

The uneasy path

Highlights

- **Stock markets continued to advance in May despite the ongoing stalemate in the Strait of Hormuz, where a fragile equilibrium — costly, yet sufficient to avoid the worst — appears to be taking hold.** Pressure is nevertheless mounting to gradually restore maritime traffic this Summer, as global inventories cannot offset the situation indefinitely.
- **Meanwhile, other themes are commanding investors' attention, beginning with the persistent outperformance of Emerging Markets.** Once dominated by cyclical sectors, these markets are now being driven by the rise of artificial intelligence, which is boosting both the earnings and index weight of a handful of Asian technology giants. In this context, the main risk lies less in valuations — which remain relatively reasonable — than in the high degree of concentration around a single investment theme.
- **In parallel, Kevin Warsh's arrival at the helm of the Federal Reserve comes at a particularly delicate moment for bond markets.** Treasury yields are being pushed higher by a combination of factors, including a rising term premium, inflationary pressures, and a significant reassessment of monetary policy expectations. For now, the situation remains manageable, but investors should remain vigilant, particularly if more persistent inflation complicates the task of a new Fed Chair who has yet to be fully tested by the markets.
- **Ultimately, the challenge for investors in a world where historic events unfold at a relentless pace is to keep sight of the bigger picture.** While risks remain abundant, strong earnings growth and the fragile but holding balance in energy markets suggest that the prevailing winds continue to favour equities.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alternatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income					
Government	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Duration	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equities					
Canada	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
United States	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EAFE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Emerging Markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Alternatives & FX					
Gold	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uncorrelated Strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Canadian Dollar	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Bottom line

Despite persistent uncertainty, the resilience of equity markets — which continue to trend higher despite numerous obstacles — deserves recognition. In this environment, we maintain an overweight position in equities while remaining mindful of geopolitical risks, inflationary pressures, and the growing concentration around the artificial intelligence theme.



Market review

Fixed income

- The Canadian fixed income universe came under pressure throughout May, but ultimately ended the period with gains, supported by lower energy prices and a string of weaker-than-expected Canadian economic data.

Equities

- Equity markets continued their positive trend in May, driven primarily by two key tailwinds: (1) prospects for a potential peace agreement between the United States and Iran, and (2) upward revisions to earnings expectations for companies in the AI space. The U.S. and Emerging Markets outperformed in this environment, while gains were more modest in Canada and the EAFE region.
 - For a second consecutive month, the S&P 500 technology sector posted strong gains, whereas more cyclical sectors such as Energy, Financials, Industrials, and Materials underperformed.
- ### FX & Commodities
- Oil prices remained highly volatile throughout May, reacting to each new development related to the conflict in the Strait of Hormuz.
 - Against a backdrop of strong U.S. jobs and inflation, markets now anticipate a significantly higher path for the Fed funds rate over the coming year. This repricing has contributed to the appreciation of the U.S. dollar over the month.

Market Total Returns

Asset Classes	May	YTD	12M
Cash (S&P Canada T-bill)	0.2%	0.9%	2.5%
Bonds (ICE Canada Universe)	1.4%	1.8%	2.9%
Short Term	0.7%	1.1%	3.0%
Mid Term	1.3%	1.6%	3.4%
Long Term	2.5%	3.0%	2.2%
Federal Government	1.2%	1.3%	1.9%
Corporate	1.3%	1.9%	4.4%
U.S. Treasuries (US\$)	0.1%	0.1%	3.7%
U.S. Corporate (US\$)	0.7%	0.8%	6.2%
U.S. High Yield (US\$)	0.5%	1.6%	7.4%
Canadian Equities (S&P/TSX)	2.5%	10.6%	36.1%
Communication Services	6.9%	5.6%	15.2%
Consumer Discretionary	0.3%	2.3%	22.0%
Consumer Staples	-1.3%	0.9%	7.1%
Energy	-2.8%	28.9%	52.7%
Financials	4.4%	13.2%	43.3%
Health Care	-5.0%	2.7%	20.2%
Industrials	0.9%	7.0%	4.3%
Information Technology	2.5%	-16.2%	2.3%
Materials	6.2%	11.4%	78.1%
Real Estate	0.6%	0.7%	3.1%
Utilities	3.6%	15.3%	25.8%
S&P/TSX Small Caps	3.4%	22.9%	73.8%
U.S. Equities (S&P 500 US\$)	5.3%	11.3%	29.8%
Communication Services	-0.9%	9.3%	40.9%
Consumer Discretionary	2.6%	4.1%	17.4%
Consumer Staples	-3.2%	7.5%	3.0%
Energy	-5.6%	26.0%	42.5%
Financials	-1.1%	-5.3%	2.9%
Health Care	2.5%	-3.0%	14.8%
Industrials	-0.8%	12.0%	22.9%
Information Technology	16.0%	23.8%	56.0%
Materials	-0.7%	11.9%	19.4%
Real Estate	-1.1%	10.6%	10.4%
Utilities	-5.1%	4.8%	11.6%
Russell 2000 (US\$)	4.4%	18.2%	43.1%
World Equities (MSCI ACWI US\$)	5.2%	12.4%	30.8%
MSCI EAFE (US\$)	3.2%	9.7%	23.4%
MSCI Emerging Markets (US\$)	9.7%	25.7%	55.1%
Commodities (GSCI US\$)	-7.6%	37.7%	51.1%
WTI Oil (US\$/barrel)	-16.1%	59.2%	48.3%
Gold (US\$/oz)	-0.6%	6.2%	39.7%
Copper (US\$/tonne)	4.6%	8.4%	41.4%
Forex (US\$ Index DXY)	0.9%	0.6%	-0.4%
USD per EUR	-0.5%	-0.6%	2.8%
CAD per USD	1.6%	0.5%	0.4%

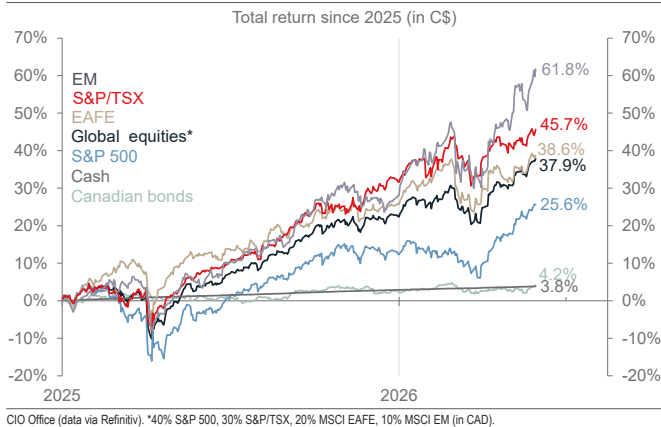
CIO Office (data via Refinitiv, as of 2026-05-29)



The uneasy path

As in April, equity markets remained on an upward trajectory in May led by strong performance from technology infrastructure companies which benefitted both emerging markets and U.S. equities, the latter in particular continuing to narrow their performance gap relative to the rest of the world (Chart 1).

1 | The uptrend remains intact for equities

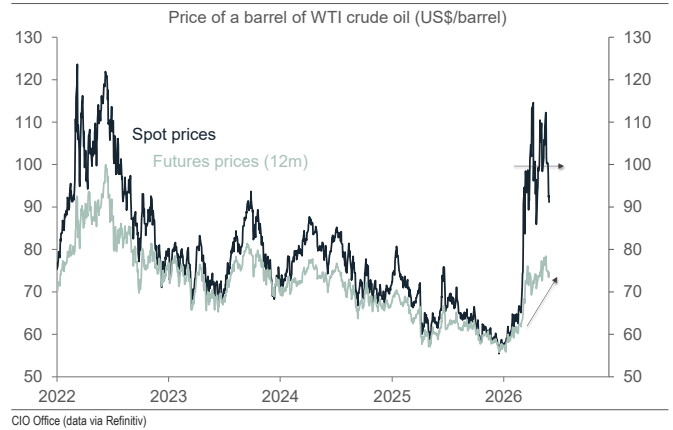


And, as was also the case in April, this positive market performance unfolded despite the ongoing stalemate surrounding the Strait of Hormuz — albeit with one notable difference.

With the passage of time, the likelihood of a worst-case scenario involving a full-scale resurgence of hostilities continues to decline. At the same time, however, the odds of an ideal outcome marked by a swift return to unrestricted navigation in the Persian Gulf are also fading. Instead, we appear to be moving toward a highly uncomfortable equilibrium, one in which the worst is avoided in the short term but whose consequences could linger over the medium and long terms. At least, that is the message being sent by the oil markets where spot

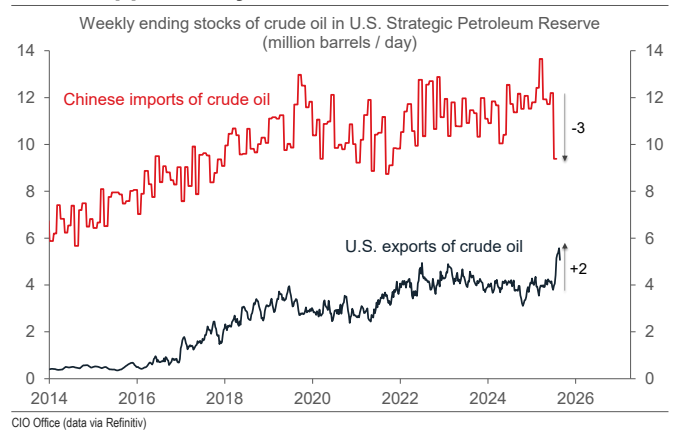
prices remain stuck in the same high range, while 12-month futures prices continue their gradual climb (Chart 2).

2 | Oil markets: a fragile equilibrium...



To be clear, this fragile balance depends on the occasional passage of oil tankers through the Persian Gulf^{1,2} and, above all, on the extensive use of strategic petroleum reserves. China, for example, has been able to reduce its imports by roughly three million barrels per day, while the United States is exporting close to two million additional barrels daily (Chart 3).

3 | ... supported by a massive use of inventories...



However, such a situation comes with an expiration date. According to several observers, that point could arrive between July and August, when global

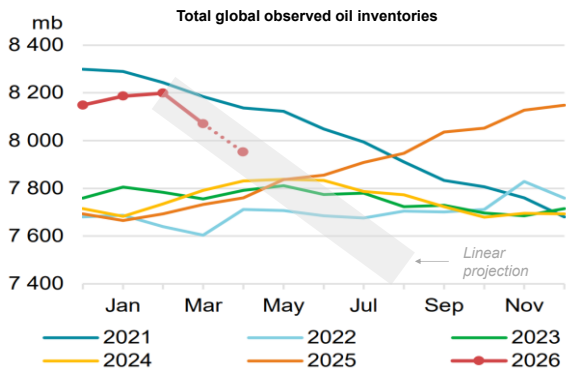
¹ [Iran allowing transit of Chinese vessels in Strait of Hormuz, Fars news reports, Reuters, May 14 2026.](#)

² [Abu Dhabi, Qatar Quietly Slip More Tankers Through Hormuz, Bloomberg, May 25 2026.](#)



inventories are projected to reach their lowest levels in at least five years if current trends persist (Chart 4).

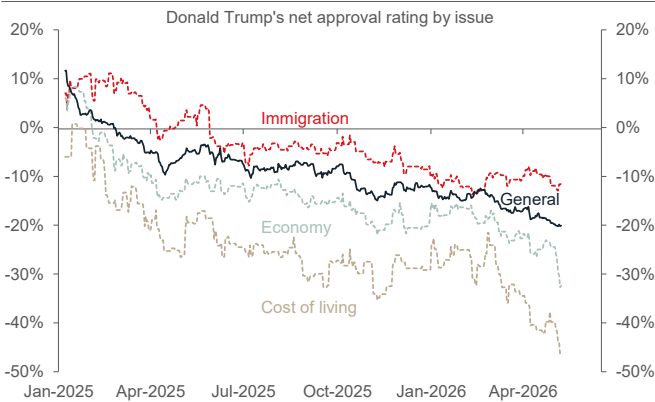
4 | ... but for how much longer?



CIO Office (data via IEA Oil Market Report, May 13, 2026).

As a result, while a full, lasting, and risk-free normalization of maritime traffic through the Strait of Hormuz remains difficult to envision, the pressure for gradual improvement to begin this Summer is becoming increasingly intense — both on the Iranian side, as the country grows more isolated internationally, and on the American side, where the president’s approval rating keeps falling (Chart 5).

5 | Public approval of the president keeps slipping



CIO Office (data via Silver Bulletin)

In the meantime, however, other major themes continue to capture the attention of markets. This month, we turn our focus to rapidly evolving Emerging Markets, as well as bond markets which

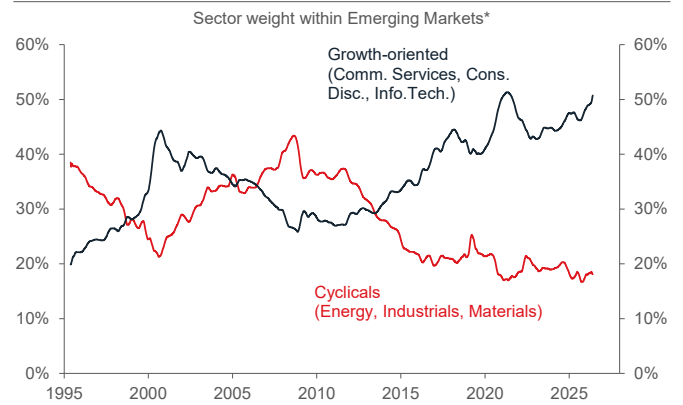
are gearing up to welcome a new Federal Reserve Chair.

Changing markets

Since first gaining popularity as an investment theme in the 1990s, few in the equity universe have undergone as profound a transformation as Emerging Markets (EM).

From a sector perspective, while Emerging Markets were once dominated by more cyclical sectors, growth-oriented companies have now moved to the forefront (Chart 6).

6 | Emerging markets: driven by growth...



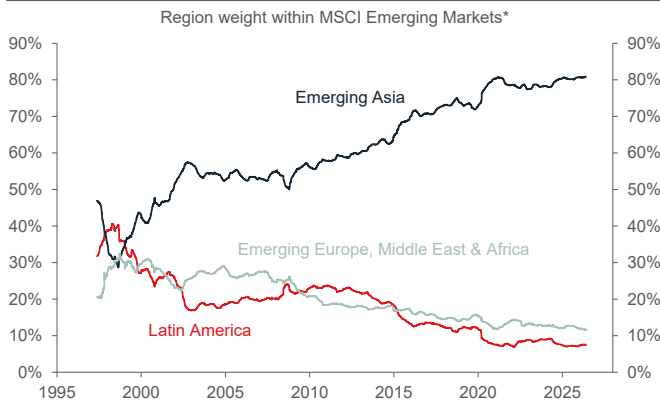
CIO Office (data via Refinitiv). *Weights derived from regression analysis.

Geographically, this evolution has been reflected in the gradual rise of Asian countries which today account for nearly all major emerging technology companies. As such, while Asia represented only 40% of the EM universe in 2000, it has now become the dominant component at roughly 80% compared with just 8% for Latin America and 12% for Europe, the Middle East, and Africa (Chart 7, next page).

More recently, a major shift has also taken place within emerging Asia itself, marked by the rapid rise of Taiwan and South Korea whose combined weight in the EM index now rivals that of China (Chart 8, next page).

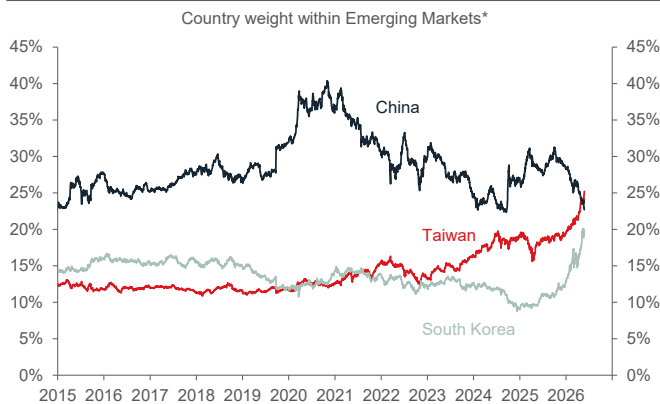


7 | ... led by Asia...



CIO Office (data via Refinitiv). *Weights derived from regression analysis.

8 | ... and more recently, by Korea and Taiwan...

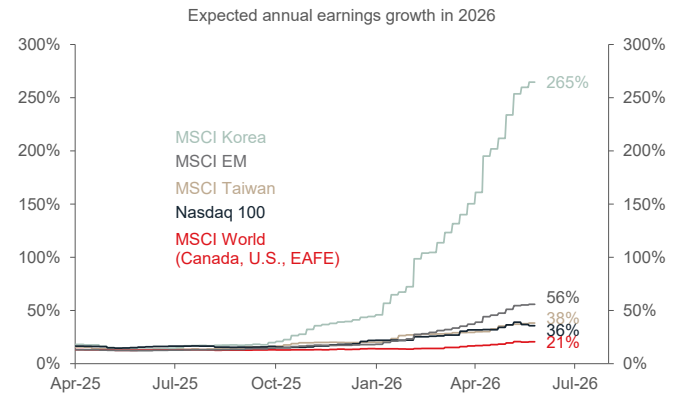


CIO Office (data via Refinitiv). *Weights derived from the market cap of S&P Broad Market Index country indices.

What is driving this trend? Essentially, an explosion in corporate profits among companies at the centre of massive investments in artificial intelligence: TSMC (Taiwan), the leading manufacturer of semiconductors designed notably by Nvidia, as well as Samsung and SK Hynix (South Korea), leaders in the production of the memory chips essential to the functioning of these processors (**Chart 9**).

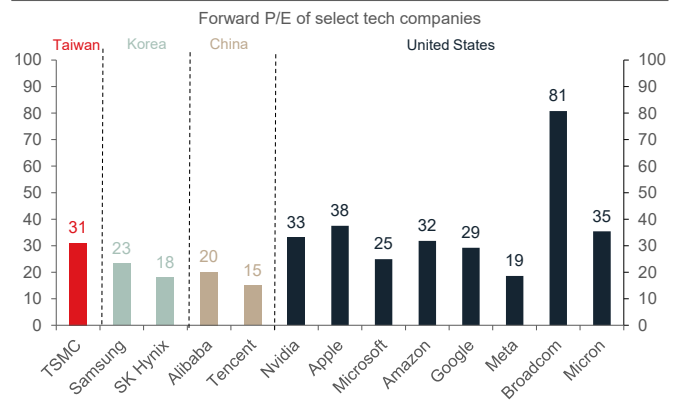
Is this excessive? From a valuation standpoint, these companies are currently trading at price-to-earnings multiples near the lower end of the range observed among major U.S. technology firms — many of which also happen to be their key clients (**Chart 10**). While valuations are not necessarily

9 | ... supported by exceptional earnings growth



CIO Office (data via Refinitiv)

10 | Valuations are not “extreme”...



CIO Office (data via Refinitiv)

cheap, it is therefore difficult to view the situation as clearly excessive given the strong earnings growth.

What can be said, however, is that concentration risk is meaningful. Indeed, while the weight of the ten largest holdings in Emerging Markets remains comparable to what is observed in the United States and even Canada, EM stands out more clearly at the level of its three largest positions (**Chart 11**, next page), especially considering that all three companies are tied to the same investment theme.

To be clear, concentration is not necessarily a bad thing, which is precisely why capitalization-weighted indices are so difficult to outperform. Moreover,



11 | ... but concentration risk is significant

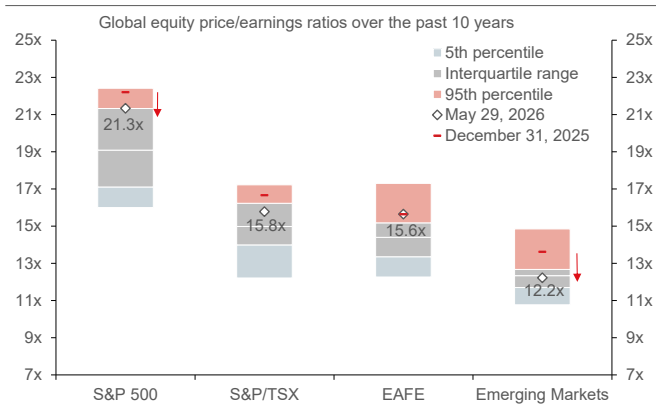
Top 10 holdings across global equity markets							
Canada (S&P/TSX)		U.S. (S&P 500)		EAFE (MSCI)		EM (MSCI)	
Stock	Weight	Stock	Weight	Stock	Weight	Stock	Weight
RBC	7.4%	Nvidia	8.3%	ASML	2.8%	TSMC	14.2%
TD	5.2%	Apple	7.0%	HSBC	1.4%	Samsung	8.5%
Shopify	3.6%	Alphabet	6.3%	Roche	1.4%	SK Hynix	5.7%
Enbridge	3.5%	Microsoft	4.9%	Astrazeneca	1.3%	Tencent	2.9%
BMO	3.2%	Amazon	4.1%	Novartis	1.3%	Alibaba	2.3%
CIBC	3.0%	Broadcom	3.1%	Nestle	1.2%	Mediatek	1.4%
CNR	2.8%	Meta	2.1%	Shell	1.1%	Delta electronics	1.0%
Brookfield	2.8%	Tesla	1.8%	Siemens	1.1%	China cons. bank	0.9%
Scotiabank	2.7%	Brerkshire Hat.	1.4%	Mitsubishi UFJ	1.0%	Hon Hai Precision	0.8%
Agnico Eagle	2.5%	Micron Tech	1.3%	BHP Group	1.0%	HDFC Bank	0.7%
Top 3	18.2%	Top 3	21.7%	Top 3	5.6%	Top 3	28.4%
Top 5	22.9%	Top 5	30.7%	Top 5	8.2%	Top 5	33.6%
Top 10	36.8%	Top 10	40.4%	Top 10	13.6%	Top 10	38.4%

CIO Office (data via Refinitiv, iShares)

while the EAFE region is known for its diversification — its top 10 holdings account for only 14% of the index — it is also known for its chronic underperformance over recent decades.

In this context, we continue to believe that emerging-market leadership can persist, supported by stronger earnings growth and lower valuations than those of the three other major equity regions (Chart 12).

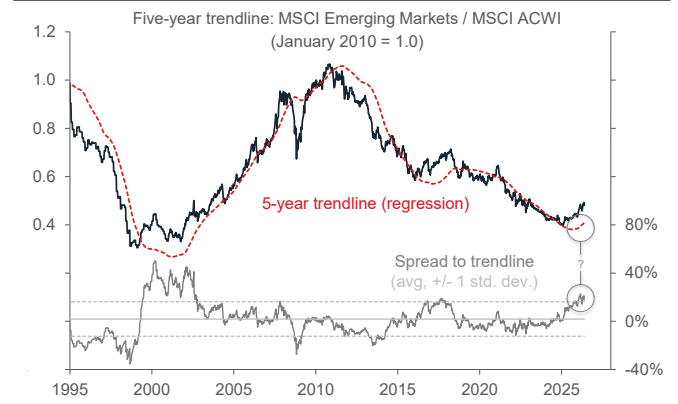
12 | EMs continue to trade at a discount



CIO Office (data via Refinitiv)

Nevertheless, after such a favourable period, investors will need to remain attentive to the possibility of a near-term pause in momentum, even if the positive trend may still only be in its early stages from a more structural perspective (Chart 13).

13 | Is this the start of a lasting trend?



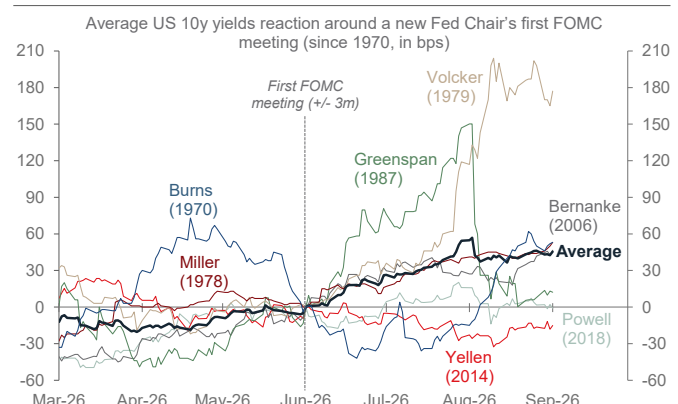
CIO Office (data via Refinitiv)

Welcome, Mr. Warsh

On June 17, Kevin Warsh, the new Chair of the Federal Reserve, will hold his first press conference following the latest FOMC meeting.

Since 1970, markets have given mixed receptions to Mr. Warsh’s predecessors, with bond yields showing, on average, an upward trend (Chart 14), while equity markets have delivered more mixed performance (Chart 15, next page).

14 | New Chairs, mixed reactions from bonds...

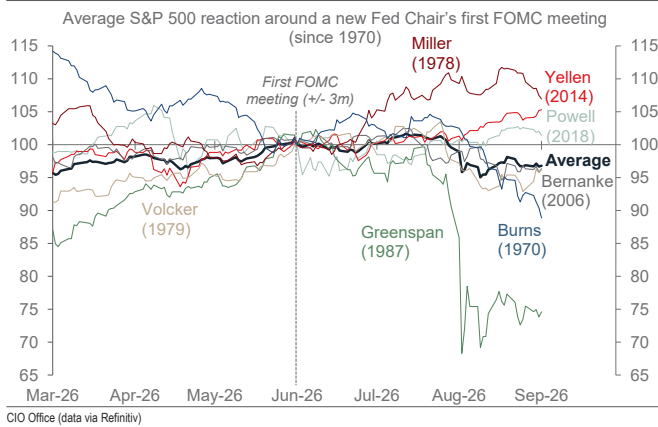


CIO Office (data via Refinitiv)

One thing is certain: the arrival of the candidate favoured by the Trump administration comes at a particularly tense moment for bond markets. Last



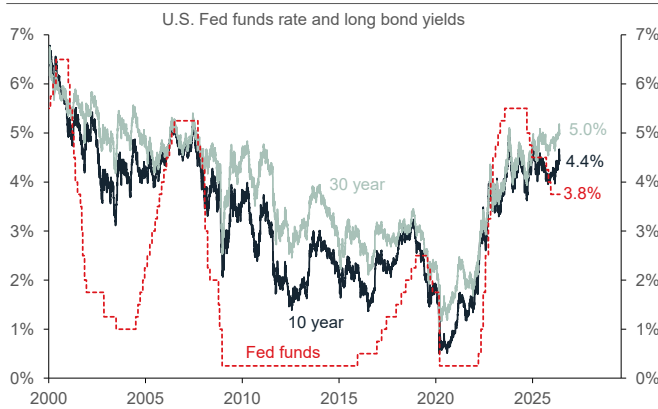
15 | ... and equities



CIO Office (data via Refinitiv)

month, 30-year yields briefly reached their highest level in 20 years (**Chart 16**), reviving concerns that a similar move could occur in 10-year yields, which are of critical importance to global financial markets.

16 | Bond markets are nervous...

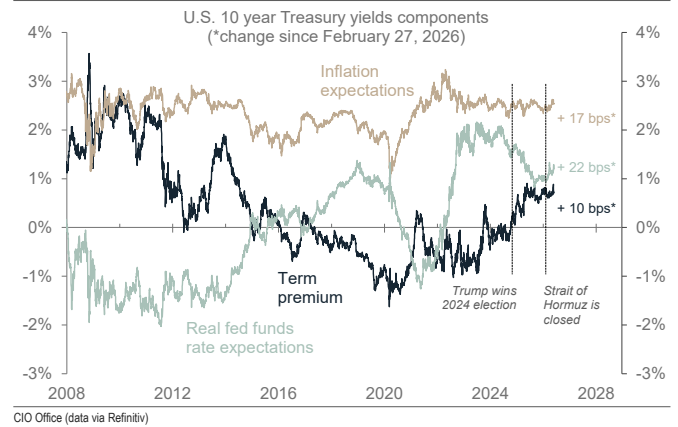


CIO Office (data via Refinitiv)

Looking under the hood by breaking down U.S. 10-year yields into three components — (1) inflation expectations, (2) expectations for the Fed’s real policy rate, and (3) the term premium — several observations emerge (**Chart 17**).

Notably, since President Trump’s election in November 2024, the decline in expectations surrounding the Fed’s real policy rate has been almost entirely offset by a rise in the risk premium demanded by investors to hold the debt of a highly

17 | ... for several reasons



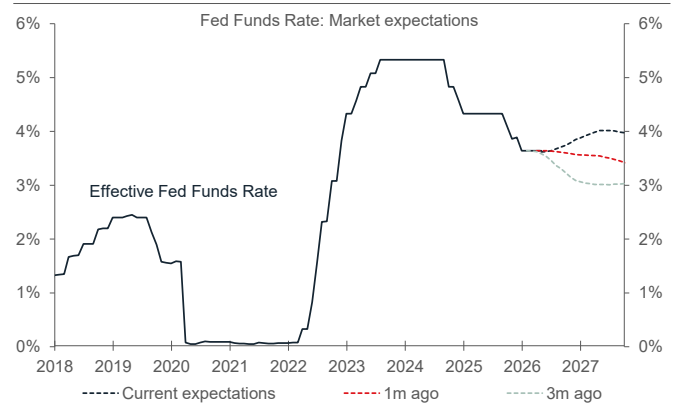
CIO Office (data via Refinitiv)

unpredictable and heavily deficit-spending U.S. government.

More recently, since the closure of the Strait of Hormuz, the rise in 10-year yields has reflected a combination of higher inflation expectations, a rising risk premium, and increasing expectations for the Fed’s real policy rate, although the latter has been the primary driver of the move.

Indeed, markets have undergone a complete reversal in their outlook for U.S. monetary policy in recent months, shifting from pricing in roughly two rate cuts to almost two rate hikes over the coming year (**Chart 18**).

18 | Will Mr. Warsh dare raise policy rates?

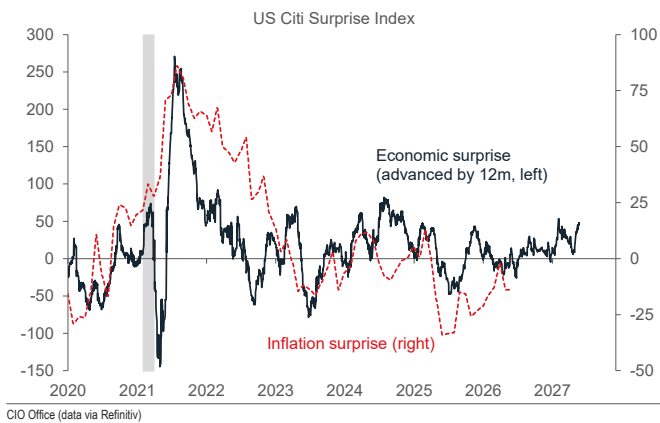


CIO Office (data via Refinitiv)



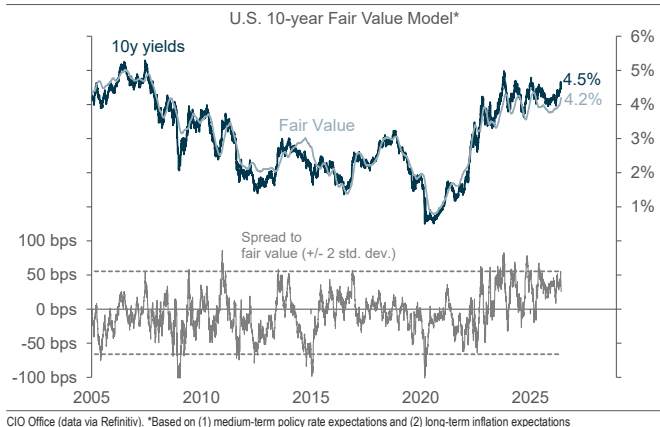
In a world where conditions evolve this quickly, no scenario can clearly be taken for granted. Still, it remains remarkable that U.S. economic data have recently continued to surprise to the upside despite rising energy prices. This does not necessarily guarantee stronger-than-expected inflation — and higher policy rates — over the next year, but it certainly increases the probability (**Chart 19**).

19 | Let's keep an eye on inflation...



For now, however, we believe it is premature to raise a yellow flag regarding interest rates. In the short term, the rise in 10-year U.S. yields appears somewhat stretched relative to our fair-value model (**Chart 20**).

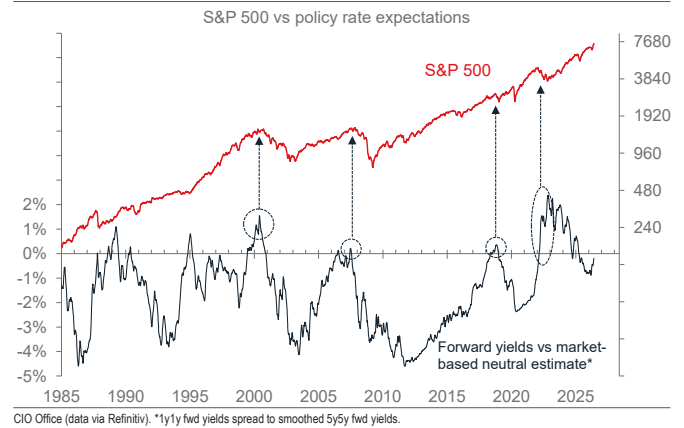
20 | ... the fair value of 10-year Treasury yields...



Moreover, if we rely strictly on market measures, the expected rise in rates would still not be sufficient to push monetary policy into truly restrictive territory

— levels that have often been followed by difficulties for equity markets since the 2000s (**Chart 21**).

21 | ... and the risk that a restrictive policy would pose



But let's keep an eye out, especially on the outlook that Mr. Warsh is about to provide.

The bottom line for investors

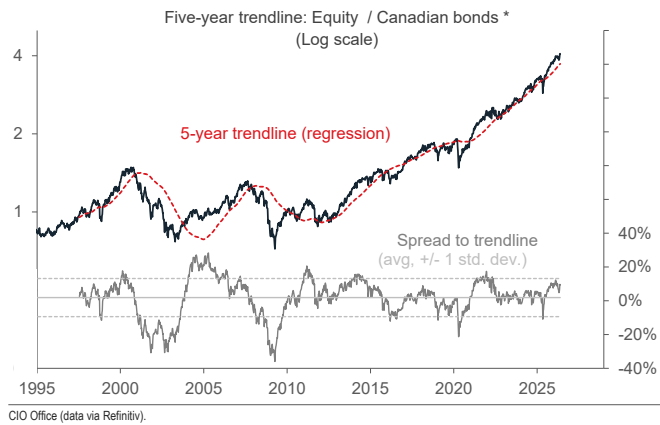
The challenge for investors, in a world where historic events continue to unfold at a relentless pace, is not to lose sight of the big picture since this is what ultimately drives the direction of financial markets.

Today, risks remain numerous: the ongoing impasse in the Strait of Hormuz, the heavy concentration of equity markets around the AI theme, and inflationary pressures that could eventually complicate the task facing a new Fed Chair who has yet to be truly tested by markets.

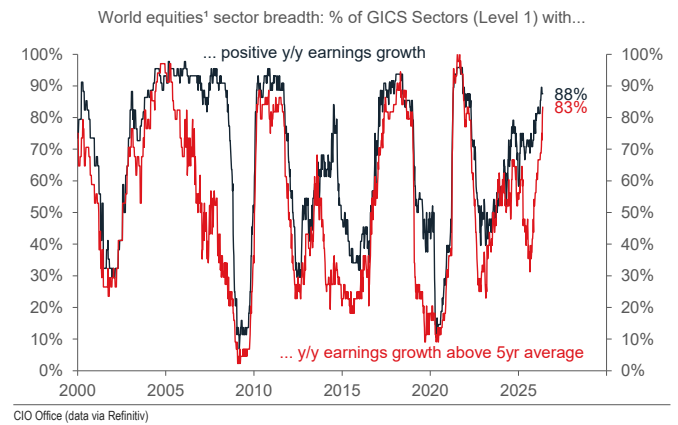
Nevertheless, the resilience signalled by equity markets, which remain firmly anchored in an upward trend despite these obstacles, suggests that the prevailing winds remains favourable for investors (**Chart 22**, next page).



22 | The bullish trend is holding...



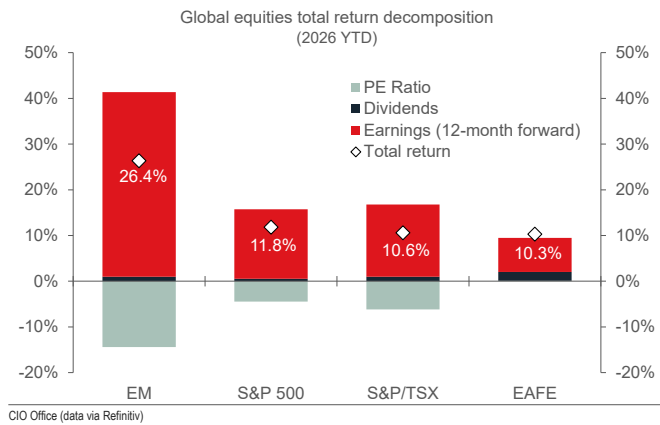
24 | ... and broad-based profit expansion



More importantly, this positive backdrop is not being driven simply by hope but by substantial earnings growth, while most major equity indices are currently trading at valuations below those observed at the beginning of the year (**Chart 23**).

continue to favour U.S. and Emerging Markets, supported by stronger fundamentals, particularly relative to the EAFE region where we are underweight.

23 | ... supported by strong earnings growth...



As for Canadian equities, they are not to be counted out. However, without a significant boost from gold miner stocks, they are likely to remain in the middle of the pack. This has been our view since we took profits on our overweight position last February, and it justifies maintaining our neutral allocation.

To be sure, part of this picture reflects the exceptional gains generated by the technology sector. Still, the vast majority of sectors globally are currently posting earnings growth that is not only positive, but also above their own five-year averages (**Chart 24**).

In this context, we are maintaining a favourable stance toward equity markets, a position that we modestly increased again in May for a second consecutive month. Within equities, we also



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General

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