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Investor Strategy

The latest market insights from
Richardson Wealth



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Technically speaking

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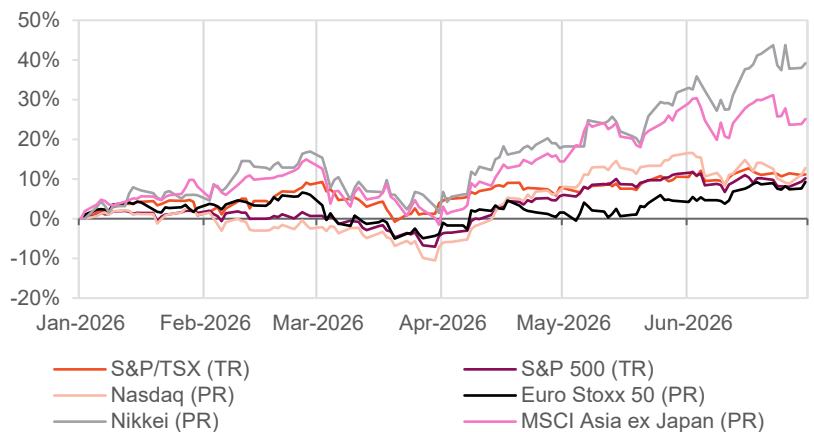
Looking through the noise

The first half of the year has shown the market's ability to look through uncertainty. Geopolitical tensions, renewed trade risks, inflation concerns, and changing interest-rate expectations have all contributed to periods of volatility, yet equity markets have continued to deliver solid gains thanks to economic growth holding up better than expected, corporate earnings remaining resilient, and investment in AI expanding. The TSX gained 11.2% over the first six months of the year, while the S&P 500 and Nasdaq advanced 10.2% and 13.1% on a total return basis, respectively. Still, there are some concerns about the durability of this year's rally, leaving June with more mixed results, with the S&P 500 declining -1.0%, the Nasdaq falling -2.8%, and the TSX gaining only 0.5%. Fixed-income markets have also posted more modest returns, with the FTSE TMX Canada Universe Bond Index gaining 0.51% in June and 2.24% year to date, while the U.S. Aggregate Bond index rose 0.24% in June and is now up 0.64% YTD, thanks to ever-changing interest rate expectations. June saw many of the themes that defined the first half of the year, as investors initially focused on the U.S.-Iran war, rising energy prices, and the risk of a renewed inflation shock. However, as the month drew to a close, tensions eased with ongoing peace negotiations, oil prices retraced back toward pre-war levels, inflation concerns moderated and attention shifted back toward economic growth, corporate earnings, and the durability of AI-related investment.

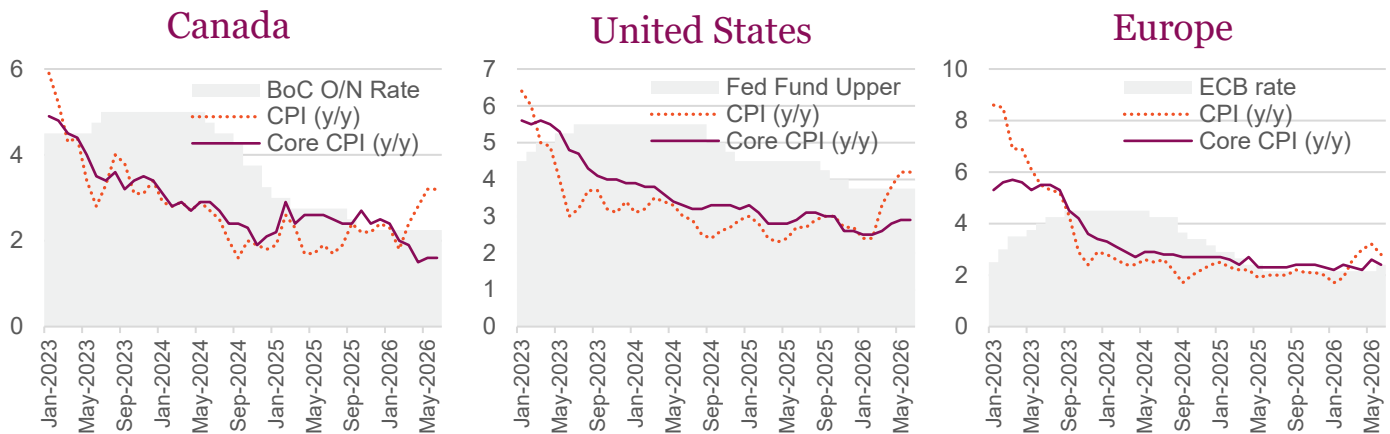
Performance: Resilient Markets

	Jun-2026	YTD
S&P/TSX TR	0.5%	11.2%
S&P 500 TR	-1.0%	10.2%
Nasdaq (PR)	-2.8%	12.8%
Europe (PR)	4.6%	9.3%
Japan (PR)	5.6%	39.2%
MSCI Asia ex Japan	-1.5%	25.2%
FTSE Can Bonds	0.51%	2.2%
U.S. Bonds	0.24%	0.6%

* local currency



While geopolitical and policy headlines drove short-term market swings, fundamentals ultimately remained the primary driver of market direction. U.S. economic growth remained resilient despite a modest first-quarter downside surprise, while corporate earnings continued to reinforce confidence that the expansion remains intact. In Canada, economic conditions were a little more fragile, although early signs of improvement emerged with April GDP rising 0.5% month over month, above expectations, suggesting the economy entered Q2 on firmer footing despite ongoing trade uncertainty. Inflation, however, complicated the outlook. Canada's annual inflation rate accelerated to 3.2% in May, its highest level in 29 months, largely due to higher gasoline prices following the earlier rise in energy costs. On the bright side, the Bank of Canada's preferred core measures remained stable near 2%, suggesting the inflation increase has not yet broadened significantly beyond energy. Although some lagged inflation effects may still work through transportation, utilities, and other goods and services, the decline in energy prices suggests the shock may prove shorter-lived than initially feared.



Central banks nevertheless faced a difficult balance between inflation and growth. The Bank of Canada held its policy rate at 2.25% for a fifth consecutive meeting, with policymakers caught between a soft economy and the risk that elevated energy costs could create broader price pressures. The Fed also left rates unchanged, but new Chair Kevin Warsh struck a more hawkish tone by reaffirming the Fed's commitment to price stability and avoiding direct guidance on the future path of rates. Updated projections showed that more policymakers expect at least one rate increase this year, contributing to a more restrictive market outlook. In Europe, the European Central Bank (ECB) moved ahead with raising its policy rate by 25 bps to 2.25%, its first increase since 2023, as officials responded to rising energy-driven inflation and signs that price pressures could spread to other areas of the economy. All of these decisions highlighted the challenge facing policymakers, as inflation remains above target, but tighter monetary policy risks weighing further on already uneven growth.

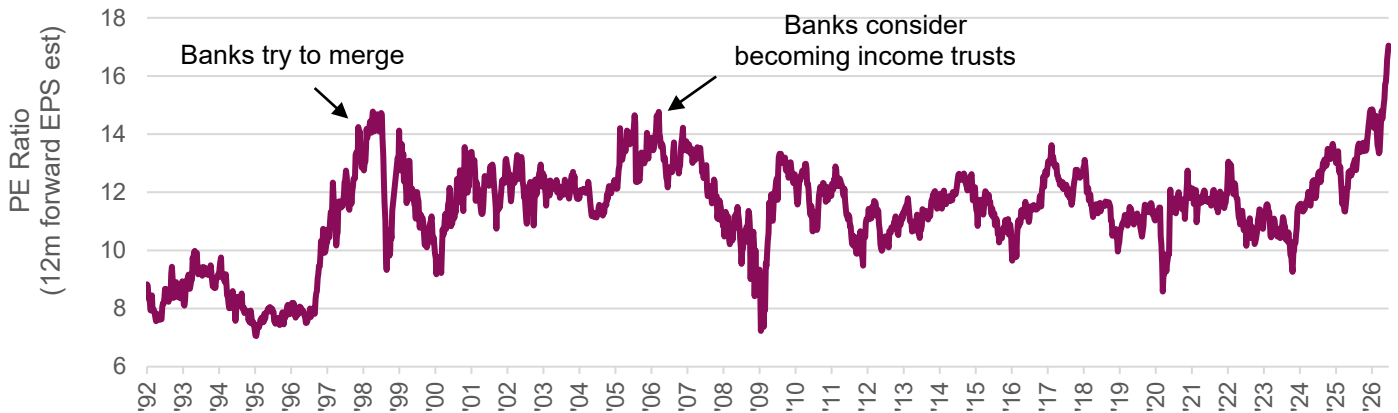
AI remained another major theme for the first half, although June highlighted both the strength and concentration of the market's leadership. Rising demand for AI infrastructure, semiconductors, and memory has led to enormous gains in a relatively small group of companies, all while the percentage of S&P 500 stocks outperforming the index has fallen to multi-decade lows. A sudden rotation out of semiconductor and memory shares in June highlighted the growing investor scrutiny over whether huge amounts of capital spending will translate into sustainable earnings growth. For now at least, strong earnings results have reinforced the view that AI-related demand remains strong. Looking ahead, investors will need to ask whether AI investment can continue generating attractive returns, if earnings growth can broaden beyond tech into a wider range of sectors and regions, and how central banks will respond if growth moderates while inflation remains above target.

Rise of the market technician

The joke used to be that being a CMT® (Chartered Market Technician) is like the CFA® (Chartered Financial Analyst), but without math or words: teasing and simplifying that technicians focus on charts and analyzing price movements looking for support, resistance or where a stock/index is going next. But the joke may be on the CFAs as it would appear today's market doesn't care about a discounted cash flow, valuations, or balance sheet as much as it used to.

Royal Bank for instance, at \$290, is trading at 17.2x forward estimates. With data back to the mid-1990s, Royal never got above 15x. And the only two times it got close to 15x were in 1998 when the big banks were making a run at merging with each other, and then again in 2006 when some were toying with becoming income trusts. Regulators quashed the merging initiative and changed the tax on income trusts to remove that potential corporate tax sidestep.

Royal Bank Price-to-earnings Ratio



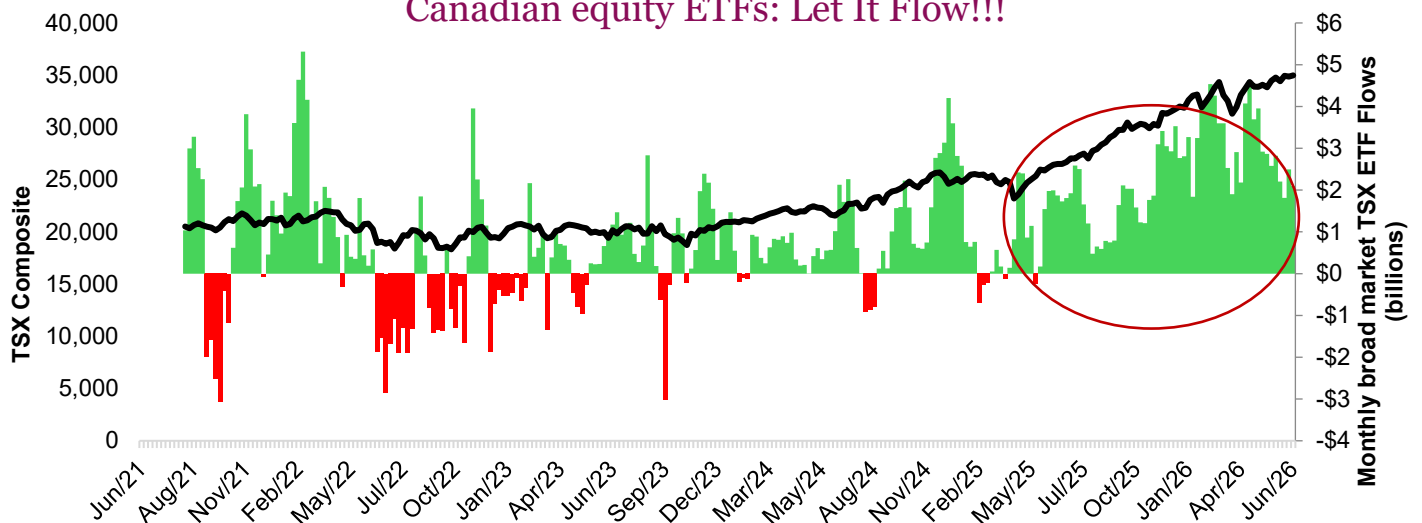
Source: Bloomberg, Purpose Investments

The CFA says this is bit ridiculous. Capital markets are good, but loan growth is pretty stagnant given the prevailing real estate softness and corporate loan growth challenges. And let's not forget the banks are kind of a proxy for the Canadian economy, which just had two negative quarterly GDP prints and no CUSMA deal. Does that sound like an environment where you should pay a high premium for bank earnings?

The CMT says who cares about the valuations and GDP; the share price has strong upward momentum. When that changes, we will change our view. We're certainly acknowledging the shares are overbought. In fact, if you take the TSX 60 and rank the members by their relative strength (measures momentum over 14 days), four of the big banks sit at the top of the list. This is odd, as the banks are usually in the middle. But until it breaks down, the trend is your friend.

So why do we think market technicians have the advantage in today's market? Lately, it seems money flows are dominating other factors and driving prices. As a proxy for flows into the Canadian market, in the following chart we track the 20 largest broad market ETFs measuring the one-month rolling in/out flows. It's clearly not a perfect measure as money could be coming out of other smaller ETFs or funds and into the big ETFs. So, take the magnitude of the flows with a grain of salt, but the directionality is likely spot on.

Canadian equity ETFs: Let It Flow!!!



Source: Bloomberg, Purpose Investments, flows based on 20 largest ETFs tracking broad Canadian market

The simple fact is that flows into Canadian equities have been very strong and above normal for much of 2025 and into the first half of 2026. The flows kicked off right after the tariff induced global sell-off near the end of Q1 2025. Since then, the TSX has gained +44%, beating global equities as measured by the Bloomberg World Index (+35%) and the S&P 500 (+33%).

The flows can work in the opposite direction as well. SpaceX, the world's largest IPO, is rapidly being added to many indices that are tracked by billions, or trillions, of assets. To make room, all other holdings have to be sold down, which is creating systematic selling of other index constituents. Given the rise of passive assets, this is a material flow. Add active managers that may have reduced other holdings to raise cash for the IPO. Plus, we may see OpenAI and Anthropic mega IPOs in the near term — that is a lot of required selling.

This systematic selling pressure from a flow perspective is taking a toll on many other names. Microsoft, for instance, fell -18% during the month of June. Sure, there are other factors at play here, but we would bet flows are the biggest. This has pushed Microsoft's price-to-earnings ratio down to 19x, below the broader S&P 500's multiple of 20x. The only other time the company traded below the market multiple was in the 2011-13 period after missing mobile, suffering from declining global PC sales and before its cloud dominance got going. It was viewed as a value trap back then, with limited growth prospects, while today estimates continue to rise: \$17.08 for 2026 and \$19.51 for 2027 (+14% growth).

Microsoft PE Ratio vs S&P



Source: Bloomberg, Purpose Investments

Flows, related to these mega IPOs, help explain why the Mag 7 is flat on the year while the NASDAQ and S&P are both up about 10%. But flows are not everything. Sure, Apple raising prices due to higher input costs isn't great news. Ideally, they raise prices because of strong demand, but the negative price reaction is likely exacerbated by the flow situation similar to Microsoft.

The simple takeaway is if flows continue, so will price. But, after such a run, even if flows slow down, it may be hard for prices not to mean revert. Perhaps a troubling trend in the 'Let It Flow' chart is prices have grinded higher while flows have moderated somewhat. Still materially positive but not the pace of previous months.

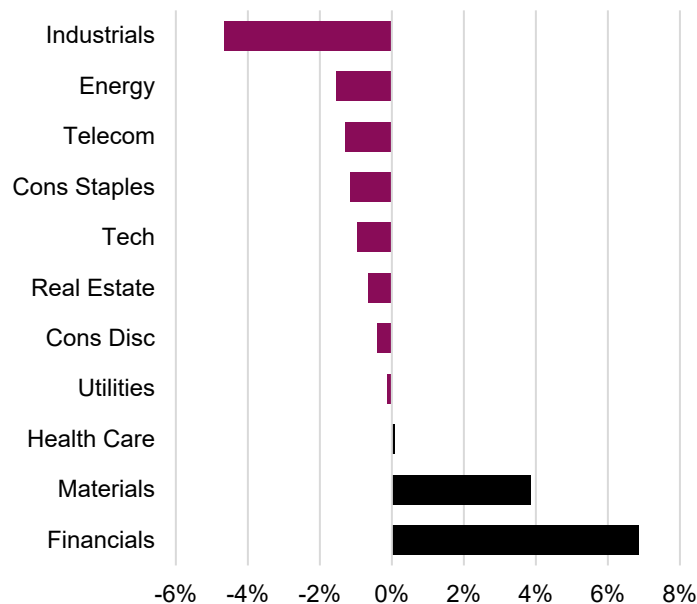
Unfortunately, forecasting flows or the mood of risk appetite among investors is largely unknowable, and subject to rapid change on any sudden news. This is where the Market Technician has an advantage. They don't have any great insight into future flows either, but if flows change it will likely quickly translate into a change in price. That can be charted and measured, enabling this discipline to pick up on changes faster than other, more fundamentally driven approaches.

Canada's one trade keeps changing hands

Canada is increasingly becoming a one trade market. As we mentioned, the banks and other financials have some of the strongest momentum on the TSX and they have been driving the financial sector for the past couple of years. The Canadian banks are now 26% of the TSX and roughly 80% of the entire financials sector, which has grown to a 36% weight. As seen in the charts below, financials have grown by around 7% over the past couple of years, largely at the expense of industrials, which have declined as a percentage of the TSX by almost 5% over that same period.

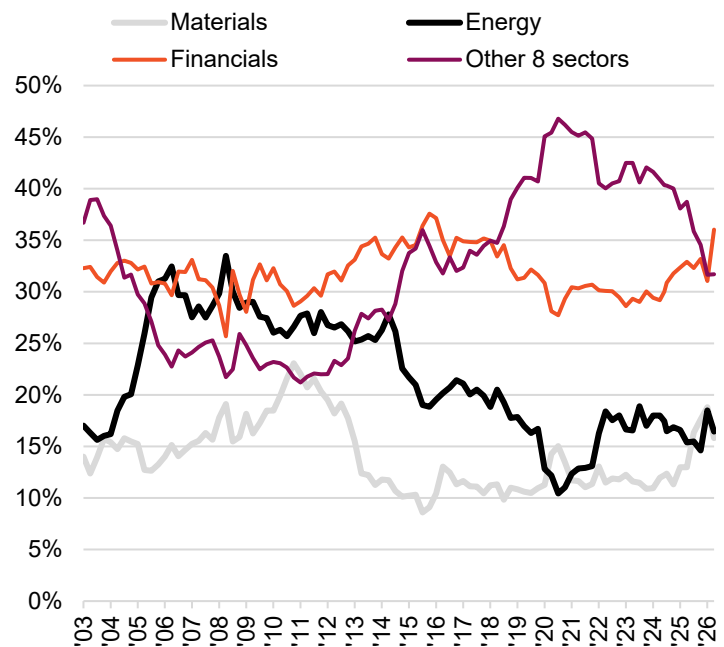
Looking back, financials are approaching their peak weight of 38% set back in Q4 2015. For those with a long memory, this was when gold was bottoming from a four-year bear market and hovering just above \$1,000/oz and oil was trading at less than \$40 a barrel. Truly dark days for commodity producers in Canada. Oddly enough, energy was still a larger part of the TSX back then than it is today, 19% compared to 16%.

Change in TSX Sector weights over the past 2-years. Banks are back on the move, meanwhile Industrials have taken a big step back



Source: Purpose Investments, Bloomberg

TSX - a poorly diversified index. Financials up to 36%, nearly its highest weight ever



Source: Purpose Investments, Bloomberg

These shifting sector sands only emphasize how much of a single trade Canada is becoming now that the momentum has swung to the already dominant sector. Unlike the U.S., which has been a one trade market for some time, driven by a single secular theme (AI capex), Canada's is more of a rotation, from gold to energy and now to banks, each handoff passing a momentum baton. Fortunately for most Canadians, these three sectors are the largest on the TSX, so the rotation has been a tailwind even for passive allocators. But this handoff is different. Gold and energy could each roll over without much collateral damage. Financials at 36% are another matter. The money may still rotate, but the sector is now so large it has its own gravity, much like Jupiter: when it moves, everything around it moves too. A handoff from a sector this size pulls the whole index along with it.

When (not if) the momentum turns:

You cannot value your way into owning banks here, and you cannot value your way out of them. The only discipline that tells you when this trade and other high momentum trade is over, is watching the price. For a technician, price and volume are the be-all and end-all. Price breaks the trendline, volume confirms whether the break is real. But "watch the price" is useless unless you decide in advance what you're watching for and have a plan in place. Riding a high momentum name or sector becomes more of a trading endeavour than just a buy and hold investment.

The deviation from the fundamentals in a strong trend means that every early signal to sell can easily be confused as buy. The first thing to respect is that overbought is not a sell signal in isolation. RSI at 80 on the banks says the momentum is strong and the trend is powerful, not necessarily that its end is imminent. Strong trends can stay overbought sometimes for months.

So, watch for cracks in a specific order.

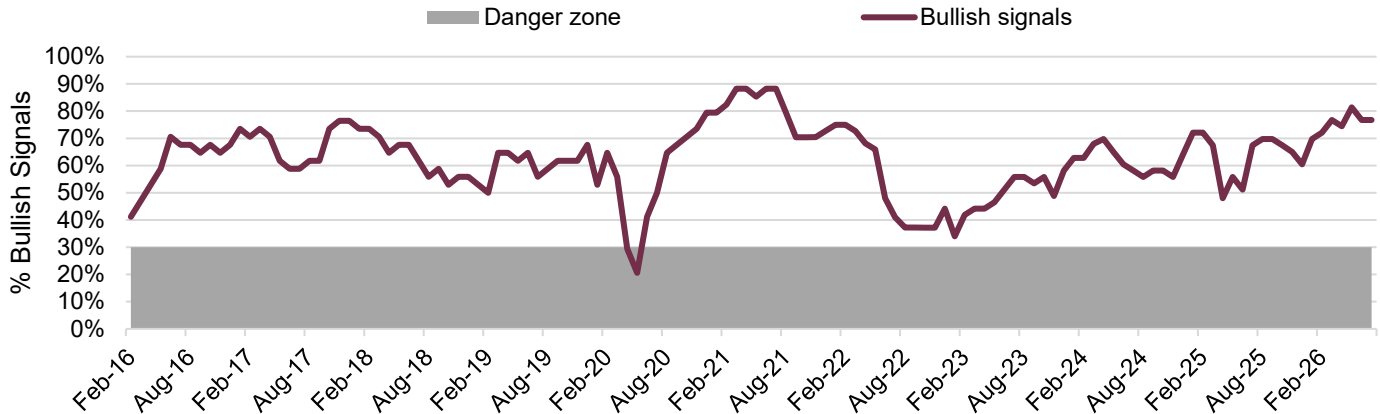
1. **Momentum negative divergence:** Price makes a new high while RSI makes a lower high, meaning buyers are still winning but with less force each time.
2. **Trend-strength decay:** Monitor trend strength indicators such as the ADX/ADXR line. The danger sign is not a high reading but a high reading that rolls over. TD near 49.6 and RBC at 46.2 say the trend is about as strong as trends get, which historically sits closer to exhaustion. When ADX peaks and turns down while price stays elevated, conviction is fading even before price breaks.
3. **Trendline break on volume:** Draw a line connecting the rising lows of the bank run, and when price closes below it on expanding volume, that's confirmation of a trend break rather than a routine pullback.
4. **Monitor relative strength:** Because Canada only has a few sectors that can absorb real volumes, another good signal may not be banks breaking in isolation but gold or energy quietly out-performing.

None of this predicts the top, and it isn't meant to. The point of a rules-based approach is that it strips out the two emotions that destroy returns in a mature trend: the greed that says "just a little more" as the yellow flags pile up, and the paralysis that waits for confirmation means a -20% drawdown. The other way to manage risk is by sizing appropriately, trimming a winning trade on a strong run is a reliable way to lock in profit along the way. As the old line goes, the trend is your friend until the end when it bends, and the banks have been a very good friend to the TSX and to passive Canadian investors for two years running. Friendship doesn't require you to ignore the bend.

Market cycle & portfolio positioning

Market cycle indicators remain very healthy. Direction of rates remains positive, albeit less so than before with Fed cuts becoming more unlikely. Yield curve steepness is positive. The U.S. economic data is good. Leading indicators are still bearish, that is not new news, while recession probabilities flipped from bearish to bullish. Downside, *GDP Now* turned bearish. Otherwise, manufacturing is still strong and housing mixed on the weaker side.

Market cycle indicators - Pretty good



Source: Purpose Investments, Bloomberg

A little ditty on *GDP Now*. Official GDP is rather delayed, released three weeks after the quarter ends and then revised multiple times over the following months. *GDP Now*, from the Atlanta Fed, attempts to use proxy measures of GDP components that are timelier. This metric turned bearish as it dropped below 2%, due largely to net exports. Two big factors at work on U.S. trade are the data center buildout and energy. Most the components of those data centers are made outside the U.S., so this is driving higher imports. As prices go up so does the value of imports. Energy, oil, LNG, etc., saw really strong exports during the closure of the Strait of Hormuz. With prices down and likely volumes, the value of exports is likely falling fast. The core pieces of GDP, consumer and business spending, remain pretty stable so not much to be worried about here for now.

Market cycle indicators

Grouping	Metric	Better/ Worse	Grouping	Metric	Better/ Worse
Rates			Global Economy		
	Net Cuts	✓		Global PMI	✓
	Yield Curve	✓		Copper (6m)	✓
	Yield Curve 3m	✓		DRAM (3m)	✓
US Economy		10 / 9		Oil (3m)	✓
	Leading Ind (3m)	✓		Commodities (3m)	✓
	Leading Ind (6m)	✓		Baltic Freight (3m)	✓
	Phili Fed Coincident	✓		Kospi (2m)	✓
	Credit (3m)	✓		EM (2m)	✓
	Recession Prob (NY Fed)	✓	Fundamentals		6 / 6
	Recession Prob (Clev Fed)	✓		US: PE	✓
	Citi Eco Surprise	✓		US: EPS Growth	✓
	GPD Now (Atlanta Fed)	✓		US: EPS 2FY v 1FY	✓
	US Unemployment	✓		US: 3m EPS Revision	✓
	Consumer Sentiment (3m)	✓		Canada: PE	✓
Manufacturing				Canada: EPS Growth	✓
	PMI	✓		Canada: EPS 2FY v 1FY	✓
	PMI New Orders	✓		Canada: 3m EPS Revision	✓
	Energy Demand (YoY)	✓		International: PE	✓
	Truck Demand (YoY)	✓		Int: EPS Growth	✓
	Rail (YoY)	✓		Int: EPS 2FY v 1FY	✓
Housing				Int: 3m EPS Revision	✓
	Starts (1yr)	✓			
	Months Supply (6m)	✓			
	Home Sales	✓			
	New Home Sales	✓			
	NAHB Mkt Activity	✓			

Source: Purpose Investments, Bloomberg

Global economy indicators saw two signals turn bearish, both commodity price related. Oil and commodities in general saw prices fall over the past month. This is more driven by the Strait disruption than changes in aggregate demand. So not an issue here either.

Overall, we have a slightly defensive stance. Encouraged by economic and earnings data, we have a defensive tilt mainly due to the market already pricing in a lot of good news; our opinion is this is a late cycle stage.

Portfolio positioning

	House view	Underweight	Neutral	Overweight	
Overall	Equity		•		
	Bonds		•		
	Cash			•	
Equities					
Equities	Canada		•		
	U.S.		•		
	International			•	
	Emerging markets		•		
	Style allocation (value<-->growth)			•	
	Size (small <---> large cap)				•
Fixed Income					
Fixed Income	Government		•		
	Credit		•		
	Investment grade			•	
	High yield		•		
	Duration		•		
		Passive			Active
	Management approach		•		

Final thoughts

As flows continue to have an outsized impact on asset prices, don't fret valuations as much and instead watch momentum for any signs of turning. Given our view this is late cycle, we would expect to see bigger market moves especially given high levels of concentration, not just in technology but even in banks for some indices. Be opportunistic and don't be afraid to take profits. We have all enjoyed above-average returns over the past few years; in the coming quarters it may be more about protecting those gains as opposed to chasing things higher.

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.

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