

## RJL PCS: INSIGHTS & STRATEGIES

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## May 2026 Insights & Strategies: A wide range of possible outcomes stresses the benefits of diversification

### Macro Highlights for April

- The Bank of Canada (BoC) held its policy rate at 2.25% at the end of April, noting that a wide range of possible outcomes on significant events like the war in Iran, affecting the price of oil, and trade uncertainty, with the upcoming USMCA review, could introduce scenarios that could prompt rate cuts or hikes.
- The BoC's updated Monetary Policy Report remained relatively unchanged, forecasting GDP to slow to 1.2% growth (up from 1.1% previous forecast) in 2026 after the 1.7% increase in 2025. The forecast for 2027 is for an improvement to 1.6% (up from 1.5%). While higher oil prices could pressure growth in the short-term, the more significant risk would be from disruptions or significant decline of business confidence through the USMCA review process.
- Canada's unemployment rate rose to 6.9% in April, up from 6.7% in March, as employment fell by 17.7k. The YTD decline is now over 112k, and likely easing any pressure for the BoC to raise rates. The labour market remains more resilient in the U.S., with the unemployment rate steady at 4.3%, with a 115k rise in payrolls in April, putting the 3-month average gain at almost 50k/mth, at the upper end of the breakeven range, leaving more reasons for the Fed to stay on hold rather than to resume cutting rates.

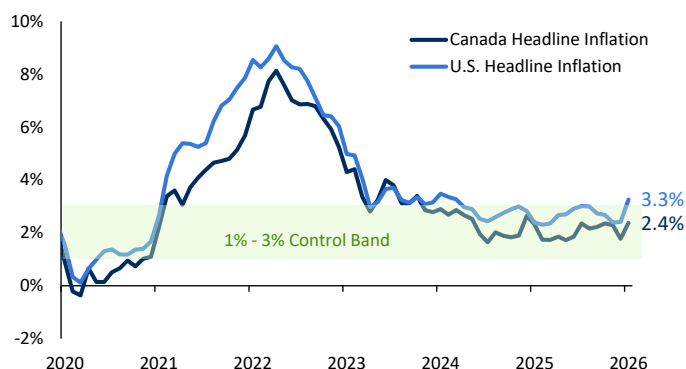
### Financial Markets in April

- In April, U.S. equities staged a rapid V-shaped recovery despite ongoing U.S.–Iran negotiations. The S&P 500 delivered a 10.4% price return and a 10.5% total return, marking the 12th strongest monthly performance since 1950, reaching a new all-time high and lifting year-to-date returns to 5.3% and 5.7%, respectively. Canadian equities also advanced, with the S&P/TSX Composite gaining 3.7% in price and 3.8% in total return, nearly retracing pre-Iran conflict levels. Year-to-date, the index has delivered price and total returns of 7.1% and 7.9%, respectively.
- On the S&P 500, over 84% of constituents have reported 1Q26 results, with approximately 87% exceeding expectations. Earnings are tracking at 8.2% quarter-over-quarter and 26.5% year-over-year, marking a sixth consecutive quarter of double-digit year-over-year growth, with sectors containing significant mega-cap technology exposure continuing to be the primary drivers of aggregate earnings expansion.
- On the TSX Composite, over 56% of constituents have reported 1Q26 results, with approximately 60% beating expectations. Earnings are tracking at -4.9% quarter-over-quarter and 22.2% year-over-year; however, growth remains concentrated, with roughly 13 percentage points of the year-over-year expansion driven by the Materials sector, reflecting elevated precious metal prices versus 1Q25. With the improving profitability outlook we are increasing our 2026 year-end target for the TSX Composite from 34,900 to 37,000.

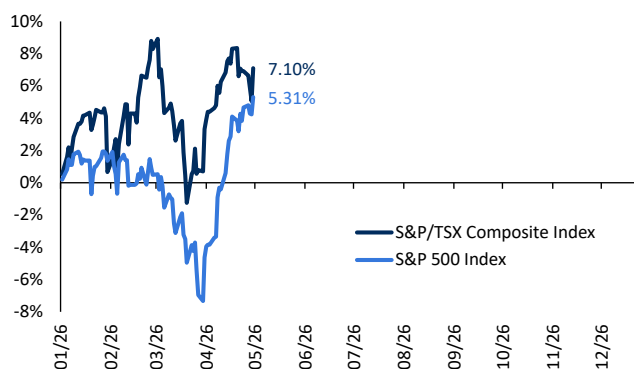
### Upcoming

- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, or the start of annual reviews for the next 10 years, will likely be the most consequential event for Canada this year. A lack of renewal does not mean that the USMCA ends imminently, but will just lead to protracted uncertainty as various adjustments are negotiated, which could still take years. While we are optimistic of a reasonably good outcome for Canada, we are also braced for demands from the U.S. for adjustments related to rules of origin, digital services, and the dairy industry, to impact various sectors.
- The striking down of IEEPA-based tariffs, and new ruling against the 10% global replacement tariff, has forced the U.S. Administration to shift tactics, but not to abandon its goals of tariffs as a policy tool and to drive government revenues. This is leading to persistent uncertainty that keeps businesses from longer-term planning and investing. We will be watching ongoing revisions to the tariff strategy.

- The Iran conflict is rapidly evolving, and despite the latest ceasefire, the war is not yet over, so we will be watching for both short-term and longer-term impacts to energy prices and broader economic impacts, depending on any further escalation and expected duration. Persistence in higher oil prices could stoke inflation concerns and push out the timeline for further Fed rate cuts, although the Fed seems to be willing to consider the energy price spike and resulting impact on inflation as transitory supply-side disruption that rising policy rates would have limited ability to influence.

**Chart 1 - Canada and U.S. Headline Inflation**

Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026. Not seasonally adjusted.

**Chart 2 - S&P/TSX Composite and S&P 500 YTD Performance**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026. Price return in local currency.

## Executive Summary

As we progress through 1Q26 earnings season, it seems clear that equity markets have mostly turned their attention away from the war in Iran, and back towards impressive corporate profit improvements and a still resilient economy. That's not to imply that the enduring conflict in the Middle East, and subsequent impacts from the shipping disruptions, will have no impacts through the remainder of 2026, but we seem to be back to the optimism that permeated the start to 2026 as A.I.-related capex and promises of further productivity improvements are powerful drivers of this latest run up in markets.

We are happy to see modestly good overall economic growth in Canada, despite lingering pressures, including uncertainty over the trade environment. Strength in Canadian GDP growth has benefited from the spike in oil price and increased volumes from metals and minerals (notably gold) exports, that led to Canada's trade balance jumping to a surplus in March. The labour market has been a little soft however, as the unemployment rate nudges higher. Inflation has been close to target for over a year now, but the war and gasoline prices are likely going to push inflation, at least temporarily, above the 1-3% comfort zone, while the BoC policy rate remains at the low end of the 2.25-3.25% neutral range. As the ongoing conflict leaves a wide range of possible outcomes on the table, the upcoming USMCA renegotiations cast a further cloud of uncertainty for businesses that might otherwise be willing to invest, although recent reports do have business sentiment in Canada improving.

Markets continued to demonstrate increasing resilience to shocks in April. U.S. equities staged a rapid V-shaped recovery, the S&P 500 delivered a 10.4% price return and a 10.5% total return, marking the 12<sup>th</sup> strongest monthly performance since 1950, pushing the index to a new all-time high and lifting year-to-date returns to 5.3% and 5.7%, respectively. Canadian equities also advanced, with the S&P/TSX Composite gaining 3.7% in price and 3.8% in total return, nearly retracing pre-Iran conflict levels. As of April 30, the TSX continues to modestly outperform the S&P 500 year to date, with price and total returns of 7.1% and 7.9%, respectively. More muted performance in gold weighed on the Materials sector and acted as a partial drag on overall index returns.

Globally, equities strengthened as the U.S.-Iran truce held and the A.I.-driven rally reaccelerated, with technology-oriented markets such as Japan, alongside semiconductor-heavy emerging markets including South Korea and Taiwan, delivering particularly strong gains.

While short-term volatility can be nerve wracking, the overall backdrop for 2026, with improving corporate earnings, contained (core) inflation, fiscal stimulus, all play towards our still positive outlook for equity markets. 1Q26 earnings are unfolding well, so we are adjusting our target for the TSX Composite by the end of 2026 to 37,000 (up from 34,900), using an 18.0x P/E multiple against 2026 earnings of \$2,055 (up from \$1,939), which is still conservative against the consensus estimate of \$2,095.

## USMCA Renewal

As we approach the July 1 deadline for U.S., Canada, and Mexico to renew the United States - Mexico - Canada (USMCA) Agreement, a.k.a. CUSMA in Canada, we will be providing a little more detail and coverage of the negotiations and potential outcomes that investors should be watching for, and potentially preparing for.

### Background

The USMCA came into effect on July 1, 2020, as a replacement for the North American Free Trade Agreement (NAFTA). The update focused on rules of origin to allow goods tax-exempt status, and new guidelines around intellectual property, digital trade, anti-corruption, and regulatory practices. In 2022, U.S. goods and services trade covered by the USMCA totaled US\$1.8 trillion. A source of frustration for the U.S. government was that U.S. exports were US\$789.7 billion, while imports were US\$974.3 billion, that year, meaning that the U.S. had a US\$184.6 billion trade deficit. The current U.S. administration is heavily focused on having the country exporting more value than it imports.

### Renewal process

Chapter 34 of the USMCA describes that the agreement shall terminate 16 years after it's entry into force. That would put expiry at July 1, 2036. However, there are checkpoints each six years, such that by July 1, 2026, a joint review of the operation of the agreement must be conducted, where each country reviews recommendations to improve the agreement, and decides on any appropriate actions. Recommendations are due at least a month before the joint review.

If all countries are satisfied with the joint review, the agreement is reset and a new 16-year clock is started, with another 6-year review deadline. If however, we do not attain a unanimous confirmation to renew the agreement, the process shifts to annual reviews for the remainder of the 10-year period until the agreement ultimately expires on July 1, 2036. If, at any of those annual reviews, the committee agrees to revisions and extension, then at that point, a new 16-year term is established.

Under the most extreme scenario, each country can withdraw from the USMCA by giving notice to the other parties. The withdrawal takes effect six months after the notice is given. The other two parties remain bound by the agreement.

### Our expectation

At this point in time, we think it is unlikely that USMCA will be accepted for renewal on July 1. What we do expect is that a non-renewal will just push the effort into an annual review process, but within the ensuing 10 years, the countries will agree to revisions that will then set a new 16-year term. We see a complete withdrawal, after a six-month notice, being extremely unlikely, as the basic foundation of USMCA provides benefits to all parties, with just a few annoyances around the edges.

The concerns in the short-term would be that non-renewal on July 1 is misinterpreted by individuals and/or businesses of an immediate breakdown in the trading relationship, when it only sets off a protracted renegotiation period with annual reviews.

## Tariffs

We are now past the one-year mark of "Liberation Day", when on April 2, 2025, the U.S. announced sweeping global tariffs on almost all countries. Pauses and revisions caused massive uncertainty and the S&P 500 dropped 11% in just two days. It bottomed on April 8, 2025, but has since rebounded almost 50% from that low. On February 20, 2026, the Supreme Court (SCOTUS) ruled that the President had exceeded his authority under the International Emergency Economic Power Act (IEEPA), and now the government has set up a website through which roughly US\$170 billion collected under those measures can be returned to the payers.

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. According to the Yale Budget Lab, just prior to the SCOTUS ruling, the overall effective tariff rate was 16.9%, falling to 9.1% after the ruling, only to bounce back to 13.7% with the then threatened 15% Section 122 tariffs.

So far, as a replacement to the IEEPA tariffs, we have seen President Trump threaten 15% tariffs under Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits, although a 10% rate was actually implemented. The Court of International Trade has recently ruled against these tariffs also, yet, as before, we can probably expect further challenges by the Administration. Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China,

or the automotive industry, steel, and aluminum tariffs, were unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1).

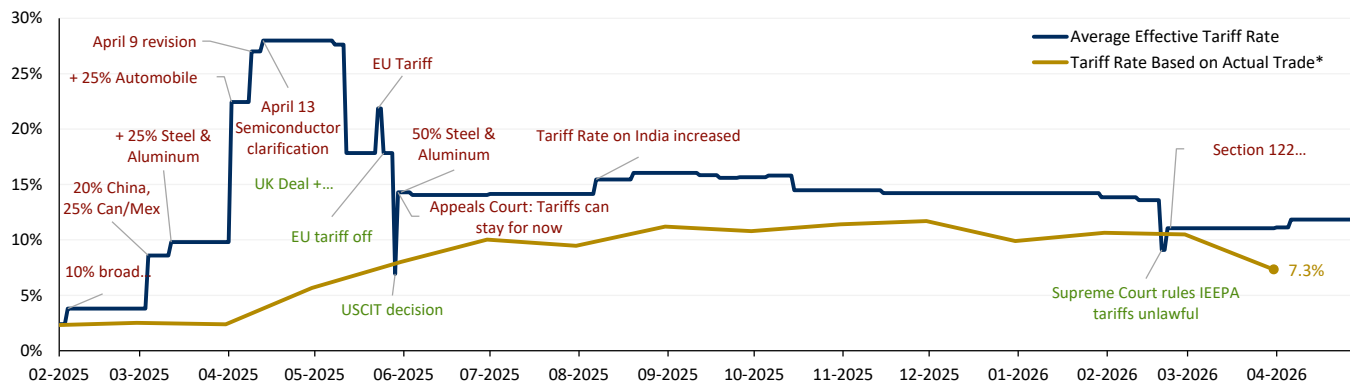
Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal. Below, in Table 1, we include brief updates on key tariff-related items. We expect more intensive use of Section 232 tariffs now that the IEEPA tariffs have been struck down.

**Table 1 - Section 232 Tariffs Summary, as of May 7, 2026**

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3, 2025	25%
Steel and aluminum	Effective June 4, 2025	25-50%
Copper	Effective August 1, 2025	25-50%
Softwood timber and lumber	Effective October 14, 2025	10%
Wooden furniture, kitchen cabinets and vanities	Effective October 14, 2025	25%
Medium/heavy duty trucks & buses	Effective November 1, 2025	25% on trucks/parts; 10% on buses
Specific semiconductors and related products	Effective January 15, 2026	25%
Certain patented pharmaceuticals and ingredients	Effective July 31, 2026	100% (20% for companies with onshoring plans)
Processed critical minerals and derivative products	Investigation initiated April 22, 2025	-
Commercial aircraft and jet engines	Investigation initiated May 1, 2025	-
Polysilicon and its derivatives	Investigation initiated July 1, 2025	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1, 2025	-
Wind turbines	Investigation initiated August 13, 2025	-
Robotics and industrial machinery	Investigation initiated September 2, 2025	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2, 2025	-

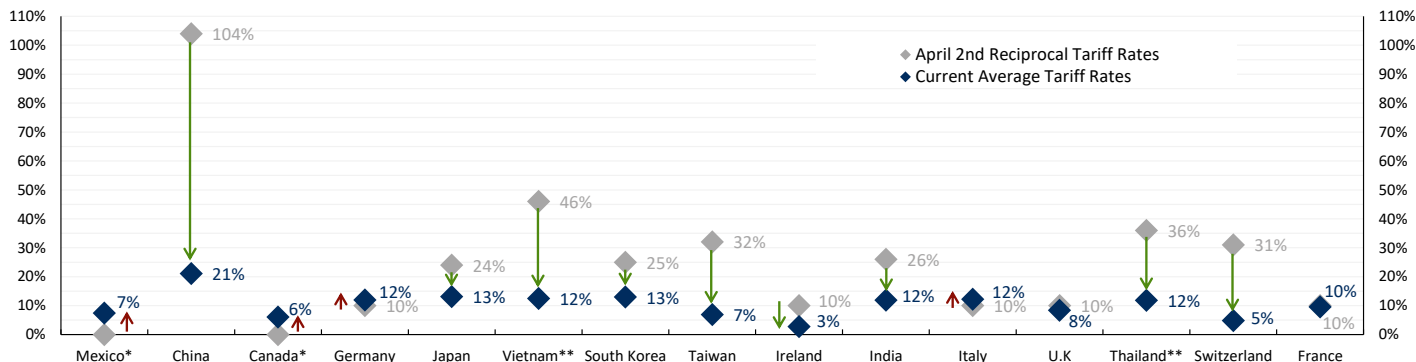
Source: U.S. Department of Commerce, Raymond James Ltd.

**Chart 3 - U.S. Effective and Actual Tariff Rate**



Source: The Budget Lab at Yale. \*Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

**Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Average Tariff Rates, as of May 7, 2026**



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd. \*USMCA-compliant goods remain exempt. \*\*40% tariff rate on transshipments.

## Economics

### Canadian GDP growth remains positive

Real GDP rose 0.2% m/m in February, in line with expectations, supported by a rebound in manufacturing (+1.8%) and wholesale trade (+0.9%) as automakers resumed production following earlier retooling shutdowns. The advance estimate points to flat growth in March, although more recent data on manufacturing and wholesale activity suggest some modest upside potential (Chart 6). Even if March GDP comes in flat, first-quarter growth is tracking around 1.6% annualized, broadly in line with the Bank of Canada's updated forecast.

The Bank of Canada's April Monetary Policy Report (MPR) now sees Q1 growth at 1.5% annualized, down from 1.8% previously (in the January MPR). However, the Bank upgraded its outlook for the second half of the year, with Q3 revised up to 1.9% (from 1.0%) and Q4 to 2.3% (from 1.5%), supported by higher energy prices benefiting Canada as a net exporter, a gradual recovery in business investment, and increased government spending. As a result, the full-year growth forecast nudged higher to 1.2% for 2026 (from 1.1%) and 1.6% for 2027 (from 1.5%).

### Consumer spending holding up

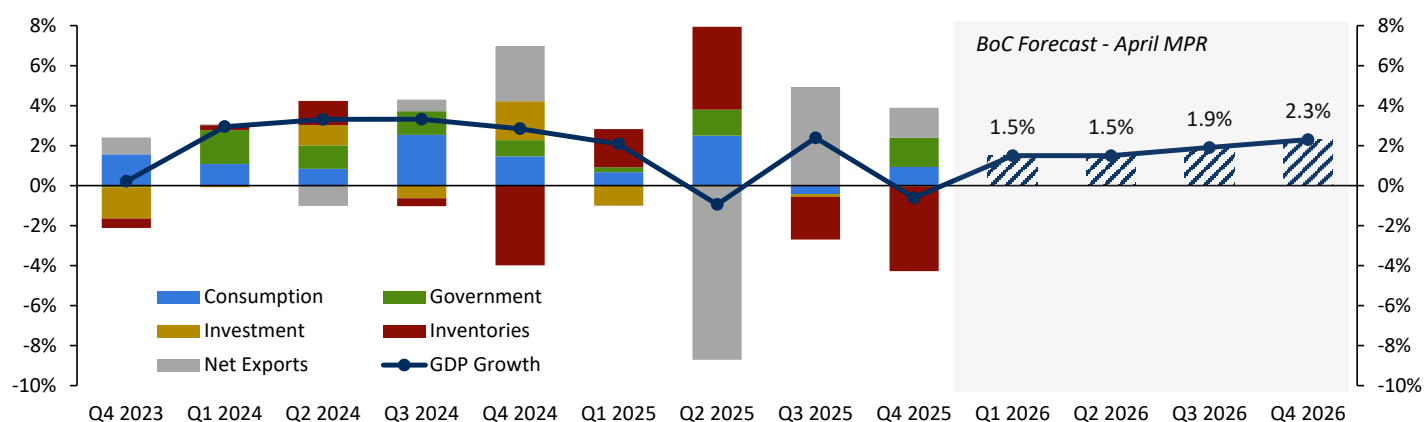
Consumer spending continued to hold up through February, with retail sales rising 0.7% m/m, after posting stronger growth of 1.2% in January. The advance estimate for March points to a 0.6% gain in retail sales, which appears relatively modest given the sharp increase in gasoline prices during the month, suggesting real consumption may be more muted. Even so, the overall trend through the quarter remains constructive, with spending expected to contribute modestly to first-quarter growth.

### Trade balance turns positive in March

Canada's trade balance improved notably in March, shifting from a \$5.1 billion deficit in February to a \$1.8 billion surplus, marking the first surplus since September 2025 (Chart 7). The turnaround was driven largely by a surge in energy and precious metals exports, with crude oil exports rising 19% m/m amid higher prices and unwrought gold/silver/platinum exports increasing 38% m/m. Excluding these categories, export growth was more modest at 1.6%.

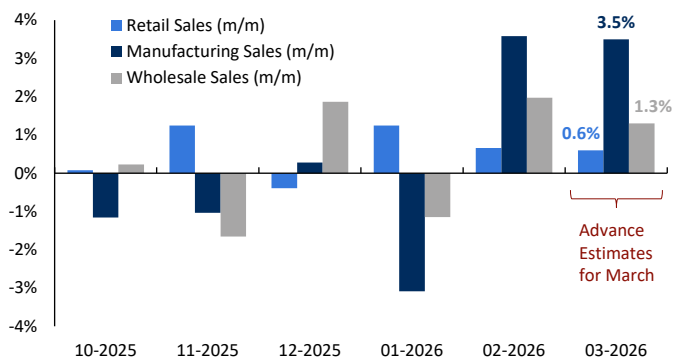
While the March rebound helped narrow the deficit accumulated earlier in the quarter, net trade is still expected to weigh on first-quarter growth overall. For 1Q26 as a whole, total imports rose 4.6%, outpacing the 3.5% increase in exports. As noted earlier, Canada stands to benefit from higher oil prices as a net energy exporter, which could continue to support export growth in the near term.

**Chart 5 - Contribution to % Change in GDP (q/q annualized)**



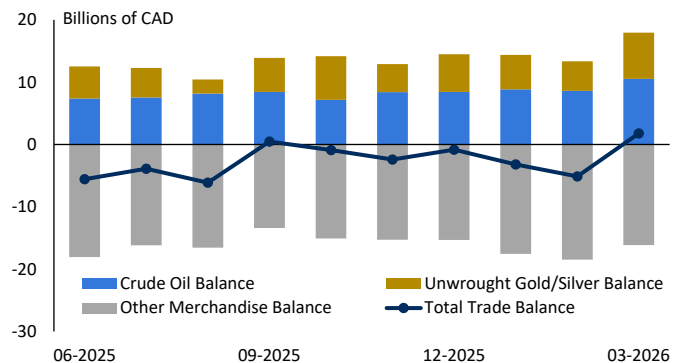
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 6 - Timely Indicators Show Continued Strength in March**



Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2026.

**Chart 7 - Crude Oil and Gold Drive Canada's Trade Surplus in March**



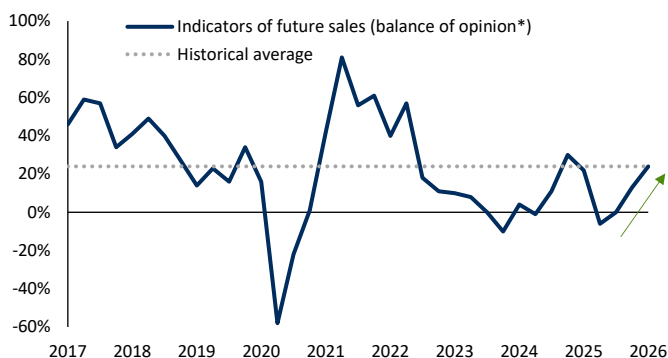
Source: Statistics Canada, Raymond James Ltd.; Data as of March 31, 2026.

**Business Sentiment Showing Signs of Improvement**

Recent results from the Bank of Canada's Q1 Business Outlook Survey point to a modest improvement in business sentiment. Indicators of future sales have strengthened and moved closer to their historical average (Chart 8). Investment intentions have also picked up, reaching their strongest level since trade tensions began in early 2025, with a larger share of firms planning to increase capital spending (Chart 9). Stronger domestic demand appears to be a key driver, with more firms focusing on productivity-enhancing investments and capacity expansion, rather than routine maintenance, which is an encouraging signal for overall economic activity.

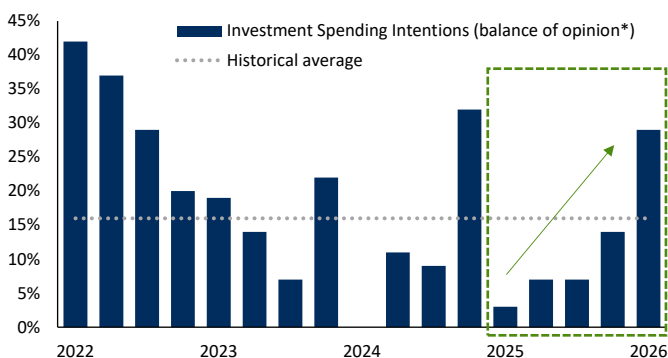
While most survey responses were collected before the escalation of the Middle East conflict, targeted follow-up consultations indicate that many firms are already facing higher input costs due to rising prices for energy, fertilizer, and freight. Beyond these cost pressures, the broader outlook for business activity remains largely unchanged, as most firms reported no material change to their expectations for sales, investment, or employment over the next 12-month horizon. While some respondents noted potential supply chain disruptions if the conflict persists, none had experienced these effects as of the end of March.

**Chart 8 - Improved Outlook for Future Sales**



Source: Business Outlook Survey - 1Q26, Bank of Canada, Raymond James Ltd.; Data as of March 31, 2026. \*% of firms reporting that indicators have improved minus the % reporting deterioration.

**Chart 9 - Firms' Investment Intentions Have Strengthened**



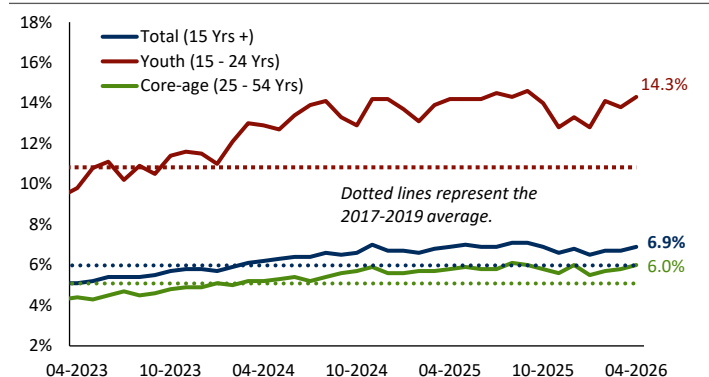
Source: Business Outlook Survey - 1Q26, Bank of Canada, Raymond James Ltd.; Data as of March 31, 2026. \*% of firms expecting higher investment spending minus the % expecting lower.

**Labour market softens as unemployment rises**

Labour market conditions weakened in April, with employment declining by 17.7k, falling short of expectations for a modest gain of 10k. Job losses were concentrated in construction (-15.7k), transportation and warehousing (-10.5k), and wholesale and retail trade (-8.3k). At the same time, the labour force increased by 33.5k, pushing the unemployment rate higher by 0.2 percentage points to 6.9% (Chart 10). Similar to the recent trend, the weakness was more pronounced among youths, with the youth unemployment rate increasing by 0.5 percentage points to 14.3%. The participation rate among core-aged workers also increased in April, pushing the core-age unemployment rate to 6.0%.

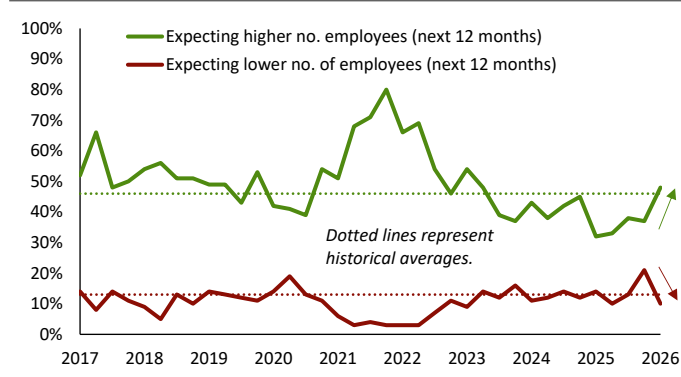
Looking ahead, hiring intentions over the next 12 months have improved in recent Business Outlook Survey results, although this is likely to translate into actual employment gains only gradually (Chart 11). The outlook remains sensitive to trade-related uncertainty, particularly around the USMCA review, which could weigh on business confidence and hiring plans. That said, with labour force growth expected to remain broadly moderate, the unemployment rate is unlikely to deteriorate significantly from the current level.

**Chart 10 - Unemployment Rates Rise Across Age Groups in April**



Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026.

**Chart 11 - Firms' Hiring Intentions are Improving After Recent Weakness**



Source: Business Outlook Survey - 1Q26, Bank of Canada, Raymond James Ltd.; Data as of March 31, 2026.

### Headline inflation ticks up in March

Headline inflation rose to 2.4% y/y in March, up from 1.8% in February (Chart 13), driven primarily by a sharp increase in energy prices. Gasoline prices surged 21% on the month, pushing energy inflation up 12% y/y and contributing roughly 0.7 percentage points to the headline figure. Excluding gasoline, inflation was more moderate at 2.2% y/y, indicating that the broader price pressures remain relatively contained so far. Core inflation moved higher but remained broadly in line with target. The Bank of Canada's preferred CPI-trim and CPI-median measures rose by an average of 0.2% m/m in March, marking a pickup from recent months but still consistent with inflation running close to 2% on an annualized basis.

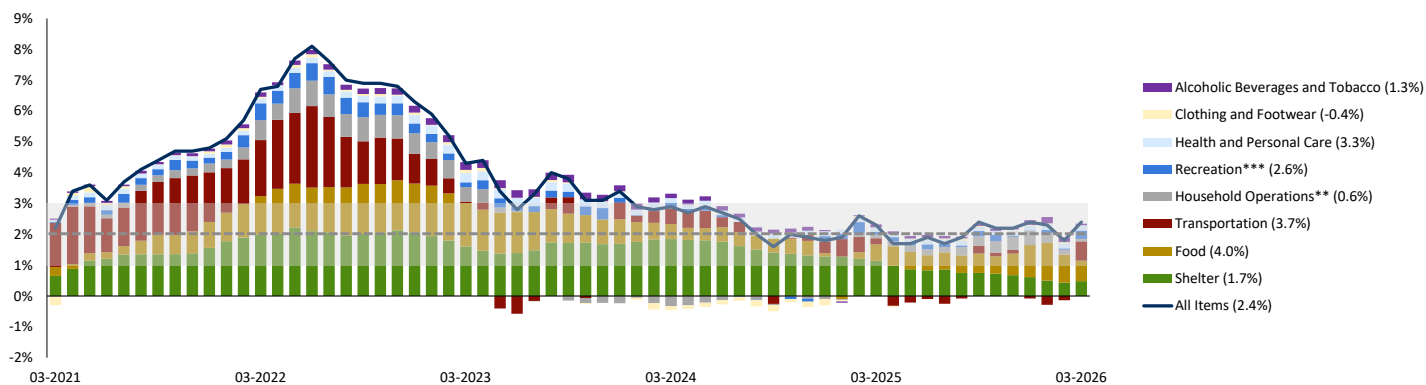
Looking ahead, the temporary suspension of the federal gasoline tax is expected to lower the potential peak in CPI by roughly 0.2 percentage points. However, if oil prices remain elevated for a longer period, higher energy costs are likely to feed through into other components of the CPI, raising the risk of more persistent inflationary pressures.

### Bank of Canada remains on hold amid two-sided risks

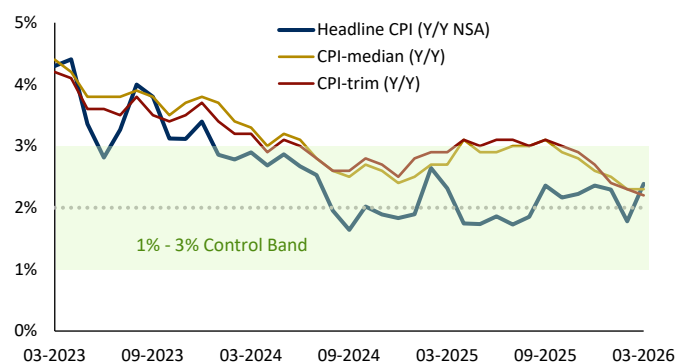
The Bank of Canada (BoC) held its policy rate at 2.25% at its April meeting, highlighting elevated uncertainty around the outlook, particularly stemming from the conflict in the Middle East and potential trade tensions ahead of the USMCA review. While the Bank reiterated that it would largely look through the direct impact of higher energy prices on inflation, it acknowledged that near-term inflation expectations have moved higher.

Looking ahead, the Governing Council indicated that a policy rate close to current settings would likely remain appropriate if oil prices gradually ease and trade conditions remain stable. The Bank's outlook assumes Brent Crude at around US\$90 in 2Q26, before settling near US\$75 by mid-2027 as exports through the Strait of Hormuz normalize. However, if oil prices continue to rise and remain elevated, increasing the risk of broader inflation pressures, the Bank signaled that consecutive rate increases could be required. That said, our base case aligns with the Bank's view that oil prices will gradually ease, and with underlying inflation already moderating, any pass-through to broader prices is likely to be short-lived. Conversely, if the USMCA review introduces additional uncertainty that weighs on business confidence, it could dampen growth and support the case for a rate cut later in the year.

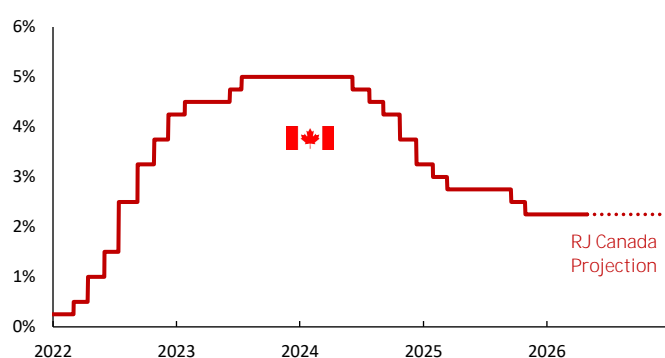
As a result, while two-sided risks remain, our base case is for the Bank to stay on hold through the remainder of the year (Chart 14). That said, we see some potential for a 25 bp cut if the reopening of the Strait of Hormuz leads to a quick normalization in energy prices, and if increasing uncertainty around the USMCA renewal warrants a more supportive policy stance.

**Chart 12 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)**

Source: Statistics Canada, Raymond James Ltd.; Data as of March 31, 2026. \*\*Household operations, furnishing and equipment; \*\*\*Recreation, education and reading.

**Chart 13 - Energy Prices Lift Headline CPI; Core Pressures Remain Moderate**

Source: Statistics Canada, Raymond James Ltd.; Data as of March 31, 2026.

**Chart 14 - Bank of Canada Likely to Stay on Hold**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

### The U.S. — GDP growth rebounds in 1Q26

U.S. real GDP grew at a 2.0% q/q annualized pace in Q1, rebounding from 0.5% growth in Q4 (Chart 15). The pickup was driven in part by a recovery in federal spending following the government shutdown, alongside strong gains in private investment. Federal expenditure rose 9.3% during the quarter, contributing 0.6 percentage points to overall growth. Notably, there was limited evidence of a pickup in defense spending in the quarter, suggesting scope for it to provide additional support to growth in 2Q26.

Private-sector activity remained relatively solid. Personal consumption expenditures (PCE) increased 1.6% q/q annualized, contributing 1.1 percentage points to GDP growth, with services continuing to offset a slight decline in goods consumption. Investment was a key driver, with gross private domestic investment rising 8.7% q/q annualized and contributing 1.5 percentage points. Strength was concentrated in technology-related categories, with investment in information processing equipment surging 43.4% and software rising 22.6% (both q/q annualized), contributing 0.8 and 0.5 percentage points to overall growth, respectively, reflecting continued investment in A.I.-related infrastructure (Chart 16). Residential investment, however, remained a drag. Net trade also weighed on growth, with exports rebounding strongly but more than offset by a surge in imports, resulting in a -1.3 percentage point contribution.

Overall, final sales to private domestic purchasers rose 2.5% q/q annualized, indicating that underlying domestic demand remained firm. At the same time, continued strength in AI-related investment remains a key driver, with both these factors continuing to support overall economic growth.

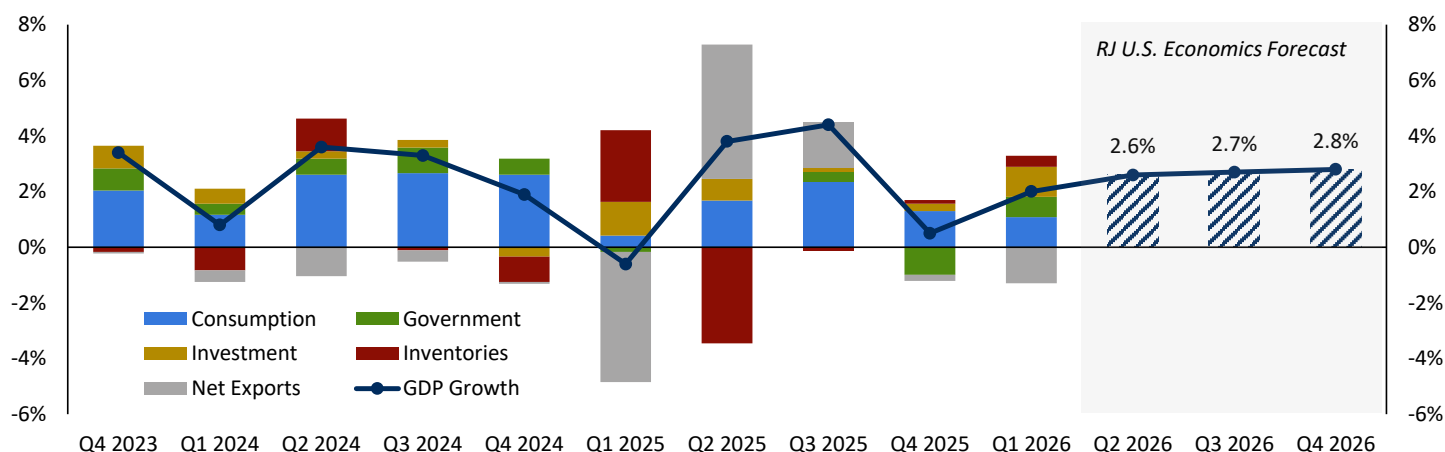
### PMIs remain in expansion, but price pressures elevated

The ISM Manufacturing Purchasing Managers' Index (PMI) was unchanged at 52.7 in April, marking a fourth consecutive month in expansion territory (Chart 17). Demand remained resilient, with new orders strengthening modestly, although production eased from the prior month.

Notably, input cost pressures intensified, with the prices index rising to its highest level since April 2022, reflecting inflationary pressures linked in part to higher energy costs. The ISM Services PMI edged lower in April but remained firmly in expansion, extending its streak to 22 consecutive months.

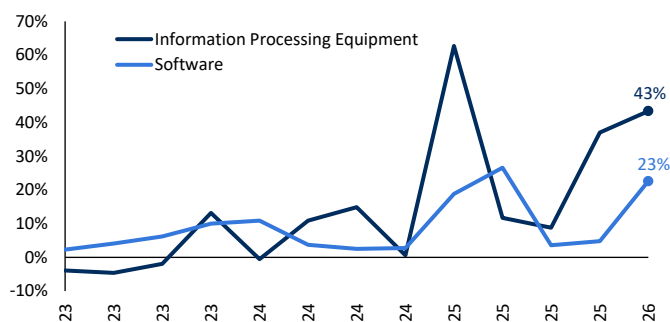
Overall, PMIs suggest economic activity remained resilient through April, despite ongoing geopolitical uncertainty and elevated energy costs. However, persistently high input costs continue to point to potential near-term inflation pressures.

**Chart 15 - Contribution to % Change in U.S. GDP (q/q annualized)**



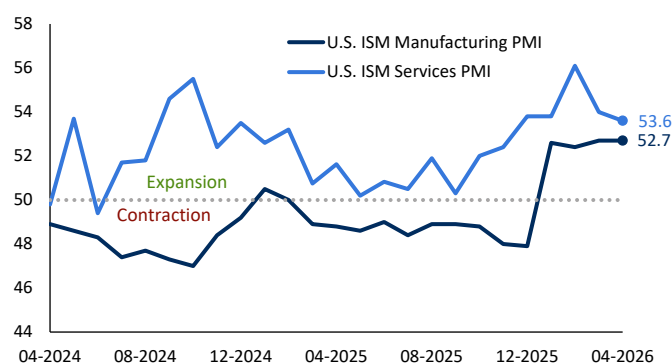
Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

**Chart 16 - Robust Growth in A.I.-Driven Investment (q/q annualized)**



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

**Chart 17 - PMIs Remain Firm in Expansion Territory**

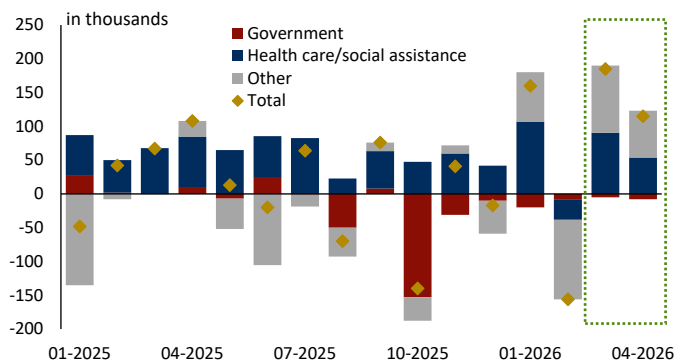


Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

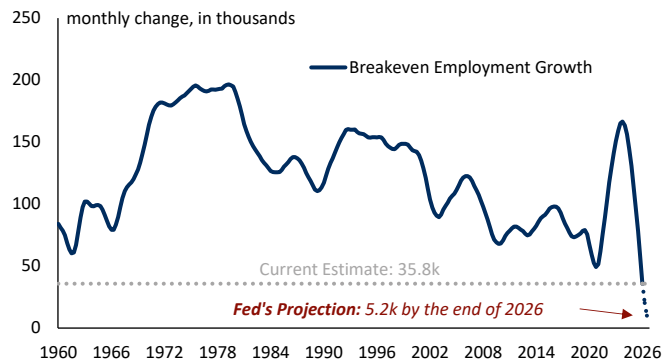
### U.S. labour market showing resilience

Nonfarm payrolls in the U.S. increased by 115k in April, following an upwardly revised 185k gain in March. Job growth was broadly based across sectors, marking a shift from the more concentrated gains seen through 2025, which were largely driven by health care and social assistance (Chart 18). In April, declines were limited to a few sectors, including manufacturing, information, financial activities, and government. Revisions to prior months were modestly negative, with a net downward adjustment of 16k jobs across February and March.

The unemployment rate remained unchanged at 4.3%, while the labour force participation rate edged slightly lower to 61.8% from 61.9%. Overall, with participation continuing to trend lower, the breakeven pace of monthly job growth remains low (around 35k per month) allowing relatively modest hiring to keep the unemployment rate stable. This dynamic is likely to persist given aging demographics and slower population growth in the U.S. According to Federal Reserve estimates, the breakeven pace could fall to just over 5k jobs per month by the end of 2026 (Chart 19).

**Chart 18 - Employment Growth Broadens Beyond Health Care/Social Assistance**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

**Chart 19 - Slower Labour Force Growth Lowering Breakeven Employment Level**

Source: Federal Reserve, Raymond James Ltd.; Data as of March 31, 2026.

### U.S. inflation ticks higher amid elevated energy prices

U.S. Consumer Price Index (CPI) inflation picked up notably in March, with headline prices rising 0.9% m/m and the year-over-year rate increasing to 3.3% from 2.4% in February (Chart 21). The surge was driven primarily by energy, with gasoline prices jumping 21% on the month and accounting for the majority of the increase in headline CPI. In contrast, core CPI rose a more modest 0.2% m/m, with the year-over-year rate edging up slightly to 2.6%, suggesting limited spillover into broader price categories so far.

Producer prices also moved higher, with headline Producer Price Index (PPI) rising 3.6% y/y, again largely reflecting higher energy costs. Core PPI, however, was essentially unchanged, reinforcing the view that underlying inflation pressures remain relatively contained despite the sharp increase in energy prices.

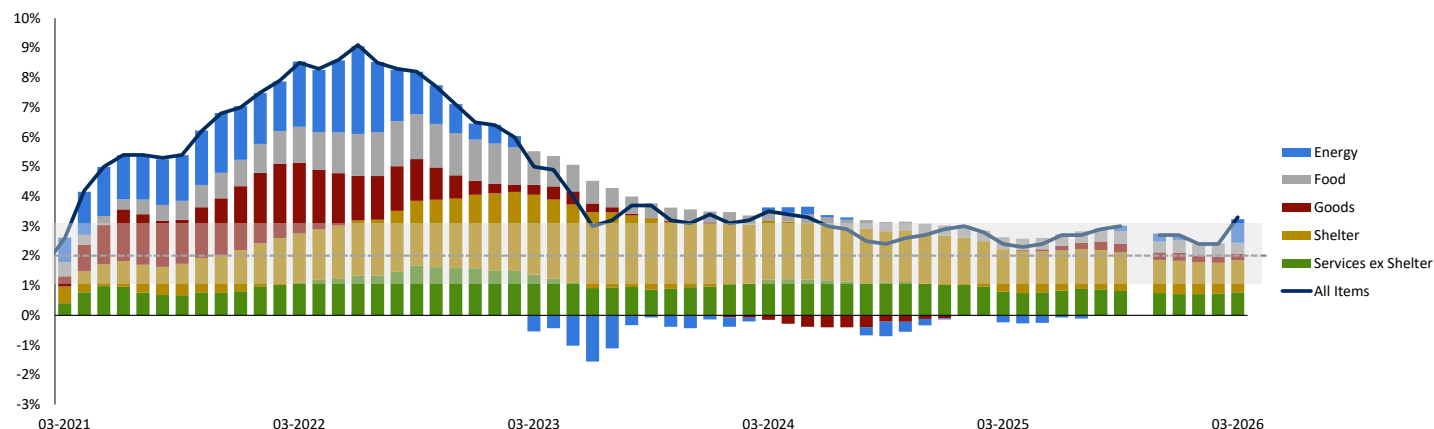
Overall, this suggests that the impact of higher energy costs has yet to meaningfully spill over into other categories. That said, broader pass-through is likely to emerge gradually. Higher transportation costs, reflected in surcharges announced by airlines and companies such as Amazon, could begin to add to core pressures. Such second-round effects through higher transportation and input costs could put upward pressure on a wider range of goods and services. The extent of this spillover will depend on how long supply disruptions persist, even if the ceasefire continues to hold.

### Fed remains on hold for now

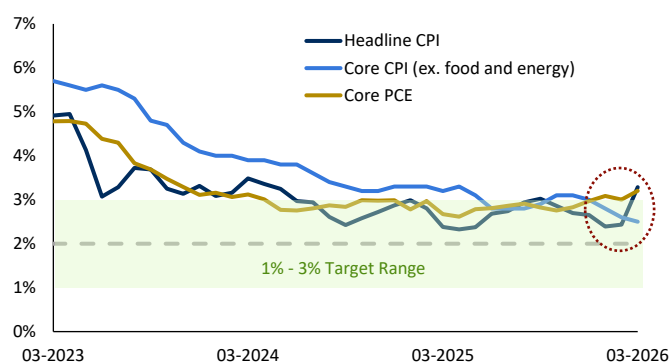
The Federal Open Market Committee (FOMC) left the policy rate unchanged at 3.50–3.75% at its April meeting, as elevated uncertainty tied to the Middle East conflict and energy prices continue to cloud the outlook. The Committee retained its existing guidance, emphasizing a data-dependent approach, while broadly maintaining an easing bias. However, the decision saw four dissents, with one Governor favouring a rate cut, and three regional Fed presidents opposing the inclusion of an easing bias in the statement.

With core inflation showing little evidence of broad-based acceleration so far, the Fed appears comfortable maintaining a wait-and-see approach, closely monitoring incoming data for signs of spillover from higher energy prices into other categories. As long as these effects remain limited, our U.S. Economics team expects the Fed to look through the near-term rise in headline inflation and continues to anticipate one rate cut later this year (Chart 22).

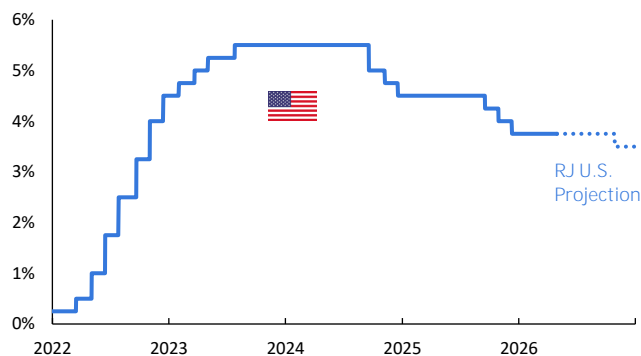
That said, the path forward remains data-dependent, particularly on whether higher energy prices begin to feed more persistently into underlying inflation. At the same time, a continued run of firm labour market data could shift the policy narrative, as the case for rate cuts based on labour market softening begins to fade.

**Chart 20 - Major Components' Contributions to U.S. CPI**

Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of March 31, 2026.

**Chart 21 - Inflation Pressures Build As Energy Prices Rise**

Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of March 31, 2026.

**Chart 22 - Another Rate Cut Possible Later in the Year**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

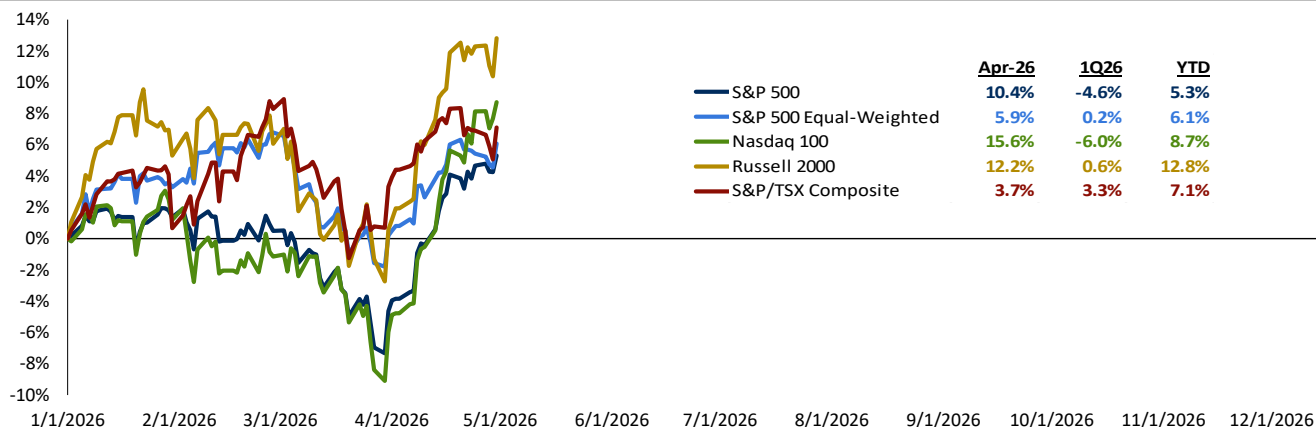
## Financial Markets

Markets continued to demonstrate increasing resilience to shocks in April. Despite ongoing U.S.–Iran negotiations, U.S. equities staged a rapid V-shaped recovery, the S&P 500 delivered a 10.4% price return and a 10.5% total return, marking the 12<sup>th</sup> strongest monthly performance since 1950, pushing the index to a new all-time high and lifting year-to-date returns to 5.3% and 5.7%, respectively.

Other major U.S. indices also participated in the rally. The Nasdaq 100 and Russell 2000 both reached record highs, with the Nasdaq 100 rising 15.6% on the back of strength in mega-cap technology, while the Russell 2000 advanced 12.2%, supported by the Fed’s “wait-and-see” stance, which helped ease concerns around a potential shift back to rate hikes amid the earlier spike in oil prices. The equal-weighted S&P 500 also posted strong gains, with more than half of constituents trading above their 50-day moving average. However, the continued concentration of earnings growth remains a risk, as discussed in the following section.

Canadian equities also advanced, with the S&P/TSX Composite gaining 3.7% in price and 3.8% in total return, nearly retracing pre-Iran conflict levels. As of April 30, the TSX continues to modestly outperform the S&P 500 year to date, with price and total returns of 7.1% and 7.9%, respectively. More muted performance in gold weighed on the Materials sector and acted as a partial drag on overall index returns.

Globally, equities strengthened as the U.S.–Iran truce held and the A.I.-driven rally reaccelerated, with technology-oriented markets such as Japan, alongside semiconductor-heavy emerging markets including South Korea and Taiwan, delivering particularly strong gains.

**Chart 23 - Selected Indices Price Returns**

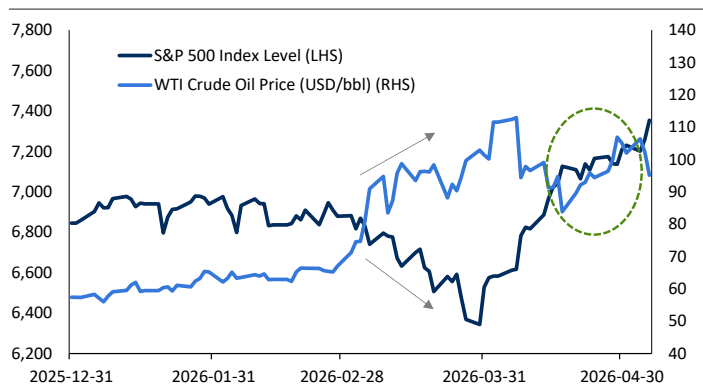
Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026. Price return in local currency.

### Market Resilience Appears Oil-Sensitive but Ultimately Rate-Dependent

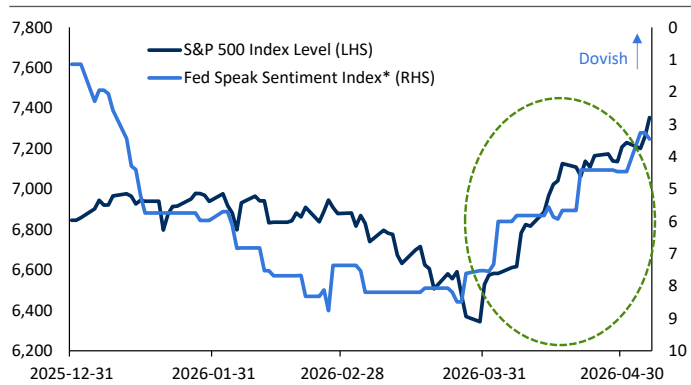
Market developments in April largely aligned with our discussion in last month's "Geopolitical Conflicts and Market Reactions" section. While U.S.–Iran negotiations have extended well beyond initial market expectations, the Geopolitical Risk Uncertainty Index continued to trend lower, with investor focus shifting back toward earnings and the underlying A.I. theme.

Looking ahead, the U.S.–Iran conflict is more likely to influence markets through second-order effects, particularly via higher oil prices feeding into inflation and weighing on consumer demand. While elevated energy prices may gradually pressure corporate earnings, a potential shift in monetary policy from easing to tightening would have a more immediate and broad-based impact on equities. In this context, recent market resilience appears oil-sensitive but ultimately rate-dependent.

The Fed's reaffirmation of a "wait-and-see" stance, both in late March and at the latest FOMC meeting, has effectively extended the window for geopolitical risks to stabilize without further disrupting market performance. As the Fed signaled a willingness to look through near-term energy volatility, the sensitivity of equities to oil price movements diminished. This dynamic is evident when comparing the S&P 500 against WTI crude prices and the Fed Speak Sentiment Index. Despite the rebound in oil prices following renewed disruptions in the Strait of Hormuz in mid-April, the S&P 500 continued to advance (Chart 24), reflecting the market's stronger anchoring to Fed policy signals, which have remained relatively measured (Chart 25).

**Chart 24 - Market Gains in April Despite Elevated Oil Prices**

Source: Bloomberg, Raymond James Ltd.; Data as of May 6, 2026.

**Chart 25 - Markets Look Past Conflict as Fed Reaffirms "Wait-and-See" Stance**

Source: Bloomberg, Raymond James Ltd.; Data as of May 6, 2026.  
\*Fed Speak Sentiment Index: underpinned by an NLP algorithm trained on Bloomberg News headlines, covering about 6,200 speaking engagements by Fed officials since 2009.

## Signs of A.I. Monetization Emerging

Since the onset of the Iran conflict, A.I.-related trades have regained momentum, with S&P 500 sectors exposed to mega-cap technology materially outperforming the broader market. A key recent development has been increasing clarity around monetization for leading LLM providers.

In the past two years, these platforms prioritized scale and ecosystem expansion over monetization, reflecting low switching costs and intense competition for user adoption. However, recent trends suggest a meaningful inflection. Anthropic, which is more enterprise-focused, has demonstrated a rapid acceleration in annual recurring revenue (ARR), indicating that enterprise clients are increasingly willing to pay for advanced A.I. capabilities. This is particularly evident as A.I. agents evolve beyond basic use cases, unlocking higher-value applications within enterprise workflows. Anthropic's ARR has scaled from approximately US\$1 billion in January 2025 to US\$14 billion in February 2026, and further to over US\$30 billion by April 2026. In context, this places its run-rate revenue above Adobe's FY26 revenue of roughly US\$26 billion and within range of Netflix's trailing twelve-month revenue of approximately US\$47 billion as of March 2026.

Importantly, this shift is not isolated. Both Google and OpenAI are increasingly targeting the enterprise segment and have reported strong growth in enterprise adoption. The emergence of a credible monetization pathway is critical for market confidence and has broader implications for the A.I. investment cycle. In particular, it helps to reframe the narrative around elevated capital expenditures in semiconductors and data centre infrastructure. Hyperscalers have faced market skepticism regarding demand visibility and capital efficiency; however, strengthening enterprise demand should provide greater support for these investments and improve confidence in the durability of the A.I.-driven capex cycle.

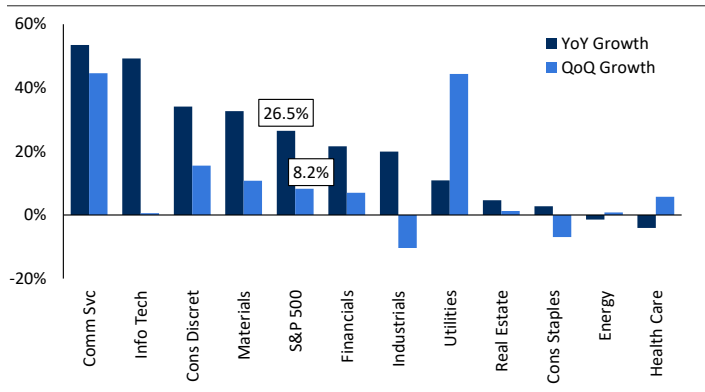
## U.S. Equity Markets

As markets increasingly look through the Iran conflict, focus has shifted back to underlying drivers, particularly the macro outlook and 1Q26 earnings. Beyond the reacceleration of the A.I. theme, several other dynamics are evolving in the background.

In private credit, conditions appear to be stabilizing, with pockets of stress emerging but limited risk of systemic spillover. Deregulation is also progressing, with meaningful developments in bank policy, including a simplified Basel III framework, which could provide notable capital relief for large financial institutions. The OBBBA is expected to support near-term liquidity through increased household tax refunds, although this may be partially offset by higher gasoline prices. In contrast, tariff-related uncertainty is rising. While the Supreme Court has struck down IEEPA-based tariffs, the risk of reinstatement through alternative mechanisms such as Sections 301 or 232 remains. From a broader macro perspective, the labour market has remained resilient year to date. Consumer spending has also held up, supported by recent earnings commentary from major U.S. banks, although strength continues to be concentrated among higher-income cohorts. Overall, the current backdrop supports a constructive outlook for U.S. equities and continued relative outperformance.

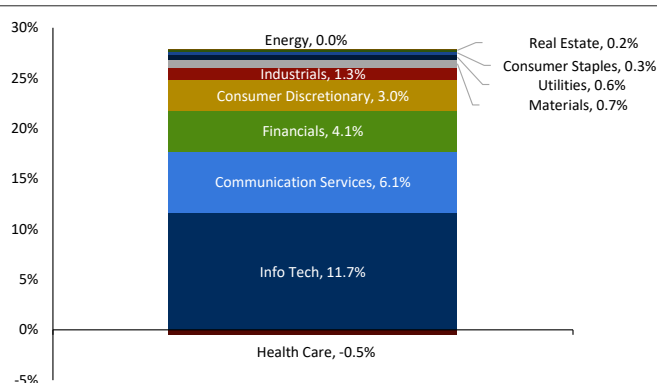
With over 84% of S&P 500 constituents having reported 1Q26 results, earnings are tracking at 8.2% quarter-over-quarter and 26.5% year-over-year, marking a sixth consecutive quarter of double-digit YoY growth. As has been the case in recent quarters, sectors with significant mega-cap technology exposure remain the primary drivers of aggregate earnings expansion, while Healthcare, Energy, Consumer Staples, and Real Estate have lagged. The narrow leadership warrants attention. Concentrated earnings contribution can introduce greater volatility at the index level and may overstate the underlying breadth of fundamental strength. We will be closely monitoring the impact of higher energy prices on non-technology sectors and remain cautious should market leadership fail to broaden.

**Chart 26 - S&P 500 1Q26E EPS Growth by Sector**

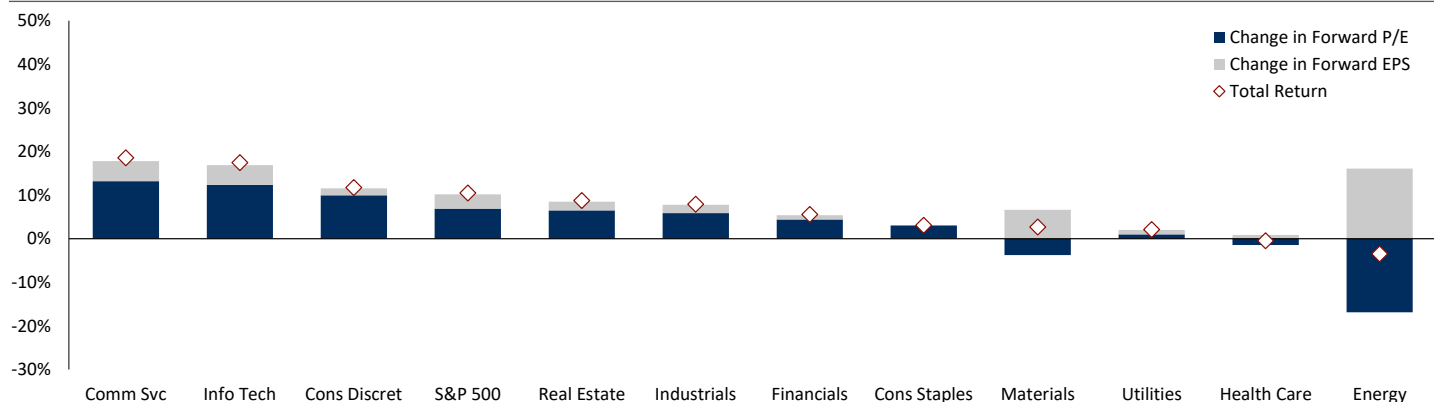


Source: FactSet; Raymond James Ltd.; Data as of May 6, 2026.

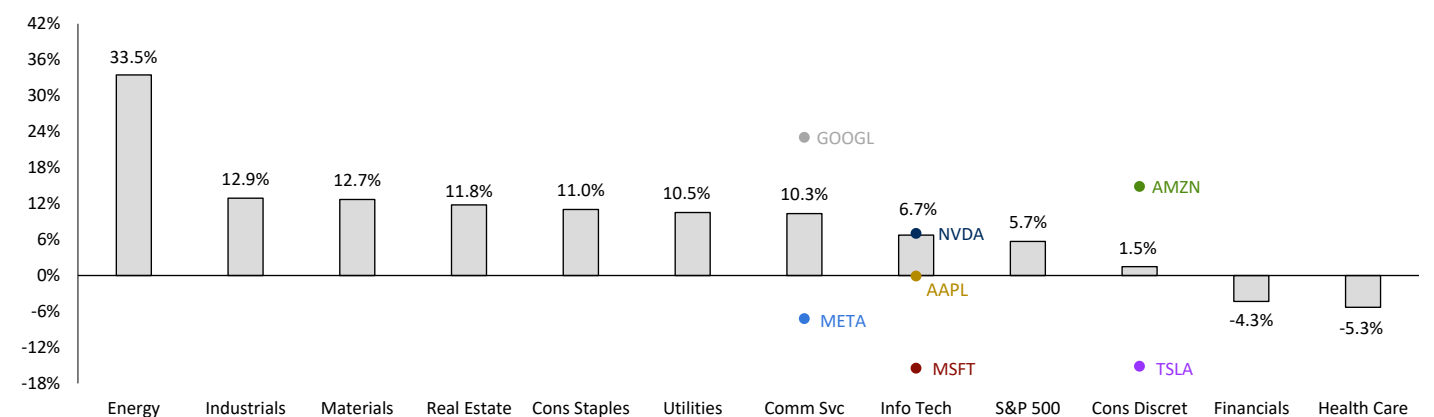
**Chart 27 - S&P 500 1Q26E YoY EPS Growth Contribution by Sector**



Source: FactSet; Raymond James Ltd.; Data as of May 6, 2026.

**Chart 28 - S&P 500 Sector April 2026 Total Return Breakdown**

Source: Bloomberg, Raymond James Ltd.; Data as of April 30, 2026.

**Chart 29 - S&P 500 Sector and "Magnificent Seven" YTD Total Returns**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

## Canadian Equity Markets

In April, sector performance within the TSX Composite was notably mixed. Financials led with double-digit gains, followed by Industrials and Consumer Discretionary, while Communication Services and Materials were the primary laggards. The index's relatively limited exposure to Information Technology, particularly hardware and semiconductors, constrained the magnitude of its rebound relative to the S&P 500. In addition, the extended U.S.–Iran negotiations contributed to higher U.S. Treasury yields, which weighed on gold prices and, in turn, gold miners, a segment that accounts for roughly 13% of the index.

With over 56% of TSX Composite constituents having reported 1Q26 results, approximately 60% have exceeded expectations. At the index level, earnings growth is tracking at 22.2% year-over-year and -4.9% quarter-over-quarter. However, the strength at the headline level is somewhat concentrated, with approximately 13 percentage points of the YoY growth driven by the Materials sector, reflecting the earlier surge in precious metal prices since 1Q25. Utilities, Communication Services, and Real Estate have exhibited the weakest earnings momentum to date.

Looking ahead, the USMCA renewal represents a key catalyst with the potential to meaningfully influence Canadian equities. At the same time, ongoing fiscal support, including the recent announcement of Canada's first sovereign wealth fund, should continue to provide a tailwind, as reflected in improving capital markets activity. Overall, we maintain a constructive outlook on Canadian equities.

### Top 3 Sectors (April 2026):

- Financials:** The sector exhibited broad-based strength in April, although gains were largely driven by multiple expansion, leaving valuations at the upper end of historical ranges. Markets continue to view the economic impact of the Iran conflict on Canada as manageable, supporting a constructive stance on Financials given their cyclical exposure. Looking ahead, fiscal support measures and rising demand for energy security

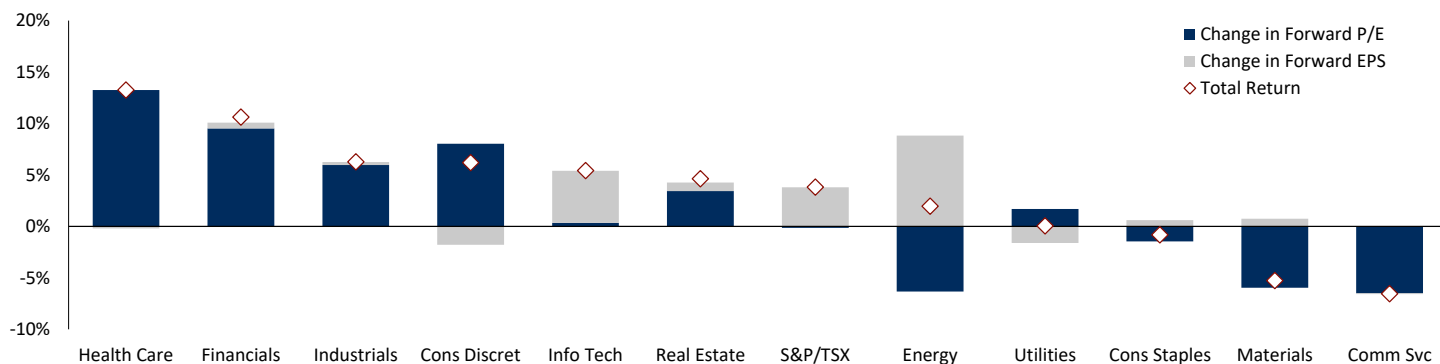
from Canada's allies are expected to underpin a recovery in capital markets activity, including a pickup in IPO issuance and the resumption of investment projects that were deferred amid tariff-related uncertainty in 2025. This should support earnings growth across both capital markets and commercial lending. That said, the upcoming USMCA renewal remains a key source of uncertainty for the Canadian economy, while ongoing softness in the housing market may continue to weigh on residential mortgage portfolios.

- **Industrials:** The sector rebounded in April, with gains largely driven by multiple expansion rather than earnings delivery. Markets appear to be pricing in optimism around Budget 2025-related initiatives ahead of tangible earnings impacts. Ground transportation has been a notable area of strength, supported by higher oil prices boosting crude-by-rail volumes amid ongoing pipeline constraints, alongside solid demand for bulk commodities such as grain, potash, and metals. Policy tailwinds are expected to remain supportive in the near term, with continued emphasis on domestic infrastructure investment, including the recent announcement of Canada's first sovereign wealth fund. However, the upcoming USMCA renewal introduces a potential source of volatility. Given that recent performance has been largely sentiment-driven, any setbacks in negotiations could trigger a sharp repricing.
- **Consumer Discretionary:** The auto parts and apparel segments have been the primary drivers of outperformance within the sector. The de-escalation trajectory in U.S.–Iran negotiations has supported cyclical exposure, with recent gains largely driven by multiple expansion. The auto parts industry has also benefited from fiscal support measures. However, near-term earnings visibility remains a concern. Elevated oil prices are increasing petrochemical input costs, which are likely to pressure margins across auto manufacturing and apparel retail. At the same time, renewed inflation concerns raise the risk of softer discretionary spending. The upcoming USMCA renewal also represents a key risk, given the sector's direct exposure to tariff-related uncertainty.

#### **Bottom 3 Sectors (April 2026):**

- **Communication Services:** The sector remains highly concentrated, with the top three constituents accounting for nearly 90% of index weight. The CRTC's move to broaden wholesale access to fibre and wireless networks, allowing smaller providers (MVNOs and resellers) to lease infrastructure from incumbents (BCE, Rogers, Telus) and compete without significant capital investment, represents a structural challenge to pricing power and long-term capital recovery for the incumbents. This policy shift triggered a sharp sector-wide selloff on April 1. As a result, valuations have reset toward the lower end of their historical range. Looking ahead, structural headwinds remain, including slower immigration and less favourable demographic trends. Absent a renewed risk-off environment, for example, from a deterioration in USMCA negotiations, the sector's scope to outperform the broader index appears limited.
- **Materials:** The sector has broadly tracked gold prices, albeit with higher volatility, reflecting its ~56% exposure to gold miners, which typically exhibit ~1.5x beta to the underlying commodity. It has been among the weakest performers since the onset of the Iran conflict, as prolonged U.S.–Iran negotiations contributed to higher U.S. Treasury yields, weighing on gold and, by extension, gold equities. That said, strong upward revisions to earnings expectations have helped offset the impact of sentiment-driven multiple compression, leaving the sector still positive year-to-date. More recently, performance has begun to stabilize, with valuations resetting to more attractive levels. We remain constructive on the sector, supported by structural tailwinds including sustained central bank demand, increasing strategic allocation to gold by both retail and institutional investors as a hedge against geopolitical risk, and ongoing concerns around the U.S. fiscal outlook.
- **Consumer Staples:** The macro backdrop remains largely unchanged, with persistent headwinds for grocers. Ongoing shifts in consumer behaviour toward discounts and promotions continue to pressure pricing power and margins, although leading players are relatively better positioned to navigate these dynamics. The recent increase in energy prices, driven by the Iran conflict, may also introduce some temporary upward pressure on food and essential goods inflation. In addition, uncertainty around food pricing is likely to persist until there is greater clarity on the USMCA renewal process.

**Chart 30 - S&P/TSX Composite Sector April 2026 Total Return Breakdown**



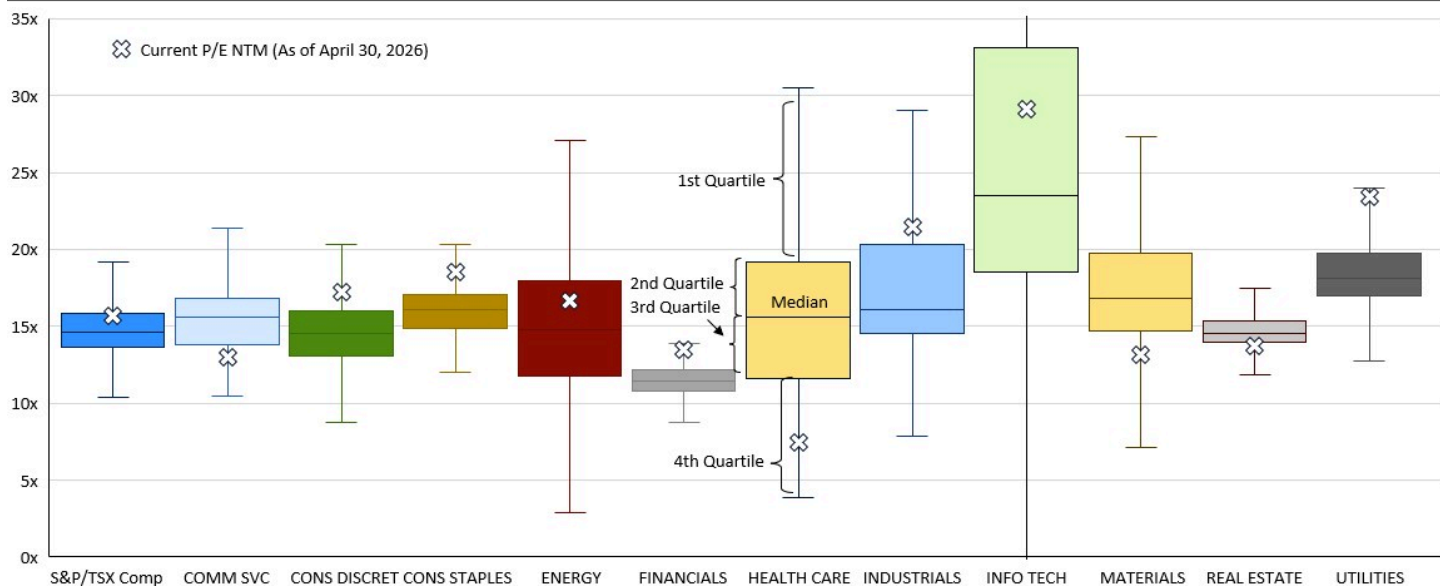
Source: Bloomberg, Raymond James Ltd.; Data as of April 30, 2026.

**Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)**

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Health Care	0.3%	8.2%	13.2%	13.2%	7.6	15.6
Financials	34.3%	8.5%	10.6%	10.6%	13.8	11.4
Industrials	10.7%	6.0%	6.3%	6.3%	21.8	16.1
Consumer Discretionary	3.2%	2.0%	6.2%	6.2%	17.2	14.5
Information Technology	7.0%	-18.3%	5.4%	5.4%	29.1	23.5
Real Estate	1.4%	0.1%	4.6%	4.6%	13.9	14.5
S&P/TSX Composite	--	7.9%	3.8%	3.8%	15.8	14.6
Energy	18.1%	32.6%	2.0%	2.0%	17.0	14.8
Utilities	3.6%	11.3%	0.1%	0.1%	23.7	18.1
Consumer Staples	3.2%	2.3%	-0.8%	-0.8%	18.5	16.1
Materials	18.9%	4.9%	-5.3%	-5.3%	13.2	16.8
Communication Services	1.9%	-1.1%	-6.5%	-6.5%	12.9	15.6

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

**Chart 31 - S&P/TSX Composite Sector Current vs. Historical P/E NTM**



Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026. Historical P/E: 1/1/2000 – 4/30/2026. Excluding outliers.

**Table 3 - Global Equities Performance**

Select Global Equity Indices	Apr (in LCL)	Apr (in USD)	Apr (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
<b>Major Aggregates</b>												
World (Global)*	9.2	9.2	6.5	3.7	3.7	4.2	5.9	5.9	5.2	19.0	16.1	2.9
EAFE (DM ex U.S. & Canada)*	5.8	5.8	3.2	1.7	1.7	2.2	6.9	6.9	6.1	15.2	13.6	1.6
EM (Emerging Markets)*	12.8	12.8	10.1	7.3	7.3	7.9	16.0	16.0	15.2	11.4	11.5	0.0
<b>Selected Developed Markets</b>												
Nikkei 225 (Japan)	16.1	17.9	15.0	12.0	10.3	10.8	18.6	18.4	17.7	21.4	17.3	4.1
Euro STOXX 50 (Europe)	6.4	7.5	4.9	-0.1	-2.5	-2.0	2.7	1.4	0.7	15.3	13.4	1.9
FTSE 100 (U.K.)	2.3	5.1	2.5	2.7	0.5	1.0	5.8	5.6	4.8	12.5	12.3	0.2
CAC 40 (France)	4.4	6.3	3.7	0.6	-0.8	-0.3	0.3	0.2	-0.5	14.8	13.5	1.3
DAX (Germany)	7.1	9.0	6.4	-1.0	-2.4	-1.9	-0.8	-1.0	-1.6	14.7	12.7	2.0
Hang Seng (Hong Kong)	4.1	4.1	1.6	-5.5	-5.8	-5.4	1.0	0.3	-0.4	11.1	11.6	-0.5
<b>Selected Emerging Markets</b>												
CSI 300 (China)	8.1	9.2	6.7	2.3	4.2	4.4	4.2	6.6	5.7	15.0	13.9	1.1
Nifty 50 (India)	7.5	6.9	4.5	-5.1	-8.3	-8.1	-7.9	-12.8	-13.5	19.6	18.7	0.9

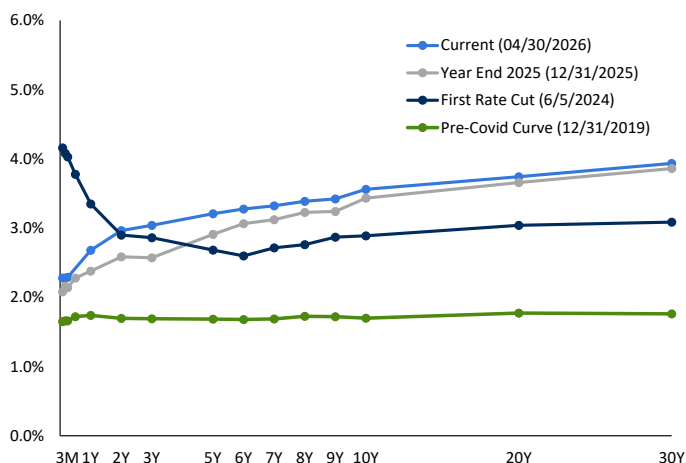
Source: FactSet, Raymond James Ltd.; Total returns, data as of April 30, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 04/30/2026. \*Indices are represented by their corresponding iShares ETFs, serving as proxies.

### Fixed Income & Treasury Yields

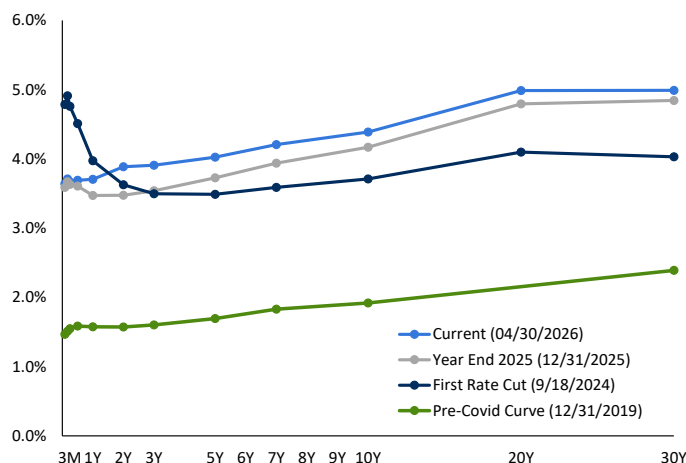
The protracted U.S.–Iran negotiations have contributed to a modest upward shift in the U.S. Treasury curve, particularly across the 2- to 5-year segment. Our base case remains one of gradual de-escalation, which supports a constructive view on the front end. In this context, 2-year Treasuries offer an attractive risk-reward profile and carry opportunity, as yields would likely compress in the event of a credible resolution.

At the policy level, incoming Fed Chair Kevin Warsh’s confirmation hearing on April 21 provided initial signals on his framework. While his comments placed relatively greater emphasis on inflation within the dual mandate, we interpret this less as a structurally hawkish pivot and more as an effort to establish policy credibility early in his tenure. Notably, he also advocated for a reduction in the Fed’s balance sheet, with a preference to limit exposure to long-duration Treasuries. Coupled with reduced long-end issuance from the Treasury, this dynamic suggests that long-term yields may become increasingly market-driven, more directly reflecting underlying growth and inflation expectations. Over time, this could contribute to a higher term premium and upward pressure on 10-year yields. In the near term, however, we expect the 10-year to remain range-bound between 4.0% and 4.5%.

In Canada, the government yield curve also shifted modestly higher in April, with the most pronounced move across the 2- to 3-year segment. The spread between Canadian investment-grade (IG) corporate bonds and sovereigns has remained tight amid the ongoing Iran conflict, continuing to hover near historically compressed levels. As a net energy exporter, higher oil prices may weigh modestly on domestic consumption but are supportive for Canada’s terms of trade. Importantly, the Energy sector represents over 20% of the Canadian IG index, providing a meaningful offset through improved credit fundamentals. Overall, the market continues to interpret the Iran conflict primarily as an inflation shock rather than a credit shock.

**Chart 32 - Canada Government Yield Curves**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

**Chart 33 - U.S. Treasury Yield Curves**

Source: FactSet, Raymond James Ltd.; Data as of April 30, 2026.

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