NORTH AMERICAN EQUITY STRATEGY

Second Quarter 2026 Review

During the second quarter, the S&P 500 posted a total return of +15.20% in U.S. dollar terms. After adjusting for currency effects, the return improved to +17.46% in Canadian dollar terms, as the Canadian dollar depreciated by 1.42 cents over the quarter to $0.7044 USD. The S&P/TSX Composite Index delivered a positive total return of +6.96% for the quarter. Given that the main concerns in the marketplace are largely U.S.-centric, this commentary has focused on the U.S. macro factors shaping conditions, the AI-driven performance across technology and other sectors, and the implications for the outlook ahead.

Exhibit 1 reviews the Summary of Economic Projections (SEP) from the June U.S. Federal Open Market Committee (FOMC) meeting. The FOMC kept the federal funds rate unchanged at 3.50%–3.75% at their most recent meeting on June 17th. During the press conference, new Fed Chair Kevin Warsh signaled a move toward a simpler communication approach, stepping away from traditional forward guidance to give the Committee more flexibility to react to incoming economic data.

In the SEP, projections for real GDP and unemployment were slightly lower for 2026 and unchanged for 2027. The most significant revision was a notable upward shift in PCE inflation for 2026, reflecting supply-driven price pressures in sectors such as energy. Nearly half of policymakers, nine of the nineteen members, indicated support for at least one interest rate hike later this year to address rising inflation.

Warsh did not submit an SEP rate projection, which may raise questions about how the SEP will evolve under his leadership. He did acknowledge that inflation has been running well above the Fed's 2% target for more than five years. The key hawkish message from the meeting was clear: "this committee will deliver price stability."

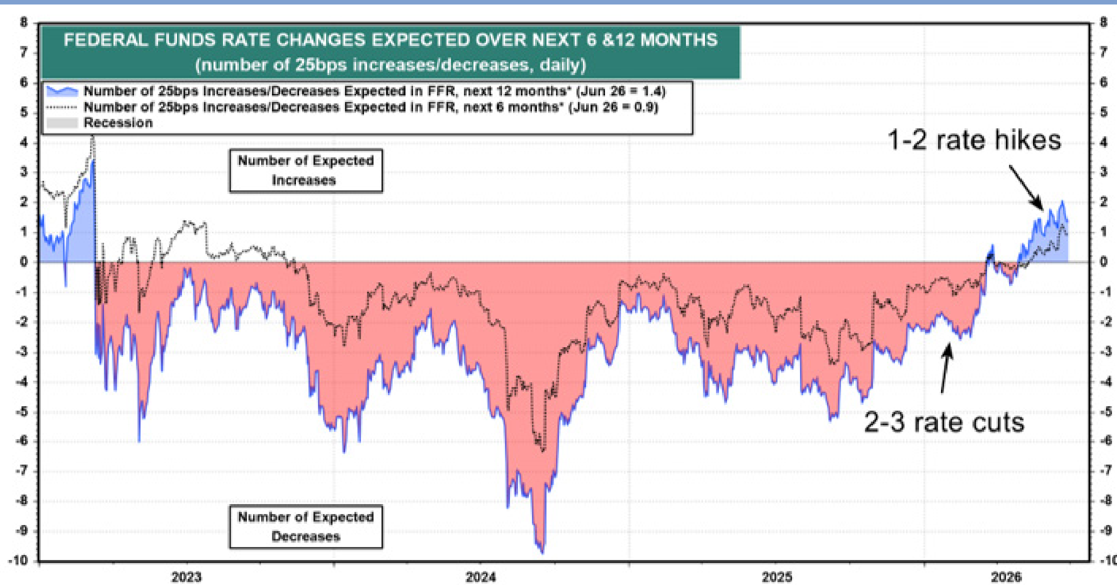
Exhibit 1: Federal Reserve Summary of Economic Projections (SEP)

Variable [in %]	Median			
	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2.0
March projection	2.4	2.3	2.1	2.0
Unemployment rate	4.3	4.3	4.2	4.2
March projection	4.4	4.3	4.2	4.2
PCE inflation	3.6	2.3	2.0	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation	3.3	2.5	2.1	
March projection	2.7	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.8	3.6	3.4	3.1
March projection	3.4	3.1	3.1	3.1

Source:Federal Open Market Committee, 06/17/2026

Exhibit 2 shows that markets have repriced since Fed Chair Kevin Warsh's June 17th debut press conference. The market went from pricing in multiple interest rate cuts earlier in the year to now pricing in one 25 bps hike over the next six months and two over the next 12 months.

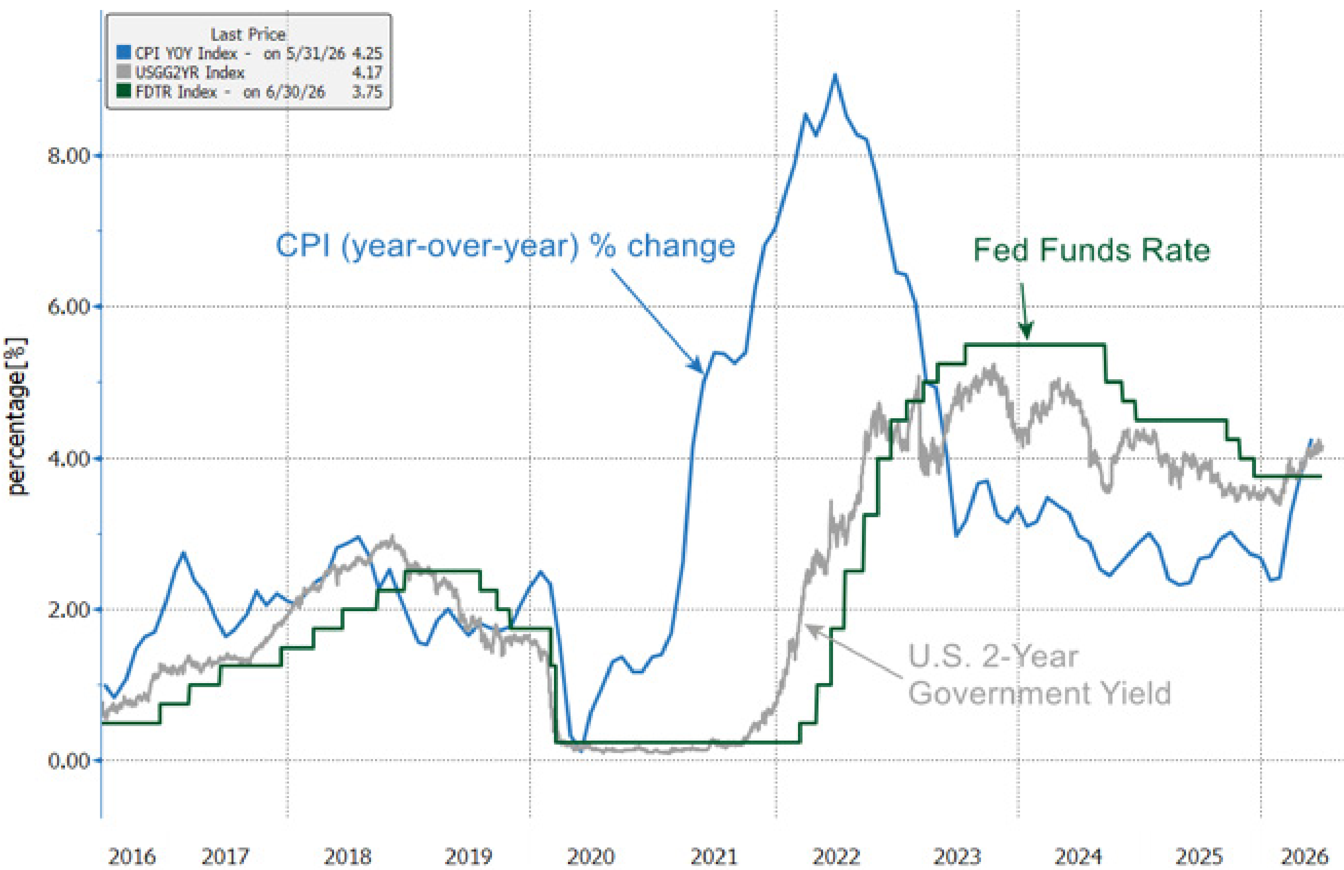
Exhibit 2: Federal Funds Rate Changes Expected Over Next 6 & 12 Months



Source: Yardeni Research, 06/26/2026

Exhibit 3 compares the year over year CPI inflation rate with the U.S. 2 year Treasury yield and the federal funds rate. Both CPI and the 2 year yield, which often serves as a market proxy for the future path of the fed funds, are currently trending above the actual policy rate. This alignment is typically a strong signal that the fed funds rate may need to move higher relatively soon.

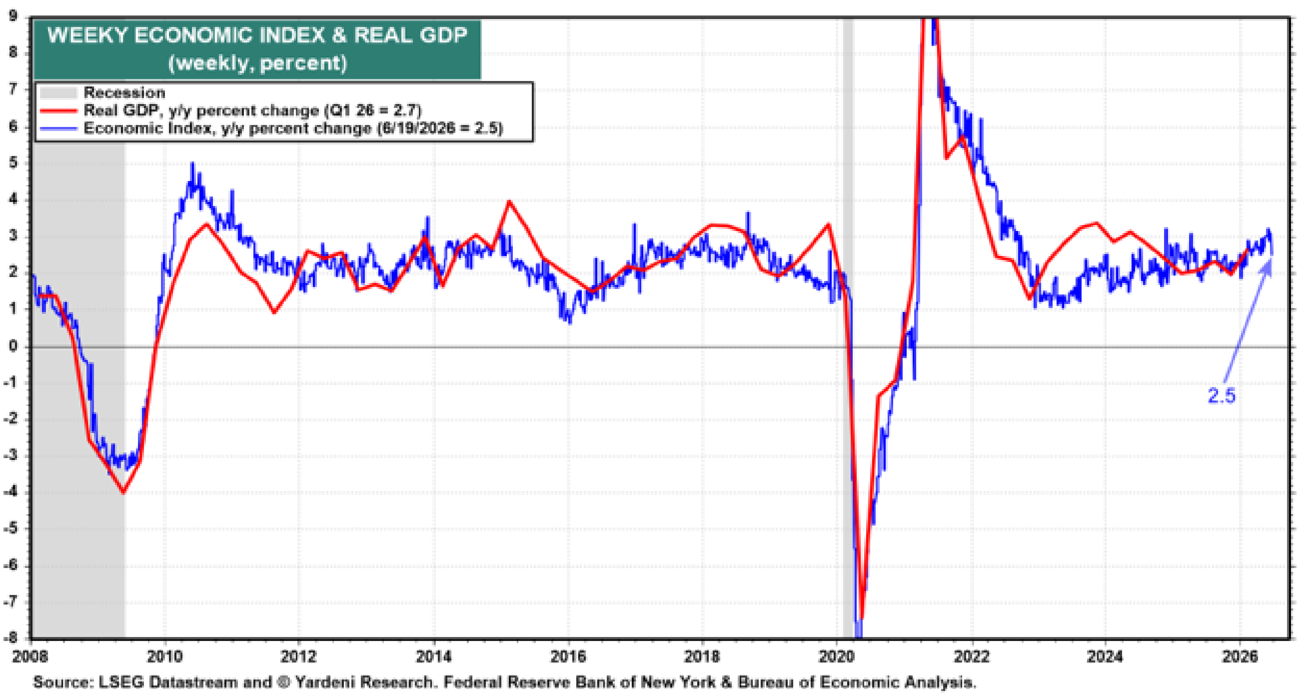
Exhibit 3: Fed Funds Rate, U.S. 2Year Government Yield, and CPI Year-over-Year % change



Source: CPWM, Bloomberg, 06/30/2026

Exhibit 4 shows that the Dallas Fed Weekly Economic Index rose to 2.5% as of June 20, 2026. Note the high correlation of the Dallas Fed Weekly Economic Index to real GDP, which suggests that estimated real GDP growth of 2.5% is higher than the FOMC's expected real GDP growth of 2.2% for 2026 **(Exhibit 1)**. This would further support the argument that short-term interest rates could go higher.

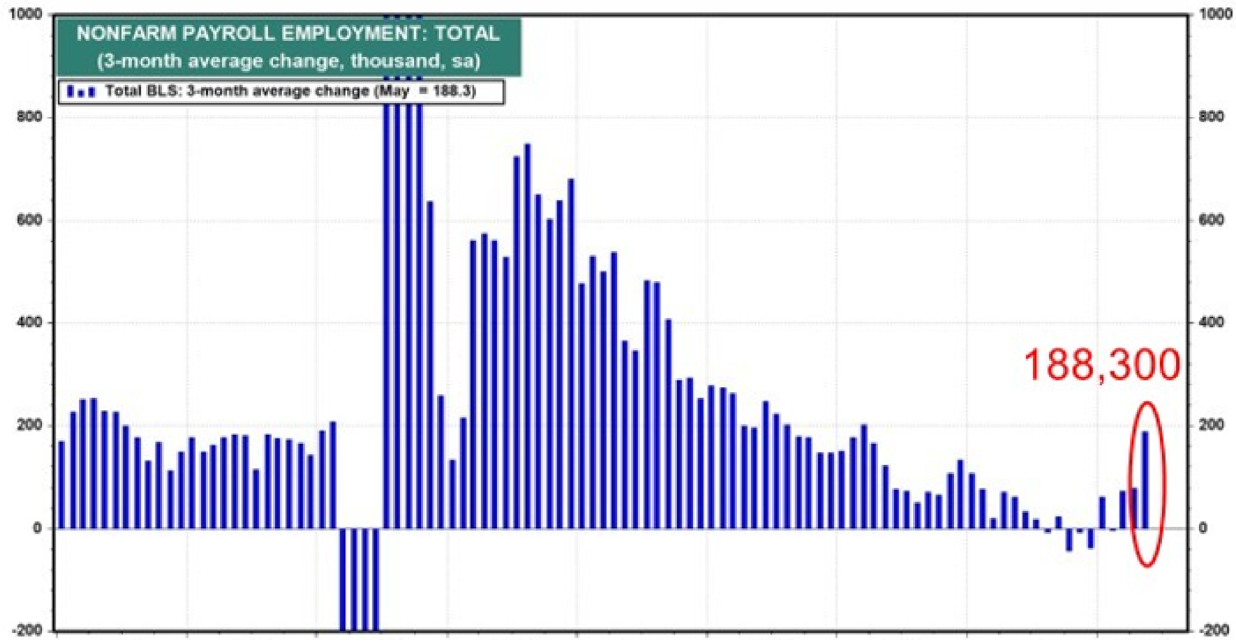
Exhibit 4: Weekly Economic Index & Real GDP



Source: Yardeni Research, 6/29/2026

Furthermore, the labour market data has also been firm **(Exhibit 5)**. May payrolls increased by 172,000, and the three-month average rose to 188,300, a pace like what we saw through 2023–2024 when the unemployment rate ranged between 3.6% and 4.0%. This also compares favorably to the Fed's 2026 SEP unemployment target of 4.3%. So, like GDP, the labour market is also not indicating any need for the Fed to hold back on interest rate hikes.

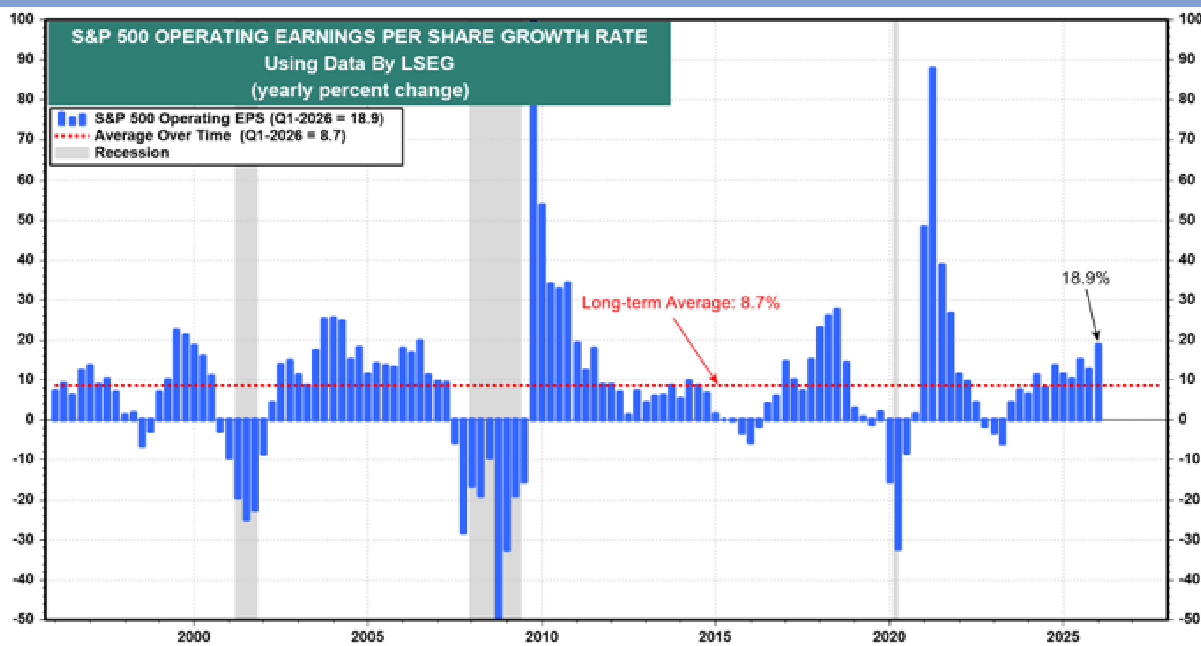
Exhibit 5: Nonfarm Payroll Employment (in thousands)



Source: Yardeni Research, 6/29/2026

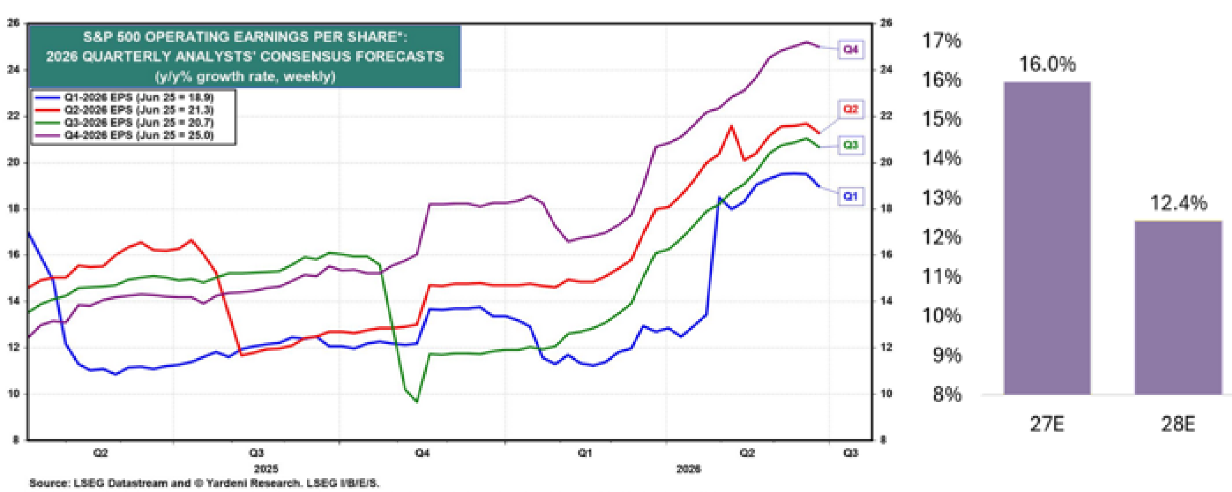
Offsetting tighter interest rate policy expectations, which typically lower equity valuations, but reinforcing the strong economic backdrop is the continued strength in corporate earnings momentum shown in **Exhibit 6**. S&P 500 operating Earnings per Share (EPS) rose +18.9% year over year in Q1 2026, more than DOUBLE the long run average of +8.7%. **Exhibit 7** shows market consensus is for this momentum to accelerate further, with projected EPS growth of +21.3% in Q2, +20.7% in Q3, and +25.0% in Q4, alongside continued double digit earnings growth into 2027 and 2028!

Exhibit 6: S&P 500 Operating EPS Growth Rate



Source: Yardeni Research, 6/29/2026

Exhibit 7: S&P 500 Operating Earnings Per Share Growth Rate



Source: Yardeni Research, Bloomberg, 6/29/2026

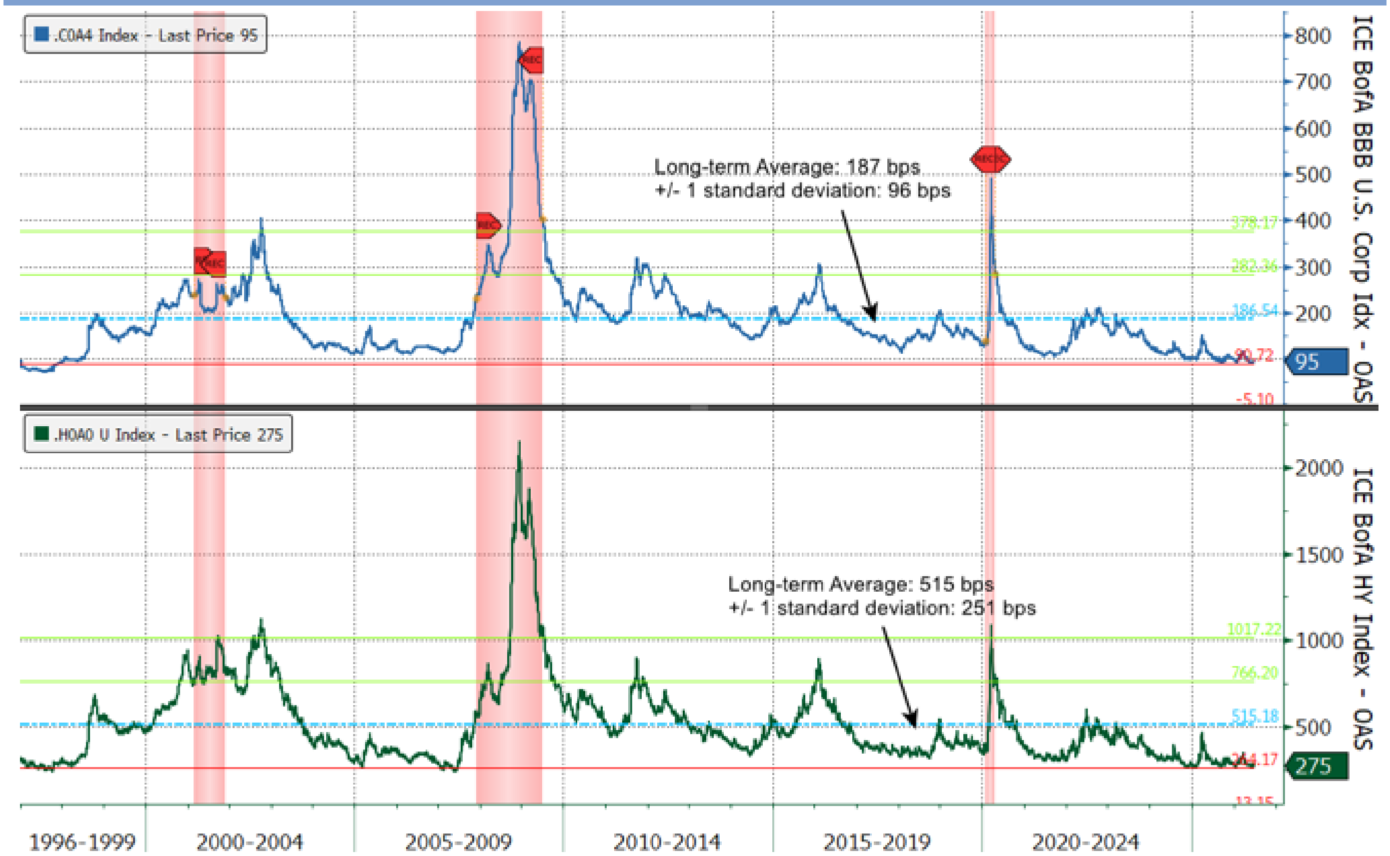
Despite exceptional earnings performance, **Exhibit 8** shows that valuation multiples have compressed, meaning investors are now willing to pay less for each dollar of earnings. The forward price-to-earnings (P/E) ratio for the S&P 500 declined from 22.1x at the start of 2026 to 20.2x as of June 30. This isn't all bad though, as the strong earnings growth has still allowed stock prices to grow despite investors willing to pay less for each dollar of earnings. This also means that the market has become cheaper as earnings growth continues to outpace price gains.

Exhibit 8: S&P 500 Forward P/E

Source: CPWM, Bloomberg, 6/30/2026

In summary, we remain constructive on U.S. equity markets, among others. U.S. earnings growth remains robust, the economic outlook is generally positive, and valuation multiples have eased somewhat. It is worth noting, however, that lower interest rates are unlikely to provide a tailwind for the markets as they have for the past two years if inflation remains elevated. Even so, the combination of a resilient U.S. economy and strong forward earnings growth should be sufficient to support market returns for now. **Exhibit 9** reinforces this view, showing that credit conditions in the U.S. remain neutral, an indication that the bond market is not signaling imminent recession concerns despite potentially higher interest rates.

Exhibit 9: Credit Spreads - U.S. Corporate BBB (top) and U.S. High Yield Corporate (bottom)



Source: Bloomberg, 06/30/2026

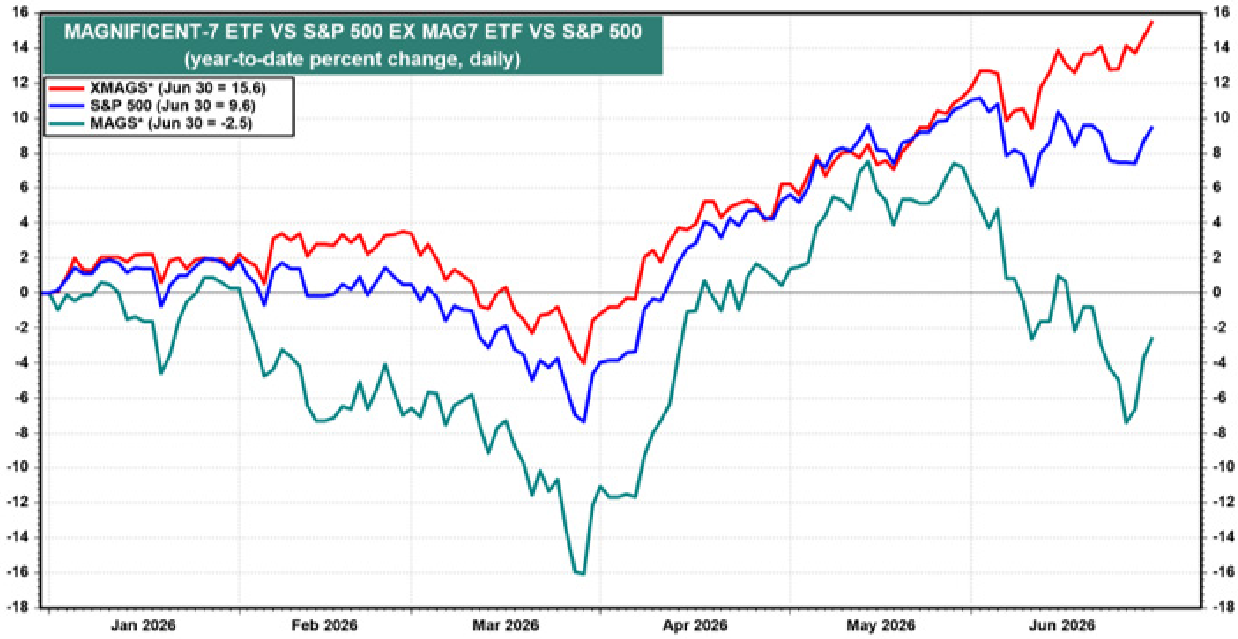
Asset Allocation for our North American Equity Strategy As of June 30, 2026	
Equities	97%
Fixed Income	0%
Cash	3%

Our overall equity exposure increased from 95% to 97% since March 31st, 2026, while cash decreased from 5% to 3%. Within equities, U.S. exposure increased from 52% to 54%, while Canadian exposure remained unchanged at 43% over the same period.

It is important to note that many client portfolios are invested through our North American plus International Equity strategy, which is currently allocated 80% to U.S. and Canadian equities and 20% to international equities. As a result, the effective weights of U.S. and Canadian equities within total equity allocations are modestly diluted due to this international exposure.

Across the Magnificent 7 tech stocks (Mag 7 which include Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia and Tesla), performance has lagged the broader market so far this year (green line, **Exhibit 10**). As of June 30th, the MAG-7 were down -2.5% year to date, whereas the "S&P493" or "XMAGS" were up +15.6% (red line, **Exhibit 10**). At the same time, market volatility, particularly for the technology-heavy Nasdaq, has increased. In June alone, we saw 5 days where the Nasdaq was down more than -1% and 2 days where it was down more than -3% while other sectors held up far better. As a result of increased volatility in these names, we are closely monitoring our overall AI exposure. While this includes our technology holdings, it also extends to "picks and shovels" AI beneficiaries such as Eaton Corporation, which stands to gain from the AI infrastructure build out but could be vulnerable if sentiment turns. It's worth noting that we have already trimmed some of these positions following their respective strong prior stock price performance.

Exhibit 10: Magnificent-7 ETF "MAGS" vs S&P 500 vs "S&P 493 (XMAGS)"



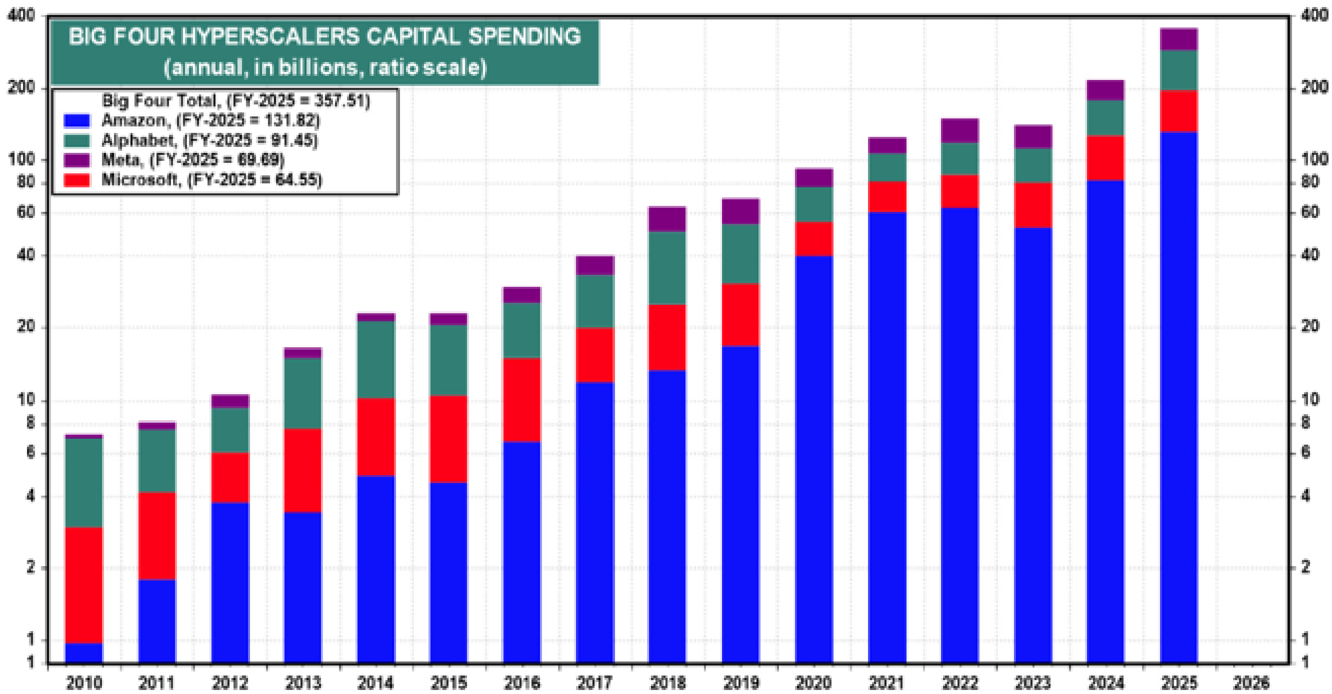
Source: Yardeni Research, 06/30/2026

Our current AI concerns center on three areas:

- Capital spending
- Capital issuance
- Return on invested capital (ROIC)

Exhibit 11 highlights capital budgets for the Big Four hyperscalers (Amazon, Alphabet, Meta, Microsoft), which are estimated at $358B in 2025, with AI related capital expenditures (capex) expected by Goldman Sachs to rise to $765B in 2026 and $1.6T by 2031.

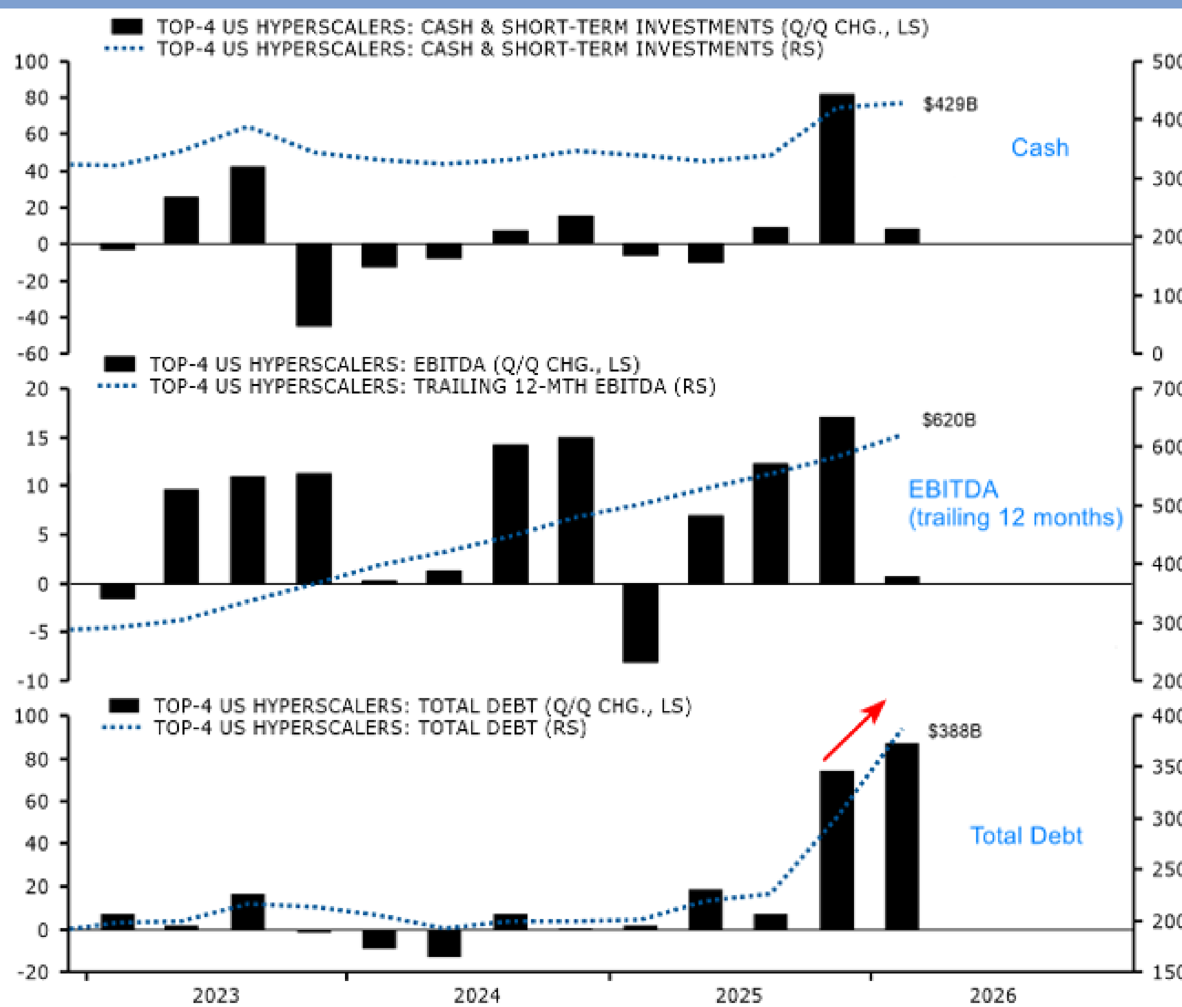
Exhibit 11: Big Four Hyperscalers' Capital Spending



Source:Yardeni Research, 06/17/2026, "On Hyperscalers' Growth & China's Persistent Deflation"

Exhibit 12 shows the Big Four's cash balances, trailing 12 month EBITDA, and debt levels. These companies are now raising both debt and equity to fund future capex. Their credit quality is exceptional, better than many sovereigns, so we are not concerned about balance sheet risk. However, the capital must come from somewhere and companies need to earn a return on it. Consider SpaceX's massive US$85 billion initial public offering in June, which raises the issue of increasingly large capital raises competing for the same pool of investor capital. Are investors rotating out of the Mag 7 to fund these new opportunities? Alphabet's US$85 billion equity financing to support AI capex, the week prior to the SpaceX IPO, was absorbed with limited reaction to the news suggesting the market remains willing to fund these programs for now. However, AI is creating an enormous demand for capital and investors may eventually have to make choices about where that capital is allocated.

Exhibit 12: Big Four Hyperscalers Cash, EBITDA and Debt for AI Capex

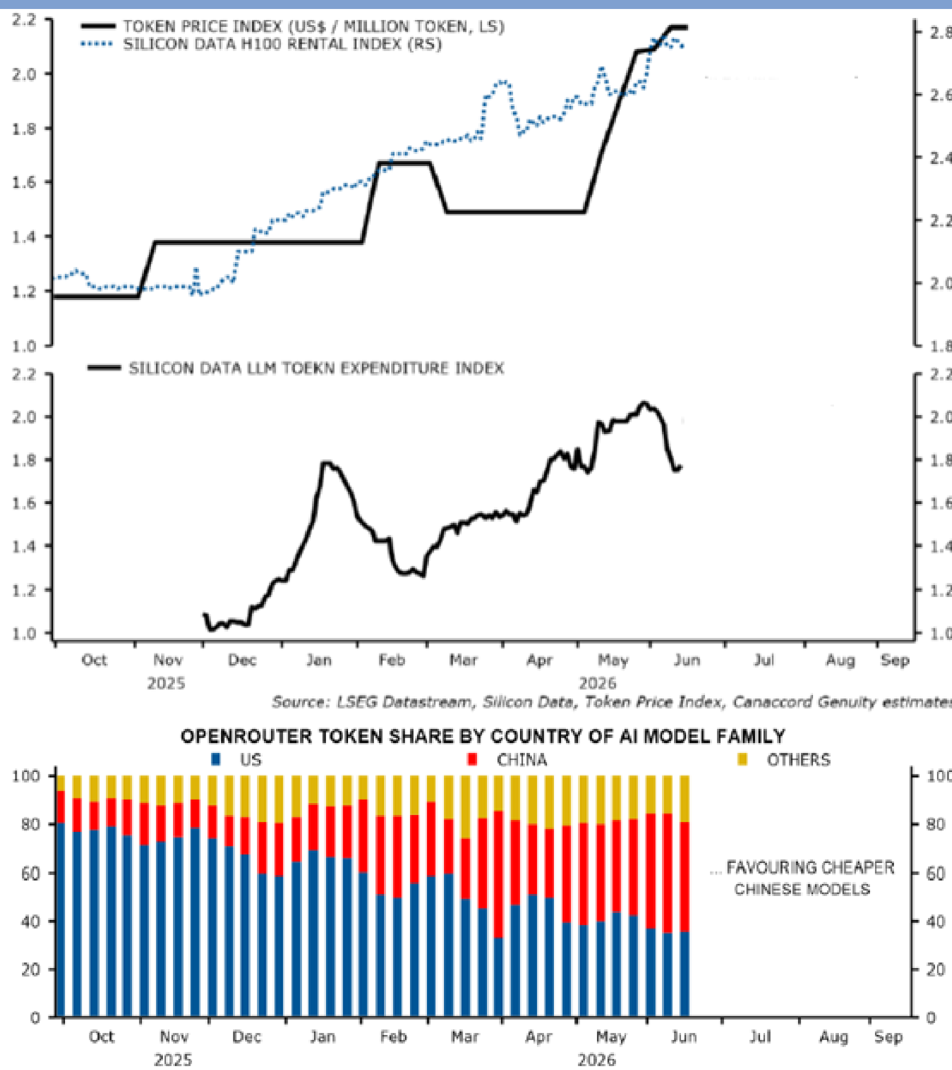


Source: Canaccord Genuity, Roberge et al, Research, 06/17/2026, "Portfolio Strategy Incubator". Big Four are MSFT, AMZN, GOOG, and META

This leads to the broader question of return on invested capital (ROIC)—or as one strategist put it, "when does the music stop?"

Exhibit 13 illustrates several dynamics: The top clip shows AI providers have nearly doubled prices per million tokens year to date. Tokens are what make AI models think. The second clip shows the Silicon Data LLM Token Expenditure Index. It suggests token consumption may be moderating, possibly due to tighter corporate AI budgets or pressure on suppliers to lower prices. The third clip shows that there is a noticeable shift toward cheaper Chinese AI models, at the expense of higher priced U.S. models. If competition intensifies and customers become more price sensitive, ROIC could come under pressure. The response could be a slowdown in capex that does not have a sufficient return on invested capital.

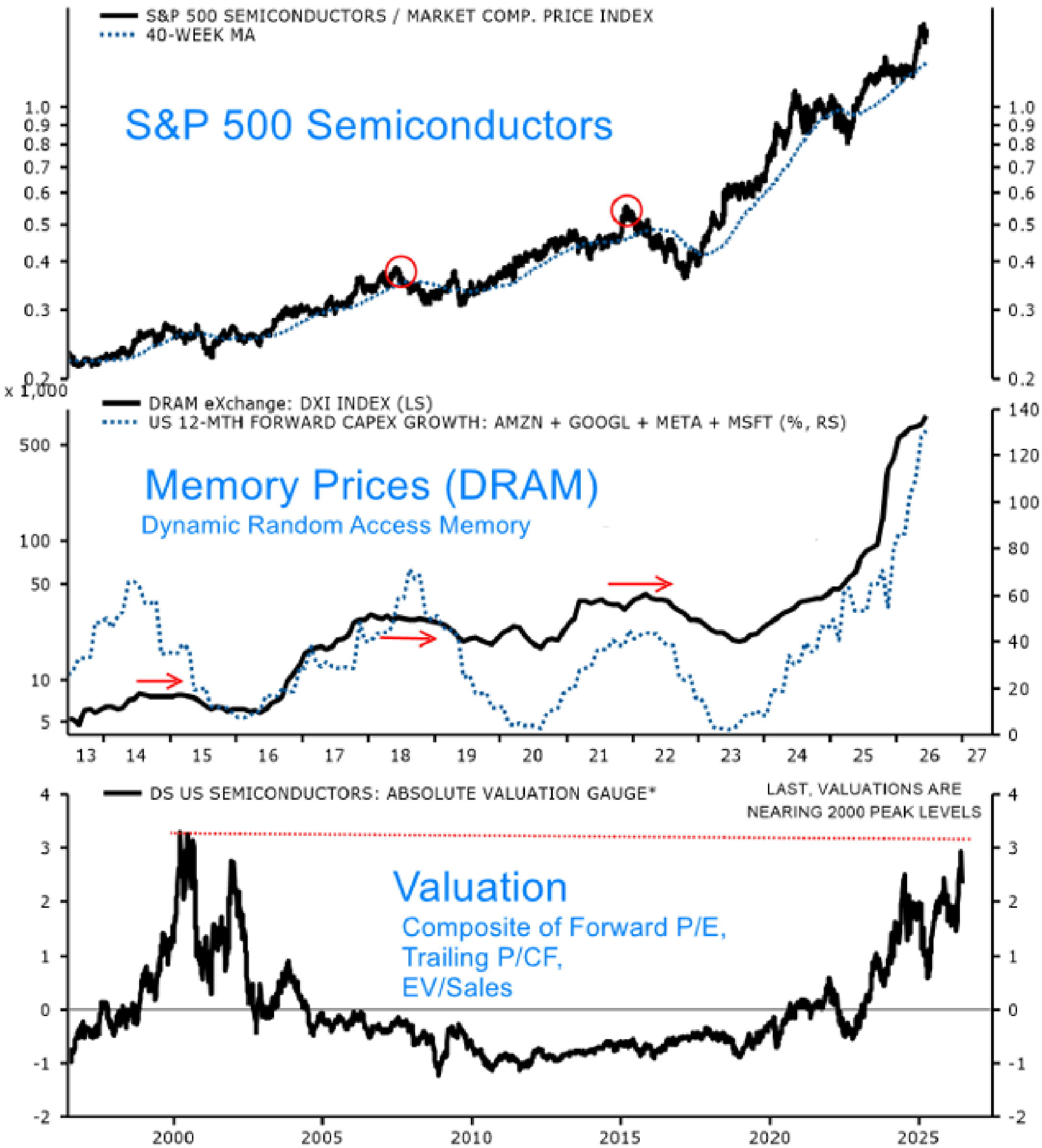
Exhibit 13: Token Prices versus Consumption



Source:Canaccord Genuity, Roberge et al, Research, 06/17/2026, "Portfolio Strategy Incubator"

Exhibit 14 adds further context. The U.S. semiconductor index has surged sharply, as shown in the top clip. The middle clip compares capex growth for the Big Four to DRAM memory pricing, which is critical for AI data processing. Historically, any slowdown in capex has been negative for memory prices (and producers) as shown by the red arrows. The bottom clip shows semiconductor valuations are now approaching dot com era peaks, suggesting there is a limited margin of safety in this sector.

Exhibit 14: U.S Semiconductors Index versus DRAM pricing and Capex Growth (Big Four Hyperscalers)



Canaccord Genuity, Roberge et al, Research, 06/17/2026, "Portfolio Strategy Incubator"

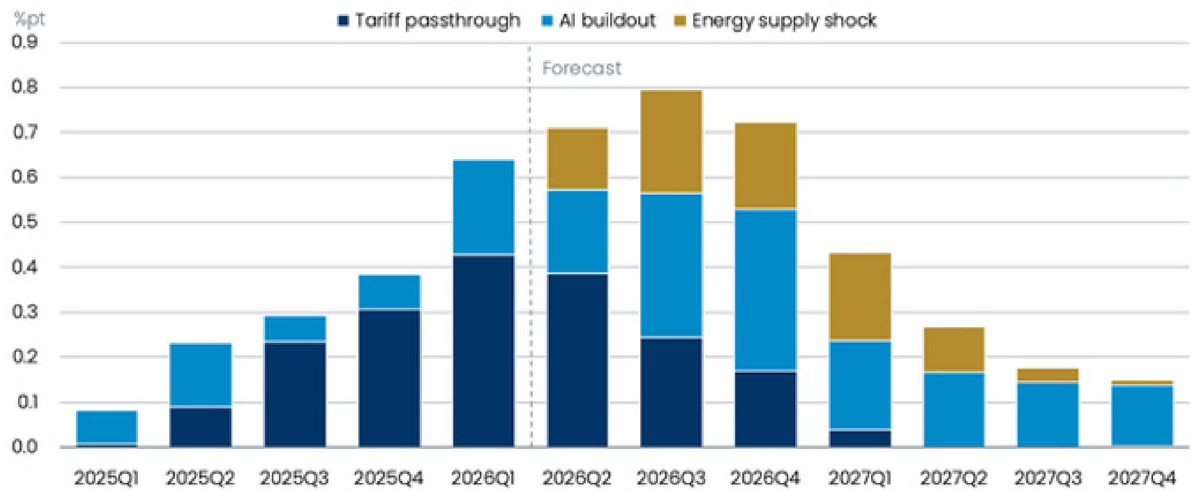
Given these dynamics, as previously noted, we have trimmed our AI related exposures. With market breadth improving as suggested by the outperformance of the XMAGS (ie non-Mag-7 stocks - red line, **Exhibit 10**), we have rotated more into cyclical industrials and healthcare, both of which have shown resilience on days when the AI trade has struggled.

To that end, we have added to existing positions such as Union Pacific Corporation and Linde Plc. and initiated a new position in healthcare provider, McKesson Corporation. McKesson is the middleman for the drug industry, buying brand-name drugs and generic medicines from drug manufacturers and distributing them to pharmacies, hospitals, and clinics. We saw an opportunity to buy McKesson after the stock overreacted to concerns over government policies aimed at lowering drug prices, changes to insurance systems, and a slight slowdown in the sales growth of GLP-1 drugs. McKesson should benefit from a series of drug patent expiries set to happen over the next four years, as McKesson can generate higher margins on generic and biosimilar drugs over branded drugs.

Closing Comments and Outlook

Exhibit 15 presents Oxford Economics' decomposition of PCE inflation, which shows tariff related pressures fading while AI and energy related components continue to rise. Their outlook suggests PCE inflation should peak in Q3 2026. The on and off conflict in Iran has added uncertainty; however, oil prices have largely retraced back to pre war levels. If Oxford's timing on the drivers of inflation proves correct, and if Fed Chair Warsh maintains a firm stance on inflation, it is possible that the Fed's SEP target of Core PCE falling to 2.5% by the end of 2027 could be achieved sooner.

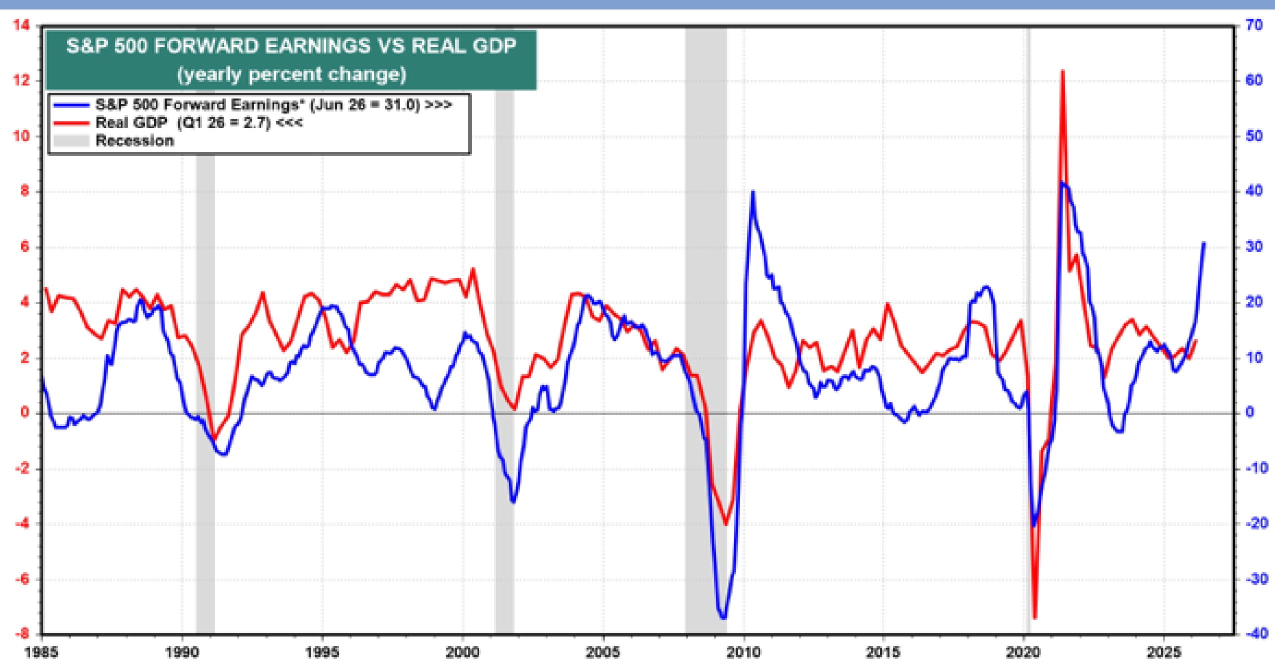
Exhibit 15: Tariffs, AI, and Energy Effects on PCE Inflation (Contributions)



Source: Oxford Economics, Daily Shot

Exhibit 16 compares the annual percent change in S&P 500 forward earnings growth to real GDP growth. As discussed earlier, the economic outlook remains robust, which should continue to support forward earnings growth and, in turn, earnings growth should reinforce economic momentum.

Exhibit 16: S&P 500 Forward Earnings Growth versus Real GDP



Source: Yardeni Research, 06/29/2026

Exhibit 17 compares S&P 500 forward earnings to the S&P 500 price index over the past 30 years. While valuation multiples can expand or contract in the short-term, the chart highlights that over longer periods, the dominant driver of equity prices is earnings growth. The table below compares the last five years of S&P 500 price performance with forward earnings growth through June 30th which rose +74.5% while forward earnings increased +84.1%, and the forward P/E multiple contracted by -5.6%. So even though the market rose as much as it did, it was all earnings-driven. In fact, the market became slightly cheaper over that period due to earnings despite the significant increase in prices. Although this period included significant volatility, most notably the 2022 bear market driven by rising interest rates, the market ultimately recovered. It is also worth noting that in 2022, the Fed Funds rate rose from effectively zero to 5.5%, which was a very aggressive rate hiking cycle (ie: many hikes over a short period), whereas today the Fed Funds rate sits much higher already at closer to 4%, creating an entirely different backdrop.

Exhibit 17: S&P 500 Forward Earnings vs. Price

Source: Yardeni Research, 06/29/2026

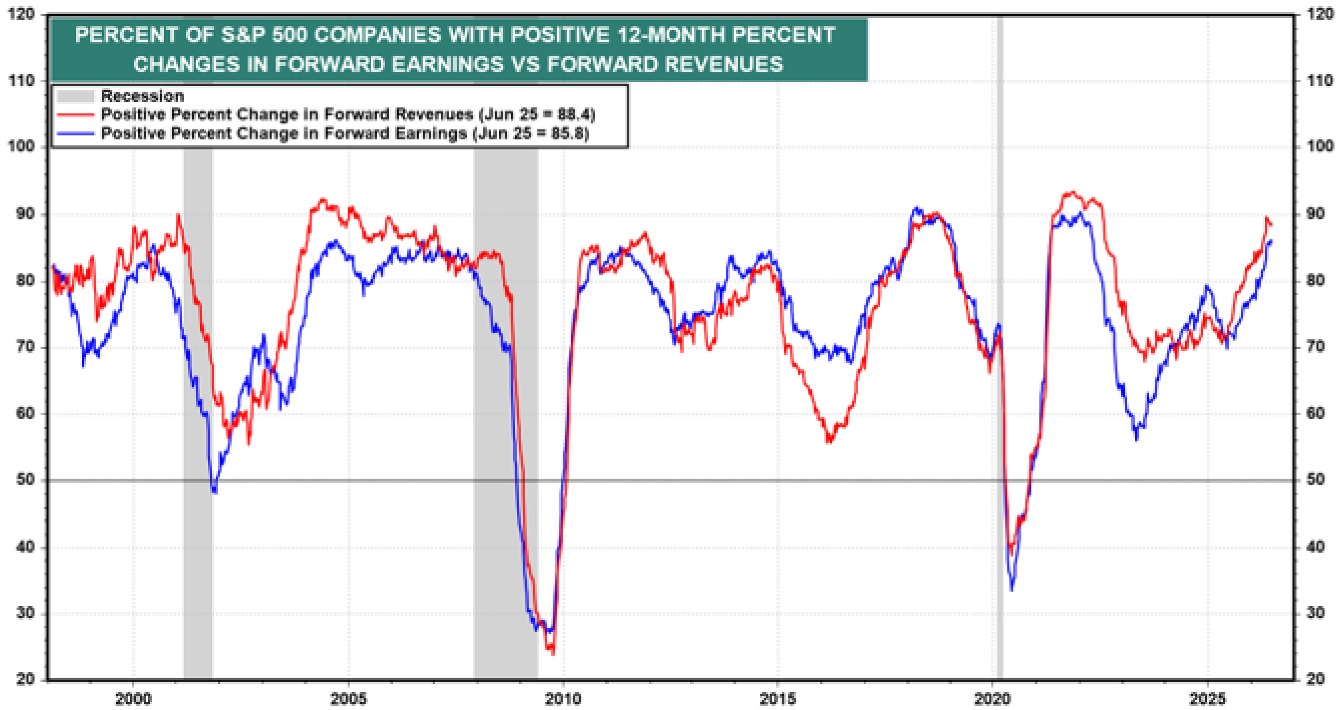
Decomposition of Returns by Price Change and Forward Earnings Change

Date	Price	Fwd. EPS	Fwd. PE
06/30/2021	4297.50	$201.24	21.4x
06/30/2026	7499.36	$370.43	20.2x
% change	+74.5%	+84.1%	-5.6%

Source: CPWM, Bloomberg, 06/30/2026

Exhibit 18 shows the percentage of S&P 500 companies with positive forward revenue and earnings revisions, currently very strong at +88.4% and +85.8%, respectively. This broad earnings strength, combined with the earlier evidence of expanded market breadth **(Exhibit 10)**, supports the view that recent market behavior reflects rotation among sectors rather than an all-out market retreat.

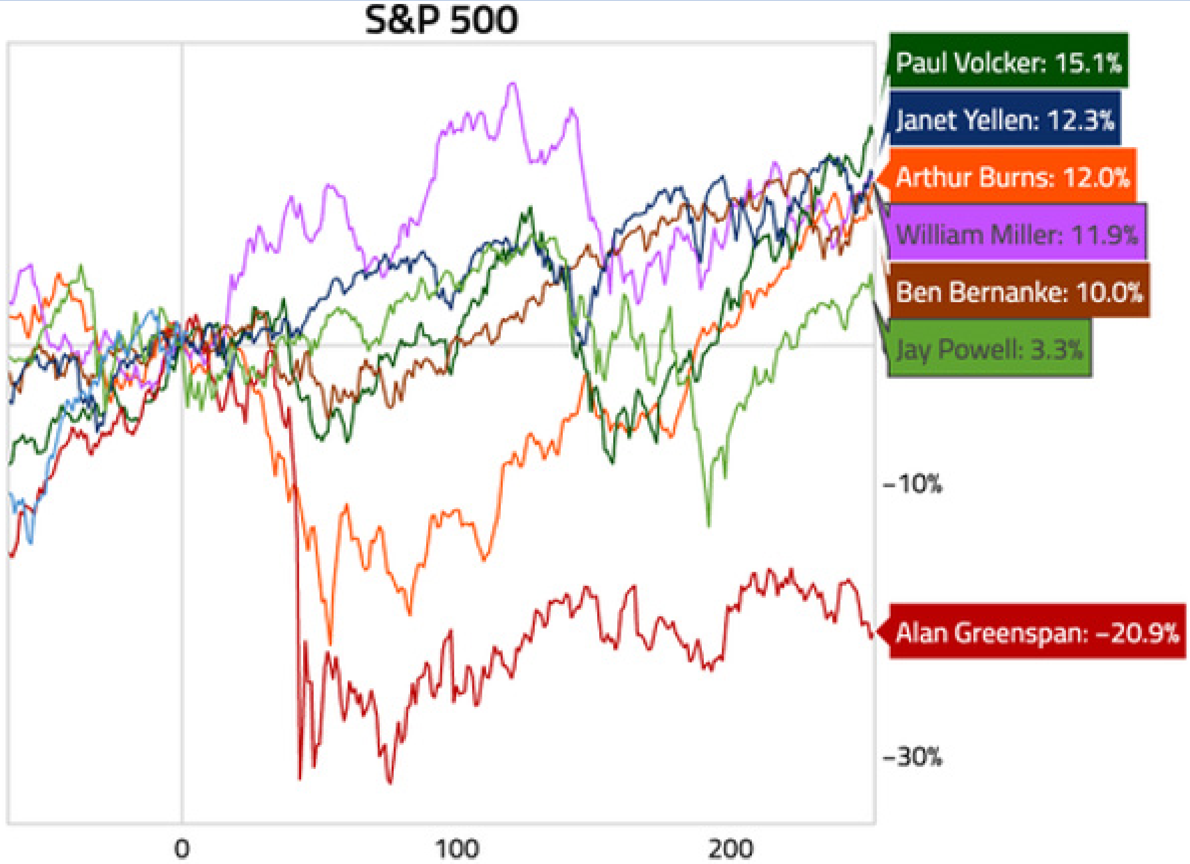
Exhibit 18: % of S&P 500 Companies with Positive 12-Month % changes in Revenues & Earnings



Source: Yardeni Research, 06/29/2026

Exhibit 19 shows S&P 500 performance in the first year after a new Fed Chair, going back to the 1970s. Apart from the 1987 crash that Fed Chair Alan Greenspan presided over, which was exacerbated by program trading in an era without modern market safeguards, the S&P 500 has historically delivered positive returns in the first year of every new Fed Chair. This bodes well for the market during Kevin Warsh's first year as Fed chair.

Exhibit 19: S&P 500 performance under various Fed chairpersons for their first year in office



Source: DailyShot/Bespoke Investments

In summary, the combination of resilient U.S. economic growth, continued earnings momentum, and the prospect of inflation easing in late 2026 or early 2027 has kept us fully invested, though we have begun to adjust sector and theme exposures where appropriate. We will continue to monitor developments closely and refine positioning as conditions evolve in the weeks and months ahead.

Peter Jackson
Chief Investment Officer
June 30, 2026

*Cumberland and Cumberland Private Wealth refer to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates.

Appendix 1
New Equity Investments:
Cumberland North American Equity Mandate

United States

McKesson Corporation

McKesson is the middleman for the drug industry, buying brand-name drugs and generic medicines from drug manufacturers and distributing them to pharmacies, hospitals, and clinics. McKesson's competitive advantage is its scale. The company delivers one out of every three prescriptions in the US and has secured long-term partnerships with major retailers and providers, including Walmart and UnitedHealth's Optum. The company uses its scaled network as a foundation to support additional businesses to provide higher-margin services to independent healthcare providers and pharmacies. We saw an opportunity to buy McKesson after the stock overreacted to concerns over government policies aimed at lowering drug prices, changes to insurance systems, and a slight slowdown in the sales growth of GLP-1 drugs.

Further, we see McKesson benefiting from a series of drug patent expiries set to happen over the next four years, as McKesson can generate higher margins on generic and biosimilar drugs over branded drugs. Over the next few years, some of the most successful specialty cancer drugs in the world are hitting a patent cliff—including giant oncology blockbusters like Merck's Keytruda, and Pfizer's Ibrance. Because McKesson owns the nation's largest network of cancer clinics, it is uniquely positioned to help doctors swap out expensive brand-name biologics for cheaper, higher-margin biosimilar alternatives, capturing both the complex handling margins and premium clinical service fees. While generic drugs make up roughly 10% of McKesson's total distribution sales, they generate approximately two-thirds of the company's gross profits.

Analog Devices (ADI)

Purchased early in Q2, Analog Devices is a global semiconductor leader specializing in high-performance analog, mixed-signal and digital signal processing technology that bridges the physical and digital worlds. Its end markets span industrial, automotive, and communications. Following a multi-quarter cyclical downturn, the company has emerged from an inventory destocking cycle, with a pivot back toward broad-based demand acceleration. Gross margins, book-to-bill, and earnings momentum have all improved and we expect the trend to continue as the company's products align with several long-term secular mega-trends including factory automation, robotics, electrification, advanced driver-assistance systems, and the expanding infrastructure demands of artificial intelligence.