

Market Pulse



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A mixed June performance in financial markets

Global equity markets delivered mixed results in June as investors balanced resilient economic data against geopolitical uncertainty and elevated valuations. In Canada, the S&P/TSX Composite Index finished the month essentially flat, gaining roughly 0.3%. A strong performance from financials and energy helped offset weakness in materials and resource-related sectors as commodity prices remained volatile.

U.S. equities underperformed most major regions during the month. The S&P 500 declined approximately 1.1% (USD), ending a two-month winning streak. Profit-taking in large-cap technology and AI-related stocks weighed on returns, though market breadth improved and economically sensitive sectors generally held up better than the headline index suggested.

European equities were among the strongest performers. The STOXX Europe 600 Index advanced about 2.5%, supported by improving economic momentum, easing inflation pressures, and optimism surrounding monetary policy. Financials, industrials, and consumer sectors contributed positively to returns.

Emerging-market equities struggled, with the MSCI Emerging Markets Index falling roughly 1.5% (USD) over the month. Returns were pressured by volatility in Asian markets, investor caution toward global growth prospects, and periodic geopolitical concerns. Despite the June setback, emerging markets remained one of the strongest-performing regions on a year-to-date basis.

Canadian bonds generated modest gains in June as government yields were volatile but ended lower after the Bank of Canada held its policy rate at 2.25%, emphasizing weak growth despite inflation rising to 2.8%. U.S. Treasuries underperformed as the U.S. Federal Reserve maintained rates at 3.50%-3.75% and adopted a more hawkish stance, lifting inflation projections and pushing yields higher.

What if oil prices keep falling?

After everything we've seen on the oil supply front, it's remarkable that WTI crude is only about \$2 higher than it was on July 4 of last year. We generally believe oil and fossil fuels face secular headwinds as global electrification continues. However, the recent Middle East supply shock was among the largest in history, making oil's return to levels near those seen in February particularly noteworthy.

A few factors are worth considering. Governments around the world have released significant amounts of oil from strategic petroleum reserves, helping alleviate supply constraints. In addition, soft demand from China—which will likely recover—has helped reduce some of the supply-demand imbalance.

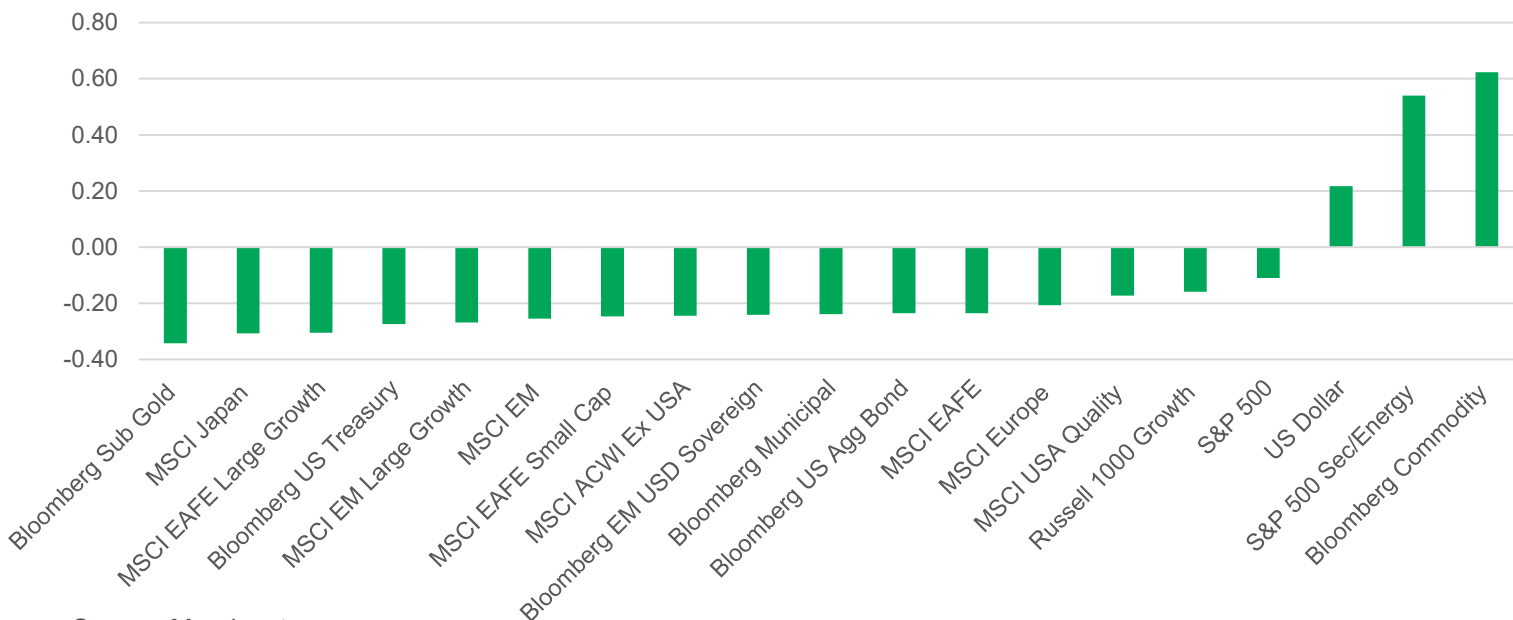
Stepping back, there are many drivers of oil prices beyond simple supply and demand fundamentals. Typically, greater supply results in lower prices and higher demand. Conversely, a reduction in supply can lead to higher prices even if demand weakens.

But oil prices are influenced by much more than physical market fundamentals. Commodity markets are heavily impacted by trend-following investors such as commodity trading advisors and momentum traders. When a commodity trend shifts from positive to negative, these investors often amplify the move. Traders are constantly taking long and short positions based on their expectations for future price movements, making oil markets highly sensitive to sentiment and positioning.

While we believe oil prices are low relative to the underlying fundamental backdrop, we also see challenges to revisiting prior highs above \$100 per barrel. Negative price trends, fewer supply-related surprises, and investor interest shifting toward other opportunities may keep a lid on prices.

In the chart below, we highlight the five-year correlation between Brent crude and various asset classes. As the higher bars on the right side of the chart show, oil is positively correlated with commodities, energy stocks, and the U.S. dollar, while exhibiting an inverse relationship with equities and bonds.

5-year correlation to Brent oil prices



Source: Morningstar

Over the first half of the year, the energy sector remained the best-performing sector in the S&P 500. Over the last month, however, it's been the worst performer, alongside technology. Among the biggest potential beneficiaries of lower oil prices are gold (as trend-following investors appear to be rotating back toward the metal), the MSCI EAFE Large Cap Growth Index—with Japan as a key component—and, on the fixed-income side, emerging-market debt, municipal bonds, and the U.S. Aggregate Bond Index.

What to watch

Investors may consider monitoring three key themes as markets progress through the second half of 2026:

1. Corporate earnings season

Management guidance could play a significant role in complementing reported results, especially following June's performance in large-cap technology and AI-related stocks.

2. Inflation and central bank expectations

Investors may monitor upcoming inflation reports to assess whether price pressures remain contained. Deviations in inflation trends might influence expectations for future Fed, BoC, and ECB policy decisions, potentially impacting bond yields and equity valuations.

3. Geopolitical risks

Events in the Middle East, relations between major economic powers, and commodity market volatility remain potential catalysts for market swings. June demonstrated how quickly geopolitical developments can affect energy prices and risk sentiment.

Overall, July is likely to be driven by the interaction between earnings, inflation, and central bank expectations. If earnings remain resilient and inflation continues to moderate, equities could resume their upward trend. However, current valuations leave markets vulnerable to disappointment, particularly in the U.S. growth and technology sectors.

Monthly lookahead

July 8	U.S. FOMC meeting minutes, May consumer credit
July 10	Canada June employment, May building permits
July 14	U.S. June CPI
July 15	Canada BoC interest rate decision, U.S. Fed Beige Book, June PPI
July 16	Canada June housing starts, U.S. June retail sales
July 17	U.S. July U. of Michigan Consumer Sentiment, June industrial production
July 20	Canada June CPI
July 23	Canada May retail sales
July 29	U.S. Fed interest rate decision

Important disclosure

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