HIGGINS
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June Market Analysis

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The Markets

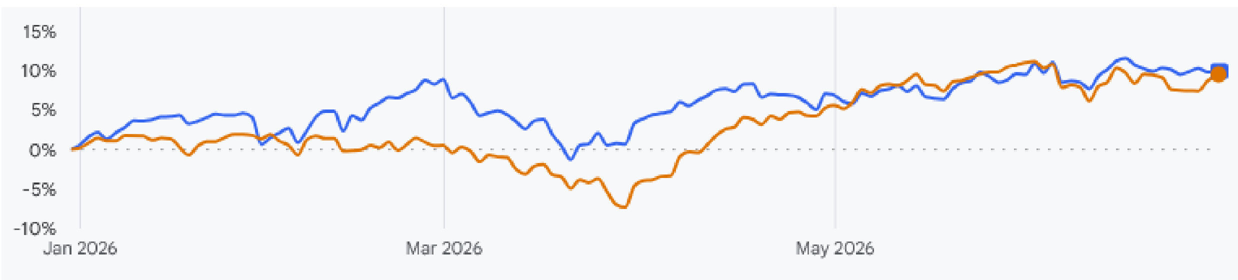
	June	Change in Month	Year –To-Date
S&P TSX	34857	0.3%	9.9%
S&P 500	7499	-1.1%	9.6%
Dow 30	52319	2.5	8.8%
Oil	$70.04	−19.8%	21.9%
Gold	$4025	−12.4%	−6.9%

There were essentially only two events that mattered this month. The most significant was the Memorandum of Understanding regarding the potential peace agreement between the US and Iran. Despite several reciprocal bombings between the two countries investors focused on the hope the Strait of Hormuz would reopen. Just the prospect of tankers carrying oil to consumers caused the price of oil to plumet close to 20%. The MOU allows for a 60 period of negotiations. We will see where we are in 60 days. The second event was the meeting of the Federal Reserve under its new chairman. Many thought he was appointed by Trump to lower interest rates. At the end of the meeting there were no indications that there would be a decline in the rates controlled by the Federal Reserve, in fact analysts started leaning to the expectation for one rate increase this year. Lower uncertainties combined with the potential for higher rates caused Gold prices to decline.

The top three sectors for the month of June were Financials, Consumer Staples and Health Care. The banks began the month by reporting solid earnings in the face of the technical recession. The banks had a capital return of 10.5% which brought the Financial Services sector to greater than an 8% return for the month. The hope that lower oil prices would permit consumers to return to their previous consumption patterns contributed to the greater than 5% price move in the Consumer Staples. The volatile Health Care sector rose more than 3%. As you might expect, weaker commodity prices pulled both the Energy and Metals sectors lower. Gold stocks, a significant component of the Metals sector, were down 13% in sympathy with the weaker price of gold. Energy stocks fell almost 9%. The Oil stocks fell less than the price of oil as they had not reflected the oil price when it was above $90. In between these two weak sectors was the Communications services, the telephone companies. Investors were concerned that the lower level of immigration combined with increased regulatory threats would lower margins on the cell phone divisions.

The chart below presents the performance of the S&P 500 and the S&P TSX for the Year-to-Date.

YTD Performance S&P 500 and TSX



TSX, S&P 500 source google.com/finance

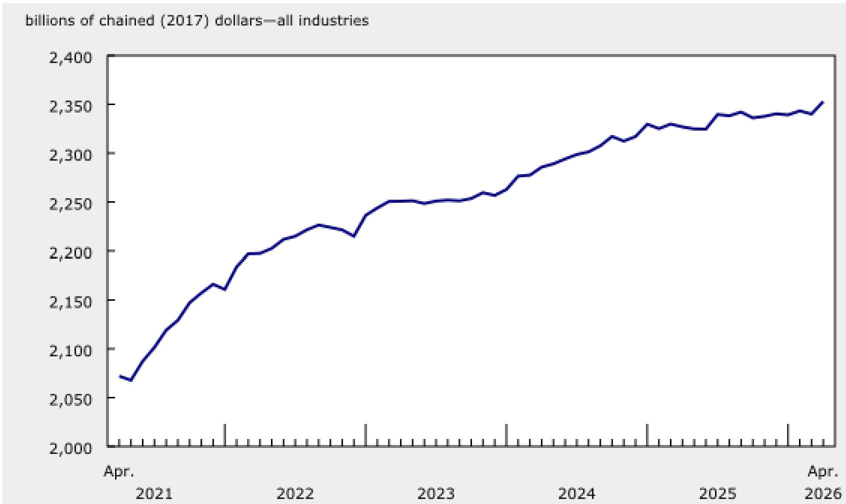
Economic Indicators

1. Canada GDP

Last month was all doom and gloom as it appeared that Canada was in a technical recession. A technical recession is when the economy contracts in two consecutive quarters. The last quarter was marginally down. April is the beginning of a new quarter and the growth in one month would have erased the entire decline in the previous two quarters. The preliminary numbers for May indicate continued growth. Just like the song popular in the Great Depression, “Happy Days are Here Again”.

The Canadian economy grew 0.5% in April, this is not annualized. This means the technical recession has more than been reversed. The chart on the next page shows how the economy has been bumping along around the same level for most of 2025 and 2026. The April’s growth is clearly visible. Gains were evident in both goods and services. Fourteen of the 20 industrial sectors grew in April.

Oil and gas extraction had its best month since February 2024. One area of strength was synthetic crude production, refining the oil sands. The first quarter was negatively impacted by longer maintenance at the synthetic crude plants, while April benefitted from running at full rates. Production rose 6.6%. Durable goods manufacturing increased by 1.1% in April. The manufacturing companies benefitted from increased exports. Petroleum exports, due to higher prices for oil, also contributed to the growth in GDP. A real bright sign was growth in construction after 4 months of declines. It is unlikely that new policies contributed to the spurt in residential construction.



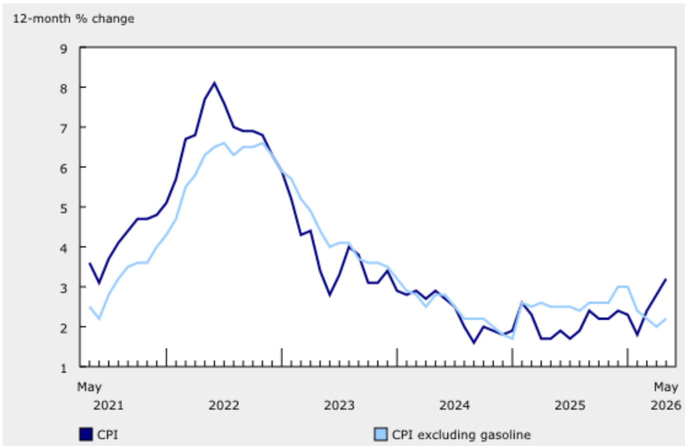
Source Statistics Canada

2. Canadian Inflation

Inflation picked up in May, with the Consumer Price Index (CPI) rising **3.2%** compared with a year ago, up from **2.8%** in April. The biggest contributor was a sharp jump in gasoline prices, which were **33.2% higher** than a year earlier. Oil prices were higher because of global supply concerns tied to the closure of the Strait of Hormuz. Even without gasoline, prices still increased faster than they did in April. This might be an indication the higher gasoline and diesel prices have worked their way into the broader economy. Canadians paid more for travel, including flights and vacation packages, as well as groceries. One area of concern is the price of fresh fruit and vegetables. I know a pack of lettuce that was $3.99 was recently $6.99, poor weather was offered as a contributing factor.

There were some signs that price pressures are easing in other areas. Shelter costs continued to slow, with rent increasing at a slightly lower rate and mortgage interest costs rising more slowly than in previous months. Prices for many durable goods, such as household appliances, also fell, although computers and related equipment became more expensive because of strong demand for components used in artificial intelligence technology. Subsequently Apple announced significant price increases. While lower housing-related inflation offered some relief, rising fuel, food, and travel costs pushed overall inflation higher across every province in May.

The chart on the next page clearly shows the impact of gasoline on CPI. One problem with isolating one factor is that at the end of the day your costs include gasoline, not much of a consolation that inflation is lower if you exclude gasoline. However, the June data should be refreshing as the price of gasoline dropped dramatically.



Source Statistics Canada

3. US GDP

I am not going to spend much time reviewing the US GDP other than to acknowledge the US economy is like a juggernaut that cannot be stopped.

I want to stress the dangers of reacting to economic releases. You only have to look back at our discussion of Canadian GDP to see how much things can fluctuate. We had a technical recession but the following month the entire 2 quarter decline was reversed.

The US economy has been much stronger than the Canadian economy. The question they must ask is not, “are we in a recession but how strong is the economy?”. The advanced estimate showed a 2% increase in the US economy in the first quarter. This led investors to lower the odds of a response from the Federal Reserve. Next the GDP growth rate was revised downward to 1.6%. A much lower growth rate took pressure off the Federal Reserve to hold or raise rates. Next the final estimate was released with growth revised even higher than the first estimate. Each estimate was released one month after the previous one. It is hard to manage government policies based on these fluctuations. It seems it is better to wait before you react, however the market moves based on each release whether they are accurate or not.

Real GDP and Related Measures

[Percent change (SAAR) from 2025:Q4 to 2026:Q1]

	Advance Estimate	Second Estimate	Third Estimate
Real GDP	2.0	1.6	2.1
Current-dollar GDP	5.6	5.1	5.8
Real final sales to private domestic purchasers	2.5	2.4	1.7
Real GDI	...	0.9	1.2
Average of real GDP and real GDI	...	1.3	1.7
Gross domestic purchases price index	3.6	3.5	3.6
PCE price index	4.5	4.5	4.6
PCE price index excluding food and energy	4.3	4.4	4.4

U.S. Bureau of Economic Analysis

Reflection

Deal or No Deal.

Last month we shared our opinion on the direction of oil prices. In short, we believed the price of oil would not respond to the actual inventory levels or the number of ships that are in transit to rebuild inventories, but the price would reflect the reduced risk if there were a truce. We did not expect the memorandum of understanding to be agreed to so quickly. That said, it is an agreement to continue negotiations for the next 60 days, not a true agreement. The prospect of the full opening of the Strait of Hormuz was enough to bring oil prices close to the prewar levels. Just last week both sides claimed they were only retaliating for a breach by the other side. As we went into the last weekend of June it appeared that both sides were far apart then, poof, peace was back. Both sides were able to claim victory in the most recent skirmish.

What if no deal is better than a bad deal. The deal between the US and Iran was not viewed positively in Israel as they felt their needs were not addressed. Your first thought would be peace in the Middle East would be positive for Israel. The table below shows that investors think no deal is better than the current deal. The returns are in local currency and based off the index level and do not reflect dividends.

Jun 2026				
		Tel Aviv 35	S&P500	TSX
1mth		-8.7%	-1.1%	0.3%
Quarter		**-0.8%**	**14.9%**	**6.4%**
YTD		12.0%	9.6%	9.9%

It is July 1st and the CUSMA trade deal among Canada, US and Mexico is set to expire with either annual reviews or continued negotiations. The American's call the deal USMCA, like the song favoured by the President, YMCA. Given the different names for the same agreement, maybe this is a sign of how we each see the deal. This reminds me of a story I heard about 20 years ago. A European company made a deal with a US supplier for a large quantity of materials. The US bidder was 10% cheaper than the other European companies. The deal was signed for several tonnes of material. The US supplier paid no attention to the European spelling of tons, just like colour vs. color. Except tonnes are metric tons or 1000 Kilos which is equivalent to 2200 pounds or 10% more than a ton of 2000 pounds. Both were speaking English but not understanding. I think the risk with the trade negotiations is each side misinterprets the other's position. The US points out that Canada has duties more than 200% on dairy products. However, this is only applied to a specific type of cheese curd. The US is not even filling the duty-free limit as the paperwork is too onerous.

Just last week the US President promised to put 100% tariffs on any country that imposed a digital services tax. Yes 100% with no opt outs. This is like trying to kill a fly with a bazooka. Obviously, this is a position to cajole the Europeans to drop the digital services tax. Maybe I do not understand trade deals as well as I thought. It was my belief Europe had a trade deal with the US, for instance Canada has to pay a 50% duty on steel shipments to the US while Europe pays 25%. How can you have a trade deal that in less than a year can go from a 10% tariff to a 100% tariff? From my perspective you do not really have a trade deal.

Something you would think was positive was viewed as a negative. Rising prices for computer chips used in computers, cell phones and gaming consols put pressure on the margins for equipment manufacturers. If you have significant market power, you can pass the higher costs to your customers. Apple is one such dominant company. Apple announced price increases of several hundred dollars on some of their products. You might expect investors to see this as a chance to maintain the company's margins. Investors took it as a risk of rising costs. Apple shares declined 6% the day they announced the price increase. Their competitors are feeling the same price pressures so you can assume Android phones and laptops will also cost more. As I said, you might expect, but you would be wrong.

<u>**Summary**</u>

" You know it is a good deal when neither side is happy"

In the reflection section we looked at the market's reactions to the news. The key event over the past month was the Memorandum of Understanding between the US and Iran. Even before the first drop of oil exited the Strait of Hormuz the price of oil began to collapse. All it took was the expectation of a deal to take the risk premium out of oil. That was fast. You might think a deal with Iran would assure their neighbours that peace was imminent. Then the logical thought would be the Israeli market would rise. Nope. The Tel Aviv 35 dropped by more than 8% after the deal. The S&P declined as well. I guess it may be a good deal since no one admits to being happy.

We have not changed our approach to the markets. We do consider world political events but focus on the long-term potential for the companies in which we invest. When looking at a stock we consider the total return. The total return captures the dividend and the capital return. Dividends provide a couple of advantages including when a client needs cash, they can just take the dividends and not trigger tax by selling a stock. In a similar vein, it helps when rebalancing a portfolio as the dividends can be invested in an area that is below the target level, again without having to trigger tax or commission expenses. Despite the whipsawing markets the Canadian banks still look attractive and offer the potential of higher dividends next year.