CUMBERLAND
Private Wealth

FIXED INCOME

Second Quarter 2026

A brief note for this quarter. The continuous stream of headlines was relentless with several impactful events of note. However, the broader narrative remained largely unchanged from the end of the first quarter.

Domestically, we remain in a sluggish economic environment, with growth is muted. Inflation remains generally in line with the Bank of Canada's target (but perhaps threatening to rear its ugly head with energy prices increasing rapidly earlier in the year before abating somewhat of late). Interest rates fluctuated to a small degree in the end, despite discussion about potentially wider swings. The economic outlook remains unchanged to a large extent, although some of the underlying inputs have changed.

The primary macroeconomic events from the second quarter that impacted the fixed income markets included:

- **The global energy and inflation shock**

  Inflation generally climbed higher worldwide (although less so here in Canada), as the conflict in and around the Strait of Hormuz continued to rattle markets and energy supply chains. In addition, global growth forecasts were trimmed. By the end of the most recent quarter a tenuous agreement between the US and Iran was struck (although sporadic incidents in violation of the truce have flared; hopefully this article is not stale in this regard by the time you read it).

- **Canadian inertia**

  Domestically, weak business investment driven by U.S. trade policy uncertainty continues to impact the economy. Growth in Q1 was essentially flat, however April's figure of 0.5% growth (the highest growth in a single month since July of last year) has kindled hope of a modestly more constructive landscape. Until there is some trade-related clarity in the status of the CUSMA agreement we believe low-to-modest growth will remain the status quo. The Bank of Canada kept its overnight rate steady in all three of its meetings in the second quarter as a result.

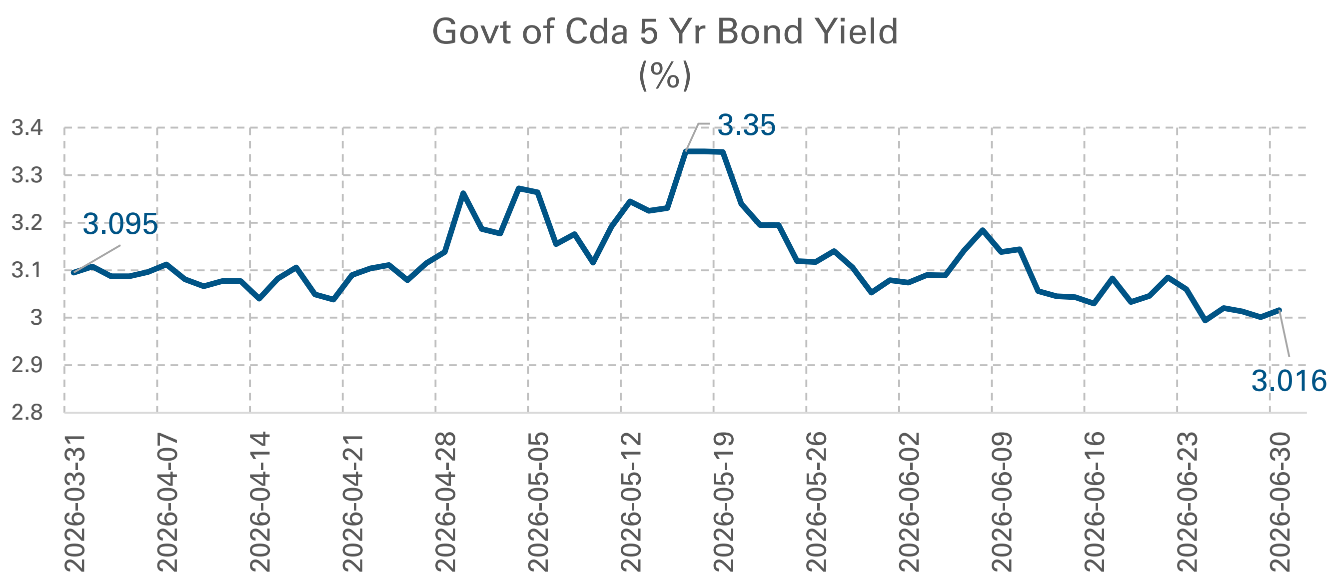
- **US economy remains resilient**

  Despite the rise in energy prices, the U.S. economy maintained a relatively healthy growth trajectory (Q1 real GDP y-o-y measured 2.7%). Unemployment remained steady but low. The inflationary pressure mentioned above meant the Federal Reserve held interest rates steady. The market currently anticipates the Fed will increase its interest rate before year-end, although we note economists' consensus forecasts remain flat on this point. Despite trade frictions, this remains a positive for the domestic economy.

As mentioned above, interest rates drifted modestly lower (a positive factor for fixed income values) during the second quarter:

CUMBERLAND
Private Wealth

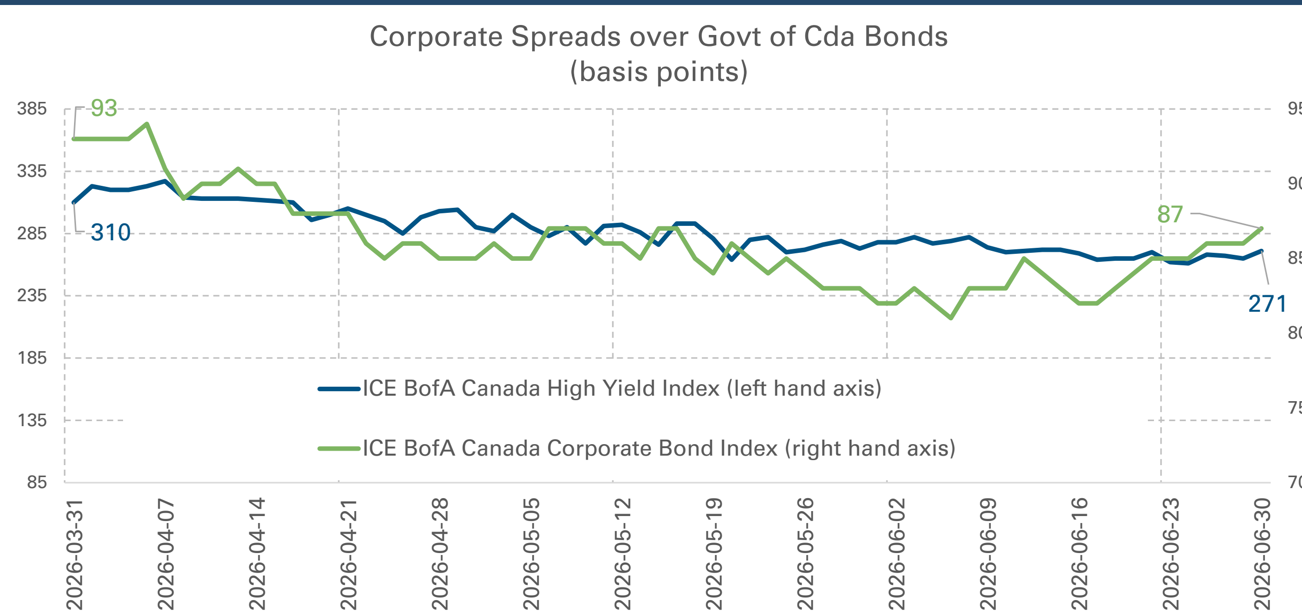
1. Government of Canada 5 Year Bond Yield



Source: Bloomberg

Corporate spreads (the amount of additional yield generated by corporate bonds over that of federal government bonds) also drifted lower / tighter.

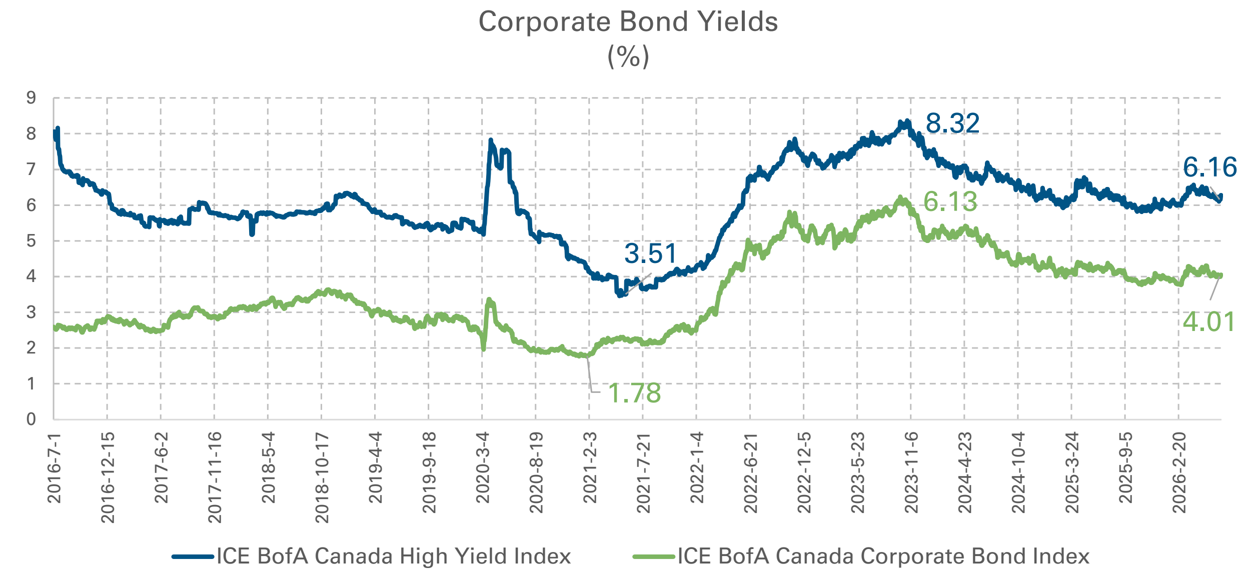
2. Corporate Spreads over Government of Canada Bonds



Source: Bloomberg

A quick side note on the current level of spreads: corporate bond spreads are near their all-time tightest margin / lowest level. This means that (i) investors interpret it as an indication current economic circumstances are not flashing a warning signal of impending financial strife, but also (ii) it leaves less margin for unforeseen shocks should one occur, and investors are not being compensated as much for taking on potentially greater risk as they were previously. On that last point however, corporate bonds' all-in yields are holding in well in comparison to the last ~10 years or so. While spreads are tighter as mentioned, recall that bond yields have risen from a near-zero rate to those shown above. As a result, the yields today on corporate bonds are at or near their longer-term average for the past 10 years:

3. Corporate Bond Yields



Source: Bloomberg

Corporate bonds continue to be an attractive investment in our view.

With interest rates decreasing to a small degree, and with corporate spreads narrowing modestly, it was a positive quarter in general for fixed income securities.

3. Returns for Fixed Income Asset Classes

Asset Class Returns	Q2 2026	Q1 2026	YTD 2026	2025	2024	2023
Morningstar Canada Core Bond Index	1.93%	0.29%	2.23%	2.29%	3.92%	6.32%
Morningstar Canada Corporate Bond Index	2.07%	0.16%	2.23%	4.17%	6.60%	8.52%
Morningstar Canada High -Yield Bond Index	2.16%	0.25%	2.41%	7.16%	11.53%	8.45%

Source: Bloomberg

Looking ahead

In our note **reviewing Q1** we provided our thoughts and outlook on 2026:

- the calm core CPI (which is not affected by volatile energy prices) will persist,
- domestic job growth remains weak,
- financial conditions are tightening,
- the higher oil prices rise, the greater the feedback into activity and employment, and
- the looming CUSMA trade negotiations will continue to add uncertainty;

Taken together these serve as persuasive arguments for policymakers to stay on hold.
We think most of these points remain valid looking ahead.

- Core CPI at 2.2% remains within the Bank of Canada's target range and has decreased somewhat in recent months (recall it reached 2.9% in October and November of 2025).
- Job growth has trended downwards over the past 2-3 years, although it is volatile month-to-month. We note April's +154k job increase is the highest since February 2022 for instance, and hopefully a sign of some upside, but it follows three consecutive negative months.
- Financial conditions remain tighter than a year ago.
- The recent retraction in energy prices, if they persist, should benefit the economy, so this is the one point that is a potential boon to the nation.
- Trade uncertainty continues to weigh on the economy.

How Is Your Portfolio Positioned?

Given our view remains more or less unchanged, our investment strategy remains aligned with prior quarters:

Focused on Corporate Bonds: We continue to emphasize high-quality, investment-grade corporate bonds for attractive yields, while adding select high-yield bonds where conviction is high.

Duration Flexibility: Given recent interest rate volatility, we are keeping duration on the shorter side for now. We will extend into longer-term bonds if longer term yields become structurally more compelling on a relative basis.

Outlook Neutral but Optimistic: We remain cautiously optimistic for the second half of 2026. The current macro environment is supportive of our credit-focused strategy.

CUMBERLAND
Private Wealth

What This Means for You

Your fixed income portfolio is positioned to generate reliable income while mitigating the current risk we see in the environment today. We remain confident in the outlook for fixed income markets, and in our corporate bond – focused approach. As market conditions evolve, we will pivot to adapt the portfolio to capture attractive opportunities or further reduce the risk profile.

Warm regards,
Owen Morgan
Portfolio Manager, Cumberland Income Fund
July 2, 2026

*Cumberland Private Wealth refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). Owen Morgan (a Portfolio Manager at CIC) is the lead portfolio manager for the Cumberland Income Fund. NCM Asset Management Ltd. (NCM) is the Investment Fund Manager to the Kipling Strategic Income Fund. CPWM, CIC and NCM are under the common ownership of Cumberland Partners Ltd.