Monthly Market Commentary

JUNE 2026

NOTE SUMMARY

June closed with a fragile memorandum of understanding between the U.S. and Iran, signed on June 17, easing geopolitical tensions, although compliance by both parties has remained contested. AI-related sectors continued to lead market leadership, particularly across memory, advanced packaging, and power infrastructure. Meanwhile, Kevin Warsh's first FOMC meeting delivered a hawkish hold, leaving markets searching for direction. Despite the evolving macro backdrop, corporate fundamentals remain broadly intact, and the AI investment cycle continues to be supported by earnings growth rather than speculation, leaving the constructive case for equities firmly in place.

TALE OF TWO TAPES

We entered June with two major macro catalysts resolved, though neither cleanly. A fragile memorandum of understanding between the US and Iran, signed June 17, eased the most acute phase of the Middle East conflict, though compliance on both sides has remained contested since. Kevin Warsh held his first meeting as Federal Reserve Chairman on June 16 and 17, with the FOMC voting unanimously to hold rates at 3.50% to 3.75%, while a notably hawkish dot plot signalled uncertainty ahead. This unfolded against a backdrop of resilient US labour data: payrolls grew by 172,000[1] in May, well above consensus, unemployment held at 4.3%[2], and wages rose 3.4% year over year[3]. Canada's picture was more mixed: unemployment fell to 6.6% in May from 6.9% in April[4], even as the economy posted a second straight quarterly GDP contraction. Against this backdrop, our positioning remained concentrated in areas demonstrating the strongest fundamental support, while broader equity markets in the U.S. and globally continued to face a more challenging environment.

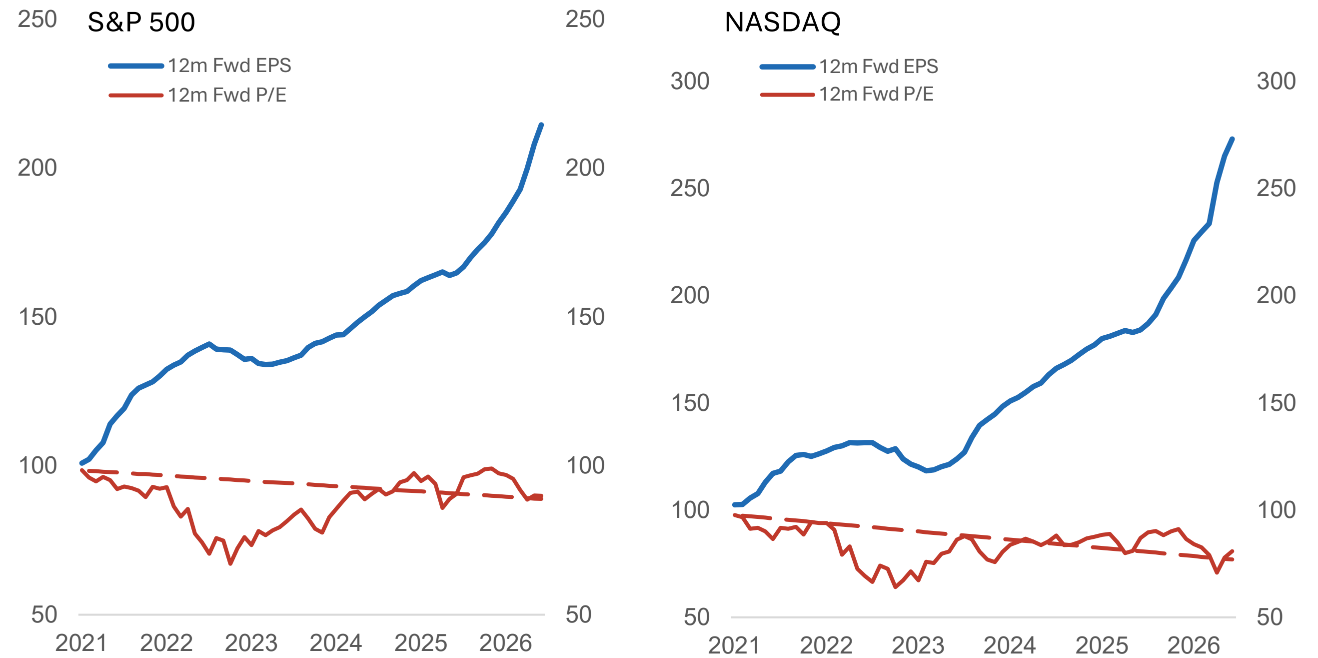
NOT YOUR FATHER'S BUBBLE

Much is being made of a bubble forming in the Artificial Intelligence trade. Many comparisons to the dotcom bubble of the early 2000s are referenced in financial publications as prominent names like NVIDIA, META, Micron, and Western Digital continue to drive forward with positive results.

Below are two charts that show the health of this growth in recent years. The chart on the left tracks earnings per share against the price-to-earnings ratio for the S&P 500; the chart on the right shows the same for the tech-heavy NASDAQ. Since the pandemic, earnings per share have grown steadily in both cases, while price-to-earnings, a measure of how expensive a stock is relative to its earnings, has stayed low.

[1] U.S. Bureau of Labor Statistics, "The Employment Situation — May 2026," news release, June 5, 2026.
[2] U.S. Bureau of Labor Statistics, "The Employment Situation — May 2026," news release, June 5, 2026.
[3] U.S. Bureau of Labor Statistics, "The Employment Situation — May 2026," news release, June 5, 2026.
[4] Statistics Canada, "Labour Force Survey, May 2026," The Daily, June 5, 2026.

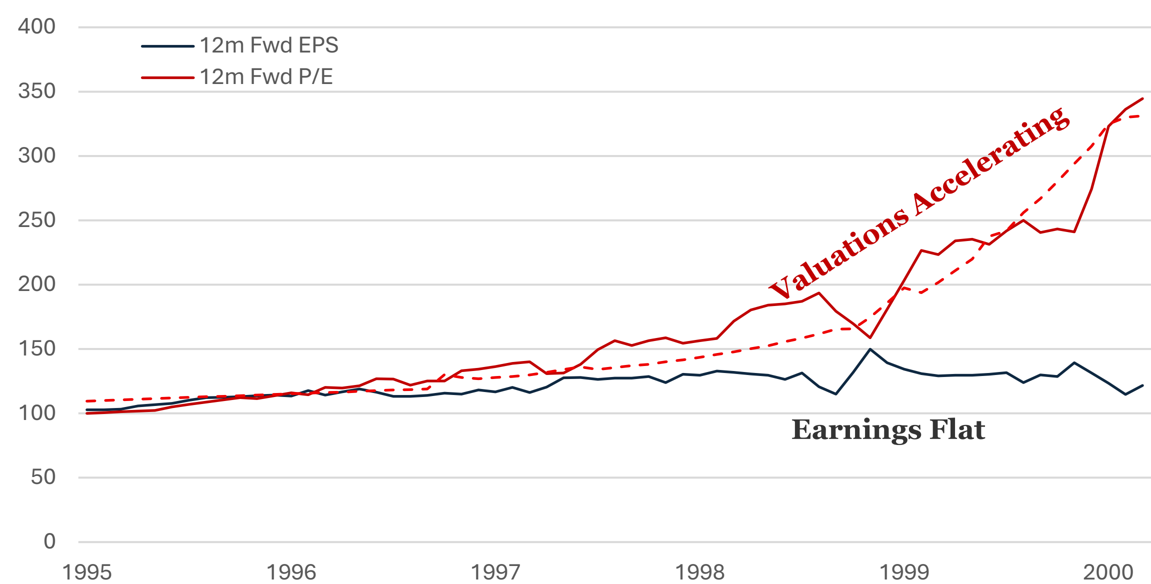
Recent Years: Profit Growth, Not Multiple Expansion



Source: Bloomberg

In plain terms, the recent rise in stock prices has been driven mainly by real earnings growth, not by investors paying more for the same earnings. That is a healthier pattern than what we saw during the dot-com bubble, as noted in the chart below.

Tech Bubble EPS vs P/E

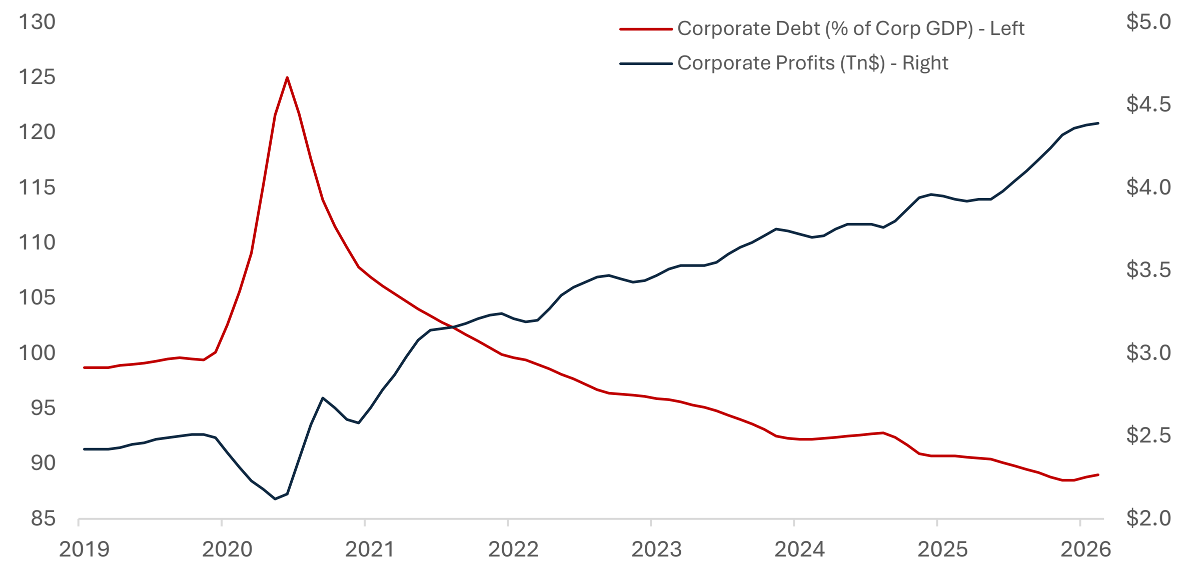


Source: Bloomberg

The chart above tells a different story from the dot-com era, when valuations climbed even as earnings failed to keep pace. That contrast is what makes today's earnings-led growth a healthier pattern by comparison.

Clearly, we're seeing a sharp rise in profitability, driven by the innovations artificial intelligence is bringing to the global economy. But there's a risk that these earnings are 'low quality' — fueled by a buildup in debt rather than reinvested profits. Debt-fueled growth can be fragile and prone to sudden reversals, as we saw in the 2008 financial crisis, driven by mortgage-backed securities. Earnings-driven growth, by contrast, is far more sustainable.

Corporate Debt vs Corporate Profits (2019 – 2026)



Source: AlpineMacro

As we can see, this earnings growth is not being fueled by debt. The market's growth remains on a sustainable, healthy footing for now. Although the rally has been narrow and volatile, the quality of that growth continues to support the bull trend.

As always, we will continue to evaluate new opportunities with discipline, manage risk thoughtfully, and allow fundamentals to determine where we invest.

IMPORTANT DISCLOSURES

CONTACT

WATSON INVESTMENT PARTNERS

Allyson Watson
Investment Advisor
Tel. 902.580.6680

Allyson.Watson@RichardsonWealth.com
WatsonInvestmentPartners.com

Jeffrey Watson, CFA®, MFin
Senior Portfolio Manager, Investment Advisor
Tel. 902.817.0394

Jeffrey.Watson@RichardsonWealth.com