* (any of the massive cloud/tech companies) spending on AI infrastructure will ever pay off. Extraordinary amounts of capital are certainly being spent: about $400 billion last year, $750 billion this year, and headed to $900 billion in 2027.

We know this money is being spent, and that the corporate earnings are real rather than hope-based (as in previous cycles). At the same time, there's a risk of over-investment. Token prices are falling, and companies that once encouraged maximum AI usage are now encouraging cheaper alternatives after blowing up their compute budgets.

So, the Magnificent 7 stocks, which include the biggest hyperscalers, haven't been doing as well recently. However, this has been offset by semiconductor companies.

Interestingly, in recent U.S. corporate earnings calls, the biggest increase in topics has been AI, while the biggest decrease has been tariffs. Many companies have adjusted to the dramatic change in tariffs. This innate ability to adapt is one reason we have faith in companies and stocks over the long term.

Inflation is back

June's plunge in oil prices will help reduce the headline inflation rate. But the core rate is now 3.4%, up from 3% before the Middle East war. The expectation now is for at least one rate hike by year-end in the U.S.

The AI spending boom is driving up electricity bills and consumer electronics prices. However, Jeremy Siegel, Emeritus Professor at the Wharton School of the University of Pennsylvania, believes the Fed will not need to raise rates this year if oil prices remain near pre-war levels and shelter inflation remains subdued. Of course, shocks could alter Siegel's outlook, but he believes the case for additional rate hikes has weakened.

Recession in Canada? – not really

The Canadian economy shrank by 0.1%, annualized, over the first quarter of 2026. This is the second straight quarterly decline which makes it technically a recession by definition – but maybe not a true recession. The reason? The economy did rebound a bit at the end, the majority of industries expanded, and 0.1% is within a normal margin of error. So, it doesn't look or feel like a typical recession.

The Canadian stock market was up a respectable 7% for the quarter, but lagged behind its peers – which were powered more by the AI theme. The TSX doesn't have a lot of direct AI exposure. Then why is the market up, when the economy seems like it's stumbling?

Stock markets tend to be forward-looking, anticipating a recovery or downturn before they show up in data such as Gross Domestic Product (GDP), which is backward-looking. Also, the Canadian stock market is heavy on financials and energy. But, in the real economy, the largest industries are real estate, manufacturing, and healthcare. This difference means sometimes there's a disconnect between the stock market and the economy.

The main culprits for a slower economy were lower business and government spending, in addition to lower exports amid ongoing trade disputes with the U.S. Conversely, household consumption increased, suggesting that households were in a relatively strong position before the onset of the war in the Middle East and the resulting higher energy prices.

Canada's unemployment rate was 6.6% in May, down from 6.7% in the previous quarter. The inflation rate was 3.2%, accelerating more than expected – driven by higher gas prices.

The Bank of Canada will be in a tough spot, balancing inflation with a stall-speed economy in addition to CUSMA talks. Interest rates could go either way.

AI – a productivity story

Jeremy Siegel continues to believe that AI is fundamentally a productivity story, rather than simply a cost-cutting one. Siegel's research shows strong growth in employment at firms aggressively adopting AI. Such companies are expanding because they are becoming more competitive. Firms that fail to invest are most at risk.

Competitive markets force companies to adopt productivity-enhancing technologies, even if the gains are eventually shared with customers through lower prices. That is how major technological revolutions have historically raised living standards, while supporting long-run economic growth. Siegel believes that the economy is healthy and the Fed should stay on hold. With that in mind, he believes the long-term investment case for equities – especially for companies driving the next wave of productivity through AI – remains firmly intact.

Don't forget the consumer

The U.S. economy is currently being driven by capital expenditures, much of which is hyperscalers spending lots of money on data centres. U.S. capital expenditure growth is faster than the consumer spending growth. But even though it's not growing as fast, U.S. consumer spending is still really important, as it is so big – representing about 70% of the U.S. economy.

The U.S. consumer has a few challenges right now, e.g., high energy prices eroding income, and low population growth. On the positive side, more jobs are being created and wages are growing. Stock market returns, retirees tapping into their retirement accounts, and lower savings rates are all contributing to more consumer spending.

Record prices but not record valuations

As you can see in the next table, dividends from Canadian stocks are less than 10-year bond yields, while forward earnings yields are more than double. Although not as cheap as before, this still shows decent value when comparing stocks to bonds in Canada. In the U.S., dividend yields are much lower than 10-year bond yields, but earnings yields are still a bit higher – giving us mixed signals of value in U.S. stocks.

Other regions like Europe, Asia, and Emerging Markets show good-to-decent value when compared to their average yield on 10-year bonds. But, again, not as good value as a year ago. Since then, stocks have become somewhat more expensive relative to earnings and dividends.

Lower valuations bode well for future long-term performance.

	Forward P/E	Forward Eanings Yield	Dividend Yield	10-Year Bonds*
Canada (S&P/TSX)	15.9	6.3%	2.2%	3.4%
U.S. (S&P 500)	20.4	4.9%	1.1%	4.5%
Europe	14.8	6.8%	2.8%	3.2%
EAFE (Europe, Australasia, Far East)	15.3	6.5%	2.0%	3.0%
Emerging Markets	10.9	9.2%	1.9%	3.0%
World	17.2	5.8%	1.5%	4.3%

**Weighted average for regions* *Source: Bloomberg*

FOMO vs FEMO

According to top economist Ed Yardeni, there are two opposites in the spectrum of bullish stock markets. The first is driven by FOMO, the fear of missing out, which inflates P/E multiples as investors chase hope and hype rather than fundamentals, creating conditions for a bubble. The second is driven by FEMO, or fabulous earnings momentum, which works the other way round: Corporate earnings grow faster than stock prices, compressing P/E multiples rather than expanding them.

Yardeni thinks the current bull market is near the middle of this spectrum but has moved more towards the FEMO type this year. The current bull market has been driven by real, measurable, and record corporate profits. And the strong profits are not just lifting stock prices, but the entire economy.

1. According to Yardeni, corporate earnings drive the stock market. Since the current bull market started in October 2022, the S&P 500 has increased more than forward earnings. The stock index is up 105% while forward earnings are up 56%. Investors are sensibly paying more for forward earnings because inflation and interest rates subsided; also, earnings confidence increased. This year, the index has been driven mostly by earnings. Strong earnings can lift the economy in two ways. The first is the wealth effect: higher household net worth boosts consumer spending. Secondly, profitable companies expand operations, hire more workers, pay higher wages, and invest in capacity. Workers spending their wages, and companies

responding to more demand, create a *virtuous cycle*, i.e., a feedback loop that's self-reinforcing.

2. Just as domestic investors are following FEMO's lead, so are foreign investors. Net capital inflows into U.S. stocks have also reached a record over the past 12 months.

The stock market bubble of the late 1990s was driven by FOMO on the tech-led bull market. As a result, the forward P/E ratio of the S&P 500 rose to a record high of 25x in early 2000. At the same time, the S&P 500 tech sector soared to a high of 55x.

The current bull market has been increasingly driven by earnings momentum. Even though the market is in record territory, the forward P/E ratio is "only" 20.4x, while the information tech sector is 23x. These are both lower than they were in 2021, prior to the 2022 interest rate shock. As you can see on the chart, today's bull market is much more reasonably priced relative to the tech boom. That doesn't mean valuations are great, though; they're still high compared to average.

Smaller and mid-sized companies are much cheaper; at around 16x forward earnings, about 20% cheaper than the S&P 500. This is another reason to have diversified portfolios, not just by industry and geography, but also by size of company.

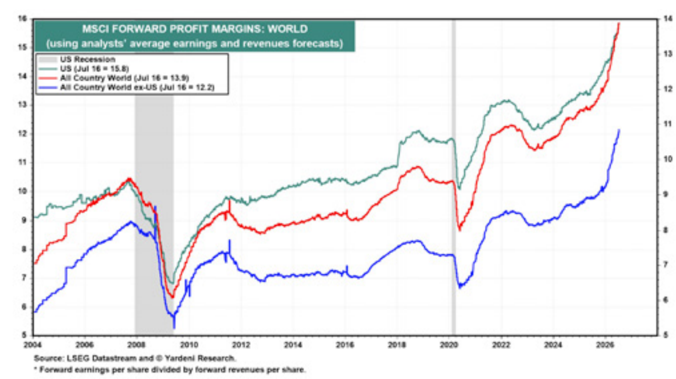
An earnings-led rally should be more sustainable than a P/E-led one fuelled by irrational exuberance. But the question now is whether the quality of earnings is eroding while this irrational exuberance in earnings expectations gets fuelled. Some analysts believe circular financing might be artificially boosting earnings among AI-related companies.

The information technology plus the communication services sectors of the S&P 500 currently account for a whopping 47% of the index's market capitalization. That's not a sign of irrational exuberance, given that their combined forward earnings share of the index is 44%.

Still, irrational exuberance could play a role to some extent, as the earnings expectations may not be realized. So, yes, earnings are high, but may not be as sustainable.

To give you an idea regarding the sustainability of corporate earnings, you can see in the chart how much profit margins have grown, especially since COVID. Margins are much higher in the U.S., but the trend is the same for both. So margins are historically high and growing, but it's also occurring around the world and has been for several years - giving us more confidence.

The only free lunch



In investing, there are many trade-offs. In a portfolio, concentrated positions sometimes help short-term performance, but diversification almost always helps resilience. Ray Dalio, founder of Bridgewater Investments, recently published a note "Investment Principles: What Should You Do Under Existing Conditions?"

In it, Dalio discusses how to invest in the current market given "there are a limited number of companies in a sector characterized by remarkable new technologies (mostly AI) that are dominating. These companies constitute a high percentage of the market cap and are having a huge effect on the markets and economy. As with all such times, there is a great deal of excitement, uncertainty, and volatility concentrated in the new technology sector, which are being passed through to the stock markets around the world. So, the swings and uncertainties around this sector matter a lot."

Dalio also mentions a few other big uncertainties: debt, political and social issues, geopolitical issues (i.e., wars), acts of nature, and technology.

Of course everyone wants to buy the best investments. But, he warns, "History shows that most everyone has failed by putting a high percentage of their chips on the few stocks of the leading companies producing that technology at this stage in the cycle. All the past cases of great new technologies have played out in the same ways for the same logical reasons. High risks with great uncertainties are intrinsic to these new technology companies. When we look at how they performed in the past under this configuration we see that even the best revolutionary new technology companies that prospered in the long run got annihilated at similar times along the way, and that, at the time the new technology companies came along, it wasn't easy to say which ones would succeed and which would fail. If you look at all those cases, you can see that it is in the nature of remarkable new technology companies to have highly uncertain futures."

Investors can't anticipate everything, whether it's newer technologies, newer companies, competition (China), or new ideas (quantum computing). Dalio's solution is to diversify well: "A well-diversified portfolio of good bets will outperform (have a higher return to risk ratio that can be engineered to have a better return given the same amount of risk) a concentrated bet, and the more the level of risk is concentrated in one area of the market, the more one should diversify, especially if the markets are driven by a revolutionary new technology which inherently produces great uncertainties."

Furthermore, "I confidently believe – because of my back-testing, because of my delivering the actual returns I delivered over my over 50 years of playing the investment game, and because of probable logic – that having excellent diversification of bets and gearing them to one's desired volatility will produce much better returns over time than having the concentrated bets that most investors are inclined to have. More specifically, by diversifying well, one can produce a much better risk/reward ratio than by having any concentrated bet, and by gearing that to one's desired level of risk, one can get a higher return with the desired level of risk than by following any other process."

This is why we call diversification the only free lunch in investing – one that helps us prepare for a wider range of outcomes, rather than a single theme.

Emerging markets

With emerging markets (EM) stocks outperforming their developed market counterparts for the second year in a row, it's natural to wonder if this is a new dawn for emerging markets' stocks. For three years in a row, EM earnings have grown faster compared to the MSCI World Index. EM countries remain global manufacturing powerhouses, and also benefit from AI spending, mining and commodities.

With more than 80% of today's global population residing in emerging countries, this demographic weight is translating into greater economic influence. Emerging markets account for over 50% of global GDP; this is expected to grow to 65% in the next 10 years.

There are a few reasons for this. First, domestic demand is replacing export dependency driven by rising middle classes, urbanization, and financial inclusion. Second, inter-EM trade has surged from 25% of total EM trade to almost 50% today. China has emerged as the largest trading partner for about 70% of the world – reorienting global commerce away from developed markets.

Third, stronger economic fundamentals provide resilience. Emerging markets maintain healthier fiscal positions than their developed counterparts, with government debt substantially below the 120% of gross domestic product (GDP) seen in advanced economies. Finally, select EMs are global leaders in several major technologies, including electric vehicles, batteries, and semiconductors.

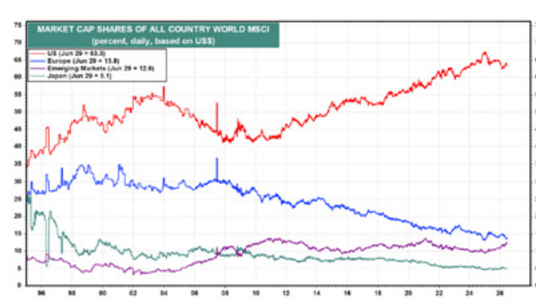
Despite these compelling structural tailwinds, emerging market stocks remain underrepresented in global benchmarks, at around 10% – in addition to a discounted valuation relative to developed markets.

But there are also risks to consider. U.S. exceptionalism could redirect more capital towards the U.S. Plus, energy-dependent emerging market countries, such as China, India Taiwan, and South Korea, are more vulnerable to price shocks.

That said, EM countries are learning to fly independently, powered by rising domestic demand, deepening economic integration, and growing financial autonomy.

Going global

The U.S. stock market currently accounts for about 65% of the MSCI All Country World Index's market capitalization. You can see on the chart how the U.S. has grown from 42% since 2008, while other geographies have relatively shrunk.



Valuations of non-U.S. geographies are also relatively cheaper than the U.S.

Perhaps some mean reversion in market capitalization, plus cheaper valuations of international countries, are good reasons to broaden things out geographically, despite the U.S. being the leader for so long.

What can go wrong?

1. More geopolitical events, such as China invading Taiwan.
2. An extended oil shock.
3. Credit crunch – maybe from the private credit sector.
4. Unexpected interest rate hikes due to inflation.

According to Yardeni, credit crunches are the killers: They cause recessions, and that's what causes bear markets. He also notes there is a risk that technology companies, especially the hyperscalers, won't beat analysts' optimistic earnings-growth estimates in the coming quarters.

It could be that analysts are too bullish and may be creating hard-to-beat earnings expectations for 2026 and 2027. Whatever the case, analysts are projecting that S&P 500 earnings per share will increase 18.9% this year to $342.17, and 17.8% next year to $402.96, which are higher than Yardeni's forecasts of $330 and $375 respectively.

Still, Yardeni believes we will be able to avoid a correction. He also thinks that the economy won't experience a recession for the rest of the decade.

Space… the final frontier

Space has recently been a focus, with the largest initial public offering (IPO) in history. We've seen major advancements with reusable landing rockets and unmanned missions. But how about some fundamentals?

One estimate from the World Economic Forum and McKinsey is that the space economy can grow from $600 billion in 2023 to $1.8 trillion by 2035. That's triple the size in about a decade – working out to an impressive 9% growth per year.

In the near term, there seem to be many viable projects, including defence spending and satellite communications. The cost of launches is an important factor. Costs have come down 10x in the last 20 years. Still, they probably still need to come down a lot more – maybe 20x – before we see a proliferation of space-based data centres.

There seems to be a lot of hype surrounding space. The sky is no longer the limit – but we have to be wary of the economics, too.

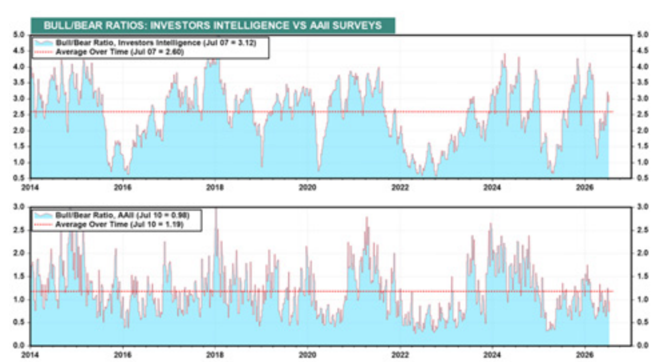
Bull-bear ratio

The U.S. stock market has been floating around record territory since making new highs at the end of May. This, despite all the news about the Iran war, AI, corporate earnings, and more. Interestingly, though the markets are in record territory, the bull-bear ratio to track investor sentiment, a contrarian indicator, is neither too bullish (which would be bearish) nor too bearish (which would be bullish).

Looking ahead

As we move into the second half of 2026, the global outlook remains uncertain, shaped by geopolitical uncertainty, AI enthusiasm, ongoing trade tensions, inflation, and interest rates, as well as fiscal challenges.

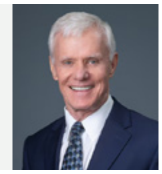
Events so far this year have reaffirmed the importance of diversification, quality, and adaptability in navigating today's markets. In this environment of ongoing uncertainty, our approach remains rooted in resilience and disciplined decision-making. Ultimately, when uncertainty is the only certainty, our strength comes not from trying to predict what lies ahead, but rather from thoughtfully preparing for a range of outcomes.



Stocks may fall in the short term, but we remain comfortable holding shares of good companies for the long term. Our philosophy remains constant: It's all about making sure that we're sticking with our financial plan and investment philosophy, and rigorously following our processes.

We welcome your comments and questions – and wish you the best for the rest of the summer!

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.



Michael Chu is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

CIBC PRIVATE WEALTH

The Stan Clark Financial Team

Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211
Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca