20 July 2026

Market Ethos

The latest market insights from Richardson Wealth

Craig Basinger

RICHARDSON Wealth

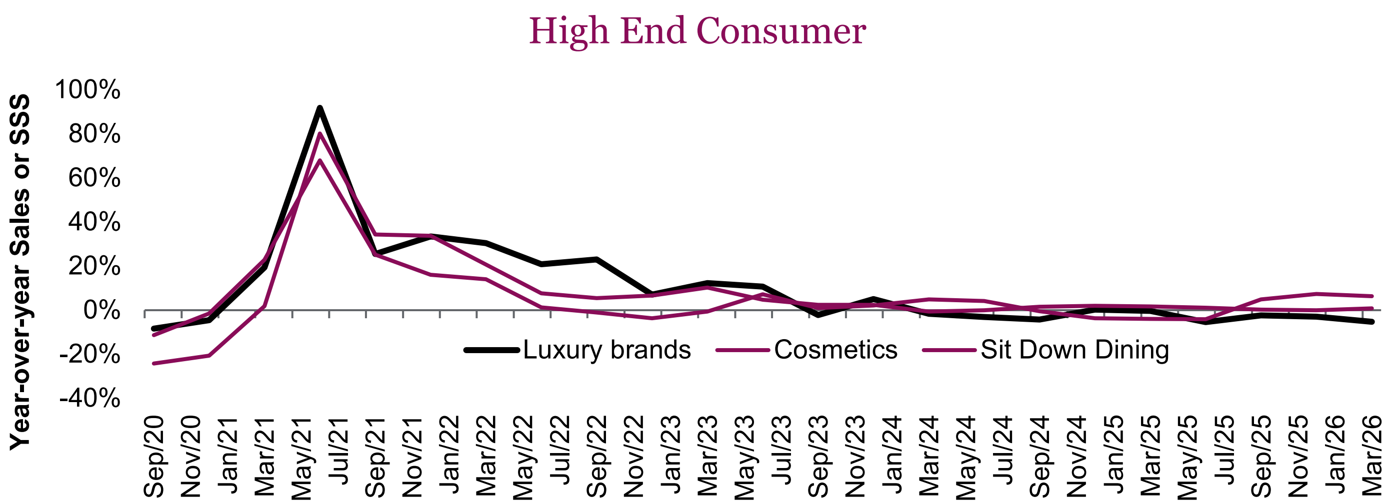
The canary and the consumer

Sneak peek: Our plan is that next week's Ethos will dive back into AI. Not from a bubble / not bubble perspective, but a framework to understand market exposure to AI. AI exposure has become pervasive, not just in the tech space ranging from hyperscalers, chips, memory, routers to fibre, but industrials, energy and utilities. Its global and emerging markets arguably have more AI exposure than the S&P, Japan has lots from hardware, Europe & Canada have less exposure. Finally, what kind of exposure? Enablers, LLMs, infrastructure, etc. Understanding AI exposure is becoming increasingly important. This will be a fun one.

But today we are going to talk about something equally exciting, the consumer and Canada. The global economy is in good shape, largely thanks to tech spending, fiscal stimulus, a manufacturing upturn and a spendy consumer. Yes, the consumer is bifurcated into the wealthier and less wealthy, with the less wealthy struggling. But it has always been the wealthy consumers globally that have had a bigger economic impact (past Ethos on this: A tale of two consumers). So, let's check in on the wealthy consumer first, then turn to Canada.

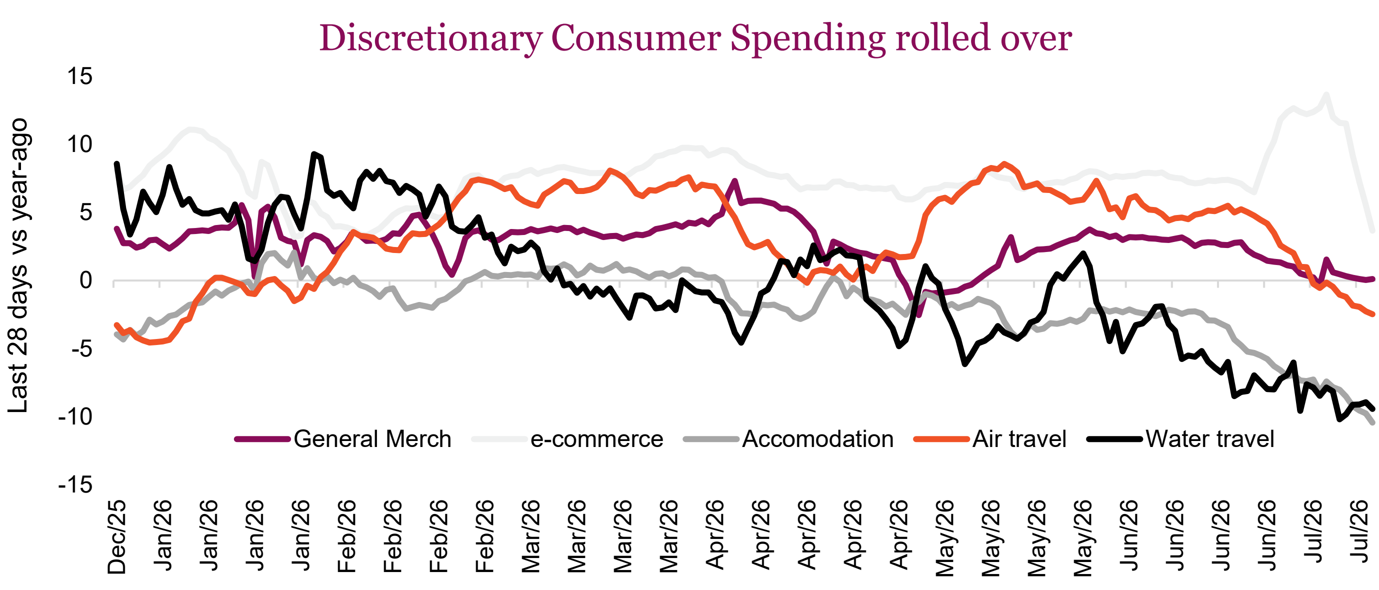
We have both good news and troubling news. On the good side, our tracker of higher-end consumer spending remains decent. This includes cosmetics, sit-down restaurant and luxury brand spending. This measures either same-store sales or overall sales on a year-over-year basis, which mitigates seasonality factors. The downside: this is quarterly data from earnings so important, but slow. And we know in this world, nothing is allowed to be slow.

So, we will combine our slower 'high-end consumer canary' measurements with card spending data on categories that are more discretionary. The trend of this type of consumer spending has been falling pretty fast. Perhaps higher energy prices are starting to take a bite. Of additional interest will be the slower readings once Q2 earnings reporting season is done.



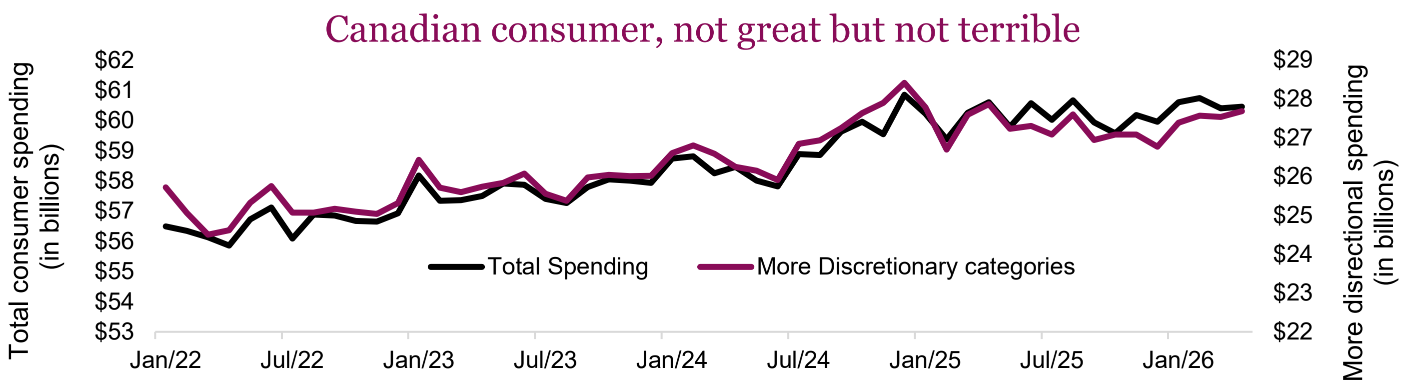
Source: Bloomberg, Purpose Investments

We typically focus on the U.S. or European consumer, but the Canadian consumer matters too. Especially for us Canadians. Unfortunately, we don't have the depth of data on the Canadian consumer compared to the U.S., but there's still enough to work with. Not overly surprising, the Canadian consumer has been struggling a bit more. Based on retail sales, inflation-adjusted spending has flatlined starting early in 2025, and has remained so since, as have the more discretionary categories. Flat isn't bad. Employment, which has seen a bit of an upturn of late, has certainly helped on the consumer spending side.



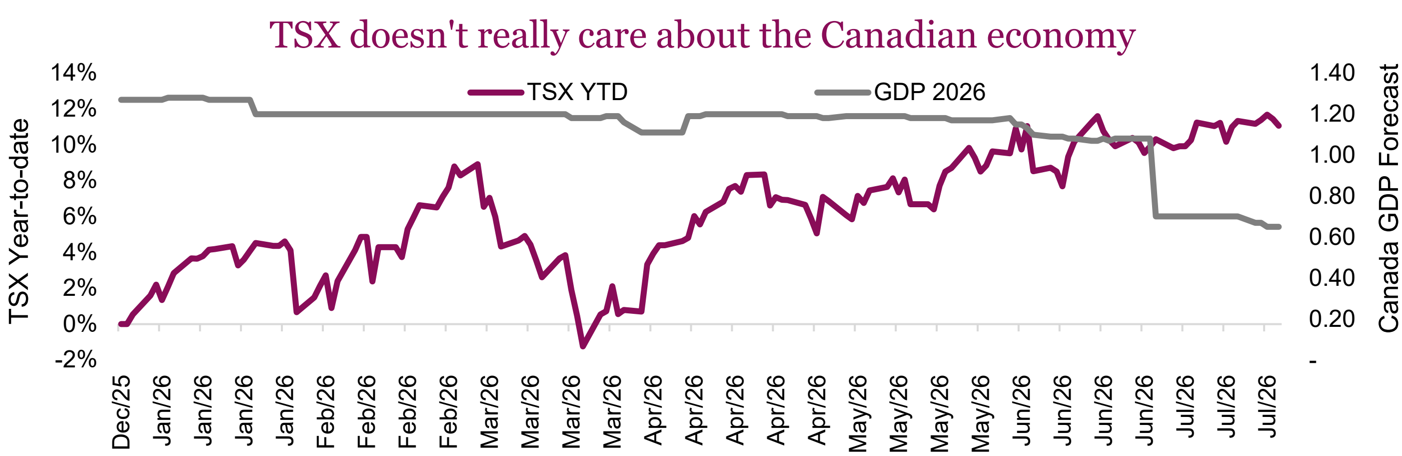
Source: Bloomberg, Purpose Investments

Despite the consumer hanging in, Canada has posted two back-to-back quarters of negative GDP. A rule of thumb is two consecutive quarters of negative GDP is a recession. We don't buy that. Negative GDP was triggered by trade and inventory volatility, which isn't good news but not a recession just yet. The trend in investment is not encouraging but rising exports is. Let's just say the Canadian economy is fragile.



Source: Bloomberg, Purpose Investments

Fortunately, the market really doesn't care. Even with the Canadian economy near stall speed, the TSX marches upward. One could attribute this to the TSX weighting in energy, materials and technology, sectors not so sensitive to the domestic economy. But that doesn't add up. Energy is up this year but the other two are down, for a net contribution of a little more than 1%. Financials are the biggest lifter for the TSX, with the six big banks contributing 7.5% of the overall market advance. Let's hope the banks can keep ignoring the economy.



Source: Bloomberg, Purpose Investments

Final thoughts

This market continues to be dominated by AI- related news and excitement, either ebbing or flowing. The other big factor is flows, which remain strong. That has helped the Canadian market and contributed to this divergence from what is going on within the economy. The Canadian economy has cooled, and the U.S. consumer is showing some softening signs as well. For now, the markets don't care, or mind. But if the data gets worse, we will wake up one day and realize the market decided to start caring. Until then, party on.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.