Asset Allocation Strategy

CIO Office | August 2026

Summer clouds

Highlights

- Equity markets entered the summer on a volatile note, as renewed tensions in the Middle East coincided with a sharp reversal in AI-related stocks.
- Risks in the Middle East remain elevated. That said, our base case was—and remains—that the conflict will persist without spiraling into a broader escalation, with its intensity varying in response to oil prices. Developments in July were broadly consistent with this view: hostilities intensified when WTI fell below US$70 per barrel, before easing after prices rebounded above US$90.
- Persistent disruptions nevertheless continue to undermine hopes for lower gasoline prices, complicating matters for the Federal Reserve and bond investors, as interest rates moved higher across the yield curve over the past month.
- At the same time, the pullback in technology stocks appears to reflect a healthy correction of accumulated excesses—particularly the use of leverage in South Korea—rather than a fundamental collapse of the AI investment theme. However, following a period of exceptional returns, some normalization in performance is reasonable to expect, at least among semiconductor companies.
- Overall, the current environment points more toward a consolidation phase—one that began in June and could persist for several more weeks—than a genuine reversal of the equity market's uptrend, which continues to be supported by solid corporate earnings growth.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities				■	
Fixed Income		■			
Cash			■		
Alternatives				■	
Fixed Income					
Government		■			
Credit				■	
Duration			■		
Equities					
Canada			■		
United States				■	
EAFE		■			
Emerging Markets				■	
Alternatives & FX					
Gold			■		
Uncorrelated Strategies				■	
Canadian Dollar			■		

CIO Office

Bottom line

For now, our base case remains unchanged, as does our pro-risk positioning. Nevertheless, this status quo should not be interpreted as a sign of complacency. The conditions that continue to support equities have not disappeared, but the reasons to monitor our outlook closely are becoming more numerous.

Market review

Fixed Income

- The Canadian fixed income universe posted its worst monthly performance since March, declining 1.6%. Bond yields, particularly at the long end of the curve, climbed higher amid rising energy prices and growing concerns about U.S. inflation.

Equities

- Global equities were little changed in July, weighed down by a sharp pullback in semiconductor manufacturers. This led to a significant underperformance of Emerging Markets, where semiconductor stocks account for a relatively large share of the market, while the EAFE region was largely insulated due to its limited exposure.

- Within the S&P 500, Information Technology was negatively affected by the reversal in the AI theme. Energy was the month's standout performer, benefiting from higher oil and gasoline prices.

FX & Commodities

- Oil prices rose in July following the renewed hostilities between the United States and Iran, although the situation continues to evolve from day to day. At the time of writing, maritime traffic through the Strait of Hormuz remained severely restricted.

- The U.S. dollar depreciated over the month. Among other factors, the Greenback came under pressure after the Federal Reserve decided to leave its policy rate unchanged at its July 29 meeting.

Market Total Returns

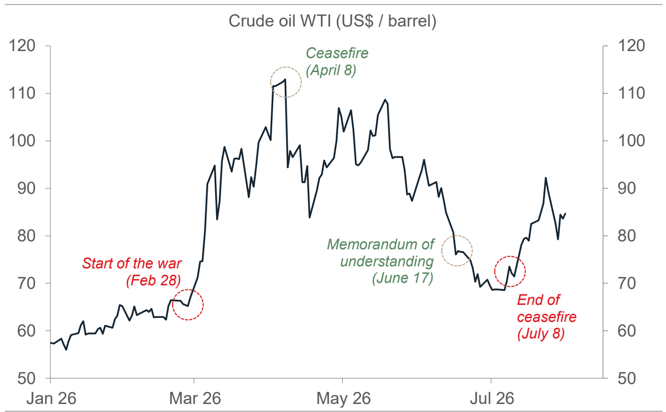
Asset Classes	July	YTD	12M
Cash (S&P Canada T-bill)	**0.2%**	**1.3%**	**2.5%**
Bonds (ICE Canada Universe)	**-1.6%**	**0.6%**	**2.4%**
Short Term	-0.4%	1.0%	2.7%
Mid Term	-1.4%	0.8%	3.1%
Long Term	-3.8%	-0.5%	1.1%
Federal Government	-1.3%	0.5%	2.1%
Corporate	-1.2%	1.0%	3.0%
U.S. Treasuries (US$)	-1.2%	-0.8%	1.9%
U.S. Corporate (US$)	-1.5%	-0.6%	2.7%
U.S. High Yield (US$)	-0.3%	1.6%	5.0%
Canadian Equities (S&P/TSX)	**1.2%**	**12.5%**	**32.3%**
Communication Services	-3.3%	-7.9%	-7.2%
Consumer Discretionary	1.2%	5.8%	19.2%
Consumer Staples	1.5%	10.7%	17.5%
Energy	6.9%	32.2%	47.6%
Financials	1.0%	24.4%	49.8%
Health Care	2.4%	11.5%	27.2%
Industrials	0.6%	10.9%	8.4%
Information Technology	1.0%	-16.7%	-7.2%
Materials	-3.1%	-5.1%	46.4%
Real Estate	0.4%	4.1%	0.4%
Utilities	0.9%	18.8%	26.2%
S&P/TSX Small Caps	-2.4%	15.2%	51.2%
U.S. Equities (S&P 500 US$)	**-0.1%**	**10.1%**	**19.6%**
Communication Services	0.6%	1.4%	19.0%
Consumer Discretionary	0.8%	0.0%	7.5%
Consumer Staples	2.1%	10.3%	10.3%
Energy	12.6%	34.7%	41.2%
Financials	6.2%	4.9%	10.5%
Health Care	2.4%	6.0%	26.9%
Industrials	-3.0%	16.5%	19.9%
Information Technology	-3.4%	15.7%	26.2%
Materials	-1.7%	10.1%	15.3%
Real Estate	2.5%	14.3%	14.0%
Utilities	-2.2%	5.3%	6.4%
Russell 2000 (US$)	-3.0%	18.9%	34.2%
World Equities (MSCI ACWI US$)	**0.1%**	**11.6%**	**22.6%**
MSCI EAFE (US$)	2.0%	12.0%	24.9%
MSCI Emerging Markets (US$)	-3.0%	20.3%	37.1%
Commodities (GSCI US$)	**12.6%**	**39.7%**	**41.6%**
WTI Oil (US$/barrel)	22.1%	50.5%	22.5%
Gold (US$/oz)	0.3%	-6.4%	22.8%
Copper (US$/tonne)	3.6%	11.1%	44.7%
Forex (US$ Index DXY)	**-1.3%**	**1.6%**	**-0.1%**
USD per EUR	0.6%	-2.0%	0.5%
CAD per USD	-1.2%	2.1%	1.2%

CIO Office (data via Refinitiv, as of 2026-07-31)

Summer clouds

After an especially eventful half-year, investors were no doubt hoping for a somewhat quieter summer. However, renewed hostilities in the Middle East in early July quickly revived concerns, driving oil prices higher (**Chart 1**).

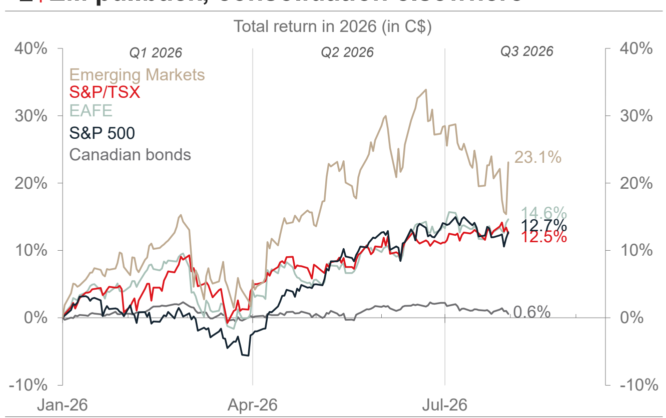
1 | The ups and downs of oil prices



CIO Office (data via Refinitiv).

In this environment, world equities remained flat over the course of the month, while sharp declines were seen in the segments that had benefited most from the boom in artificial intelligence infrastructure during the first half of the year, particularly Emerging Markets. Bonds also gave back part of their gains, as concerns about renewed inflationary pressures pushed interest rates higher (**Chart 2**).

2 | EM pullback, consolidation elsewhere



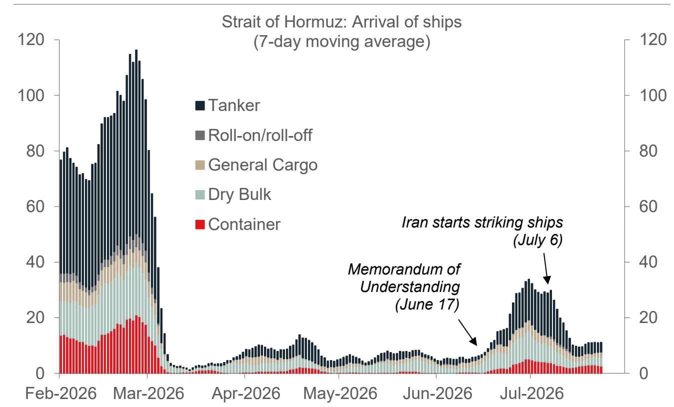
CIO Office (data via Refinitiv)

Clearly, the past few weeks have brought no shortage of developments, while the U.S. president also intensified tariff pressure on Canada. Let us take a closer look.

Temperatures are rising

At the start of July, the agreement reached between the United States and Iran suggested that maritime traffic through the Persian Gulf could gradually resume. The Iranian regime, however, quickly ended the lull by resuming attacks on oil tankers, prompting a U.S. military response and a sharp drop in vessel traffic through the Strait of Hormuz (**Chart 3**).

3 | Strait of Hormuz: A short-lived recovery



CIO Office (data via IMF Portwatch)

But it was the expansion of the conflict to a second strategic chokepoint that triggered the strongest reaction in energy prices. The Houthis, allies of Iran based in Yemen, attacked two Saudi oil tankers transiting the Bab el-Mandeb Strait[1] (**Chart 4**, next page).

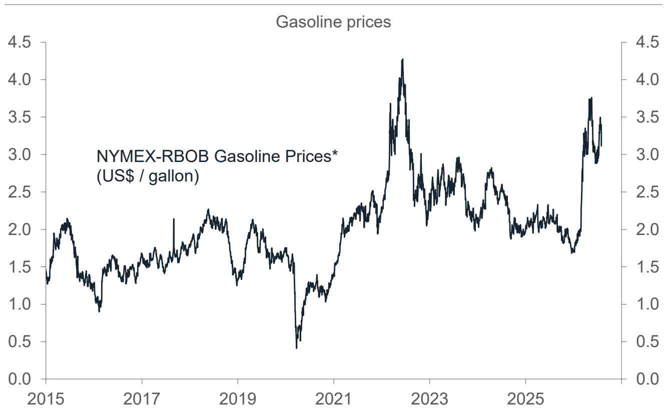
[1] A closure of the Bal-el-Mandeb Strait would force ships to sail around the African continent, adding 10–15 days to the voyage and increasing transportation costs.

4 | Two straits under pressure

CIO Office (data via US Energy Information Administration).

Although Bab el-Mandeb is less critical than the Strait of Hormuz in terms of energy flows[2], the ongoing disruptions there continue to undermine hopes for lower gasoline prices. Indeed, gasoline prices remain near their recent highs, with global refining activity still under pressure (**Chart 5**).

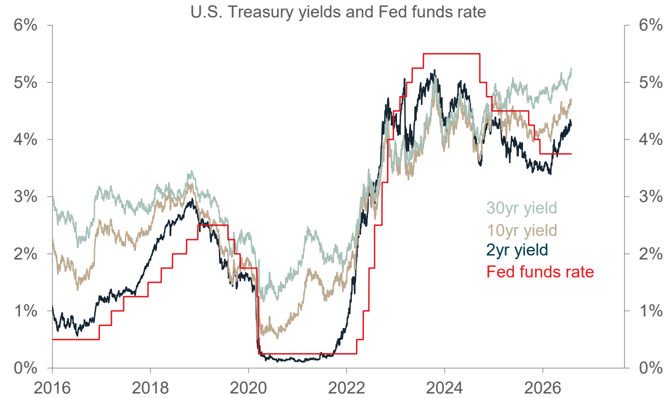
5 | Gasoline prices not far from their latest peak…



CIO Office (data via Refinitiv). Continuous futures price for wholesale gasoline traded on the NYMEX (benchmark gasoline contract in North America).

This is occurring at a particularly delicate time for the Federal Reserve, whose credibility continues to be tested after more than five years of above-target inflation. In bond markets, investors responded by pushing interest rates higher across the yield curve (**Chart 6**).

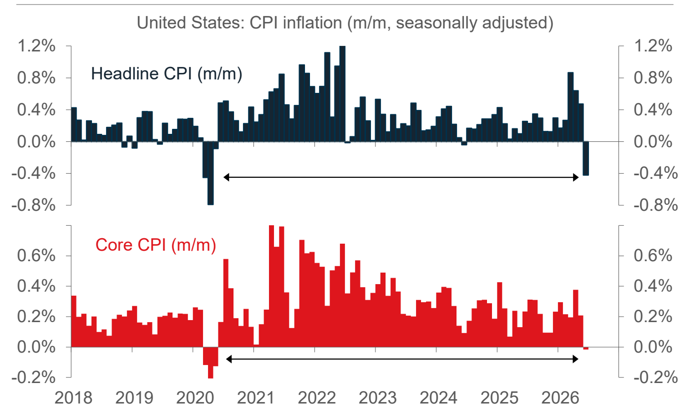
6 | … not unlike like U.S. Treasury yields



CIO Office (data via Refinitiv).

Fortunately, the latest U.S. inflation data sent a somewhat encouraging signal. In June, the monthly increases in headline CPI and core CPI – the latter excluding food and energy – were the smallest since the beginning of the pandemic (**Chart 7**).

7 | Weakest monthly inflation since the pandemic



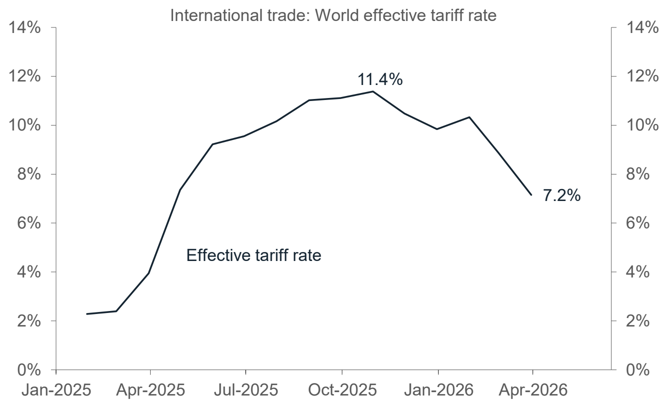
CIO Office (data via Refinitiv).

Of course, a single favourable reading is not enough to declare "mission accomplished" on inflation, as new Fed Chair Kevin Warsh[3] rightly noted. Still, it suggests that beneath the more volatile swings in commodity prices, underlying inflationary pressures may be starting to ease.

[2] Before the current conflict (second half of 2025), approximately 5% of global oil consumption passed through the Bab el-Mandeb Strait, compared with nearly 20% through the Strait of Hormuz.
[3] Warsh Says Inflation Mission Not Accomplished, Hints at Options, Financial Post, July 14, 2026.

Moreover, despite the U.S. president's still-hostile tariff rhetoric, the global effective tariff rate continued to decline from its fourth-quarter 2025 peak (**Chart 8**). At the margin, that is good news for inflation.

8 | Global tariffs are on a downward trend



CIO Office (data via BIS).

That said, the news was less encouraging for Canada, which was threatened with prohibitive 50% tariffs on certain goods that are nonetheless covered by the Canada–United States–Mexico Agreement (CUSMA).

Nevertheless, after roughly 15 tariff announcements targeting Canada since President Trump returned to office, markets now appear to view such threats primarily as negotiating tactics (**Chart 9**). Without downplaying the potential consequences for directly affected companies[4], these threats are unlikely to be the main driver of equity markets, whose performance remains primarily tied to the momentum behind massive investment in artificial intelligence.

9 | Tariff threats don't scare the TSX too much

S&P/TSX total return following U.S. tariff announcements against Canada since November 2024 (as of July 28, 2026)

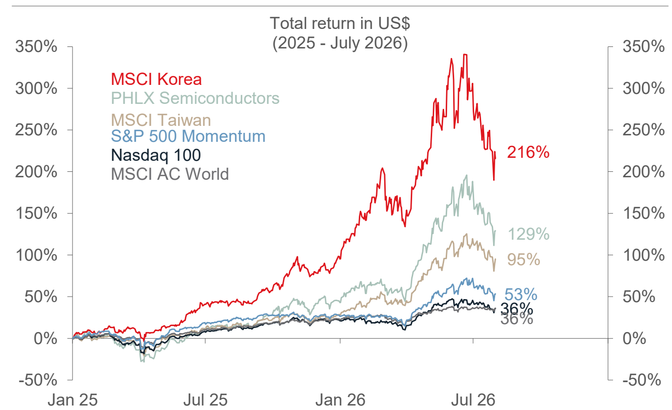
Announcement Date	Description	Following Day	Following Week	Following Month	Following Quarter	Following Year
2024-11-25	25% tariff on all Canadian imports citing Fentanyl and illegal immigrants.	0.0%	0.8%	-2.0%	-0.1%	24.9%
2025-01-20	25% tariff on all Canadian imports effective February 1st.	0.4%	0.5%	1.5%	-3.9%	33.6%
2025-02-09	25% tariff on all steel and aluminum imports, including from Canada.	-0.1%	-0.6%	-4.8%	-0.8%	32.1%
2025-03-07	Threatened reciprocal tariffs on Canadian dairy and lumber.	-1.5%	-0.7%	-7.3%	7.3%	37.5%
2025-03-11	50% tariff on Canadian steel and aluminum imports effective March 12.	-0.5%	1.8%	-5.2%	9.2%	40.0%
2025-03-26	25% tariff on imported automobiles and certain auto parts.	0.0%	0.8%	-1.1%	7.1%	30.0%
2025-05-30	Increase in tariffs on steel and aluminum imports from 25% to 50%.	0.8%	1.0%	2.9%	9.8%	35.9%
2025-06-27	To be announced in 7 days citing Canada's digital services tax.	-0.2%	1.2%	2.7%	12.0%	33.9%
2025-07-10	35% tariff on covered Canadian imports and 50% on copper.	-0.2%	1.1%	2.7%	10.9%	33.4%
2025-09-25	100% tariff on pharma, 30% to 50% on certain furnitures.	0.1%	1.6%	2.1%	8.3%	N/A
2025-10-17	25% tariffs on certain trucks / truck parts and 10% on buses.	1.0%	0.8%	0.1%	10.6%	N/A
2025-10-25	+10% tariff in response to a Reagan tariff advertisement.	-0.2%	-0.2%	1.0%	9.7%	N/A
2026-01-24	Threatened a 100% tariff if Canada signs a trade agreement with China.	-0.1%	-3.6%	2.1%	3.0%	N/A
2026-01-29	Threatened 50% tariff on all aircraft unless Canada certifies Gulfstream jets.	-3.3%	-3.1%	4.8%	1.5%	N/A
2026-07-20	50% tariffs on certain USMCA-compliant goods.	1.2%	1.8%	N/A	N/A	N/A
Average		-0.2%	0.2%	0.0%	6.0%	33.5%

CIO Office (data via Refinitiv).

Just profit-taking?

After spectacular gains over the past year, several of the main beneficiaries of artificial intelligence investment fell in tandem in July. The move cut across much of the value chain, from memory manufacturers to semiconductor designers and producers, while weighing on the U.S. momentum factor and the South Korean and Taiwanese markets (**Chart 10**).

10 | Trend reversal in semiconductor stocks



CIO Office (data via Refinitiv).

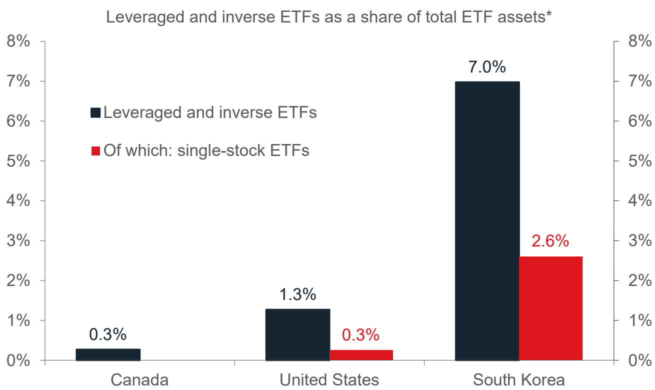
At this stage, the synchronized nature of the move points to a technical correction in positions that had become particularly popular after several months of

[4] For more details, see the latest monthly economic monitor by NBF Economics and Strategy.

exceptional gains. Indeed, the concentration of gains in a limited number of technology-infrastructure stocks had prompted us to take profits on part of our Emerging Markets overweight at the end of June[5].

The risk of a reversal appeared greater in South Korea – which accounts for just over one-fifth of the MSCI Emerging Markets Index – where leveraged ETFs play a much larger role than in North America (**Chart 11**).

11 | Leveraged ETFs are popular in South Korea

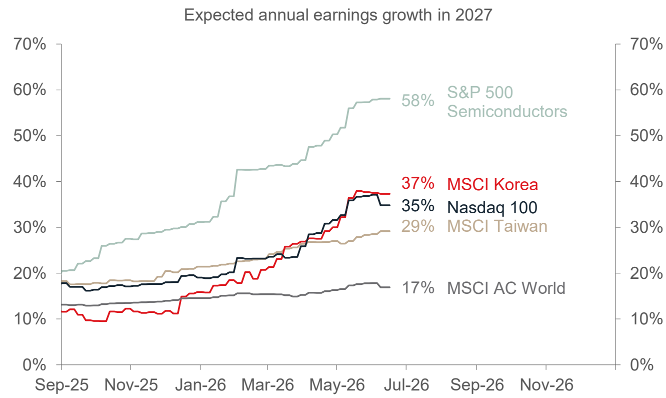


CIO Office (data via ETFGI, ETF.com, Global X Canada, Korea Capital Market Institute, Financial Times). Based on the latest available 2026 data. Reference dates and product classifications differ slightly across markets.

The popularity of single-stock products is particularly noteworthy: all are linked to just two companies, Samsung and SK Hynix, and they were launched only two months ago[6]. In a market already heavily dependent on these names, such a structure can materially amplify shifts in sentiment. The KOSPI has triggered eight market-wide circuit breakers so far this year, more than over the mechanism's entire prior history. Fortunately, the new restrictions announced by Korean regulators, notably on leveraged-fund exposure and liquidity, could help curb such excesses[7].

Moreover, from a fundamental standpoint, 2027 earnings-growth expectations for AI-related segments remain well above those for the market as a whole (**Chart 12**).

12 | Profits are expected to be strong next year



CIO Office (data via Refinitiv).

However, the most exceptional returns generally stem from large upside surprises. With the bar becoming increasingly difficult to clear, it is reasonable to believe that this phase is now behind us, at least for semiconductor companies.

The bottom line for investors

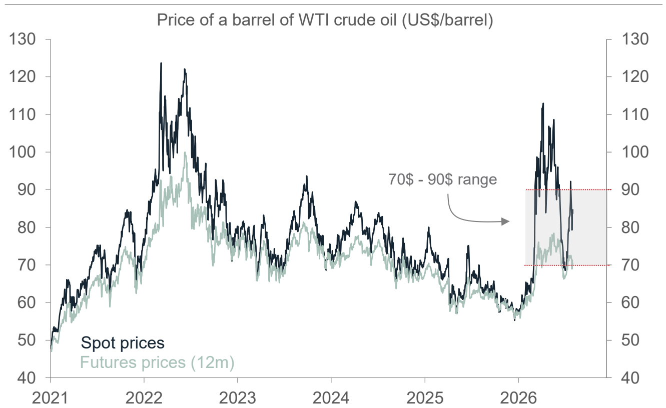
For now, our base case remains unchanged. Although some underlying risks have increased, they have not materialized to a sufficient degree to warrant a defensive repositioning.

Regarding the Middle East, our base-case assumption was – and remains – that the conflict will persist without tipping fully into a broader escalation, with its intensity tending to vary with oil prices. Lower prices reduce the economic cost of escalation, while a sharp rise increases the incentives to de-escalate. Developments in July

[5] For more details, see our latest Asset Allocation Strategy report.
[6] 'A casino for investors': leverage brings huge swings to world's best-performing market, July 17, 2026.
[7] South Korea to cap investment in single-stock leveraged ETFs, ministry says, Reuters, July 29, 2026

were consistent with this scenario: hostilities intensified when WTI fell below US$70 a barrel, before easing after it rebounded above US$90 (**Chart 13**).

13 | Has a new equilibrium range settled-in?



CIO Office (data via Refinitiv).

As long as this fragile equilibrium holds, 10-year U.S. Treasury yields should not move sustainably outside the 4.0%–4.7% range that has characterized most of the past three years (**Chart 14**).

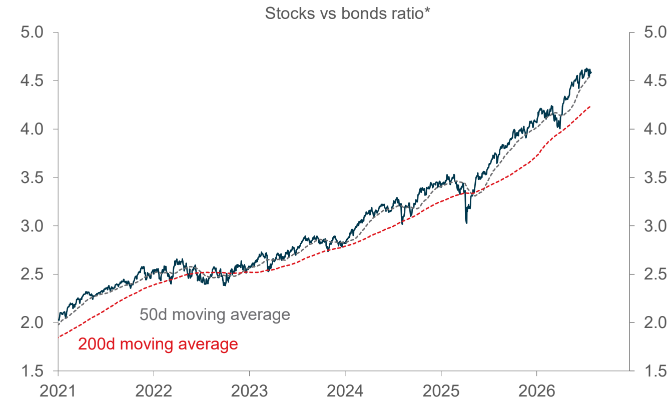
14 | Will 10-year yields break out of their range?

CIO Office (data via Refinitiv).

For global equities, this points more to a consolidation that began in June and could extend for another few weeks rather than to a complete break in the uptrend (**Chart 15**).

To confirm this assessment, we will need to continue monitoring the technology sector closely.

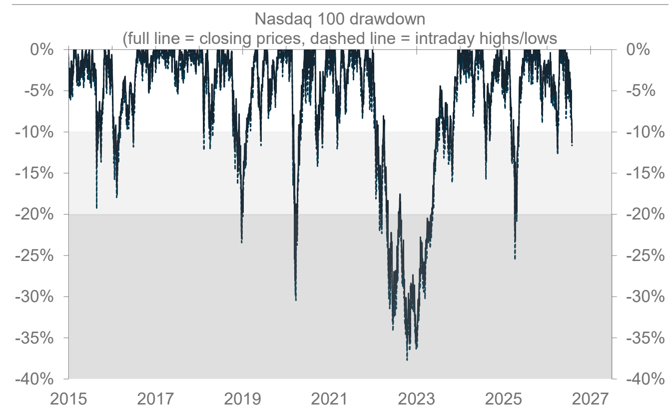
15 | Stocks appear to be in a consolidation phase



CIO Office (data via Refinitiv). *Stocks = 40% S&P 500, 30% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM (all in CAD). Bonds = FTSE Canada Universe.

That said, following a correction of just over 10% in the Nasdaq 100, the risk-reward profile now appears more balanced (**Chart 16**).

16 | A slight market correction for the Nasdaq

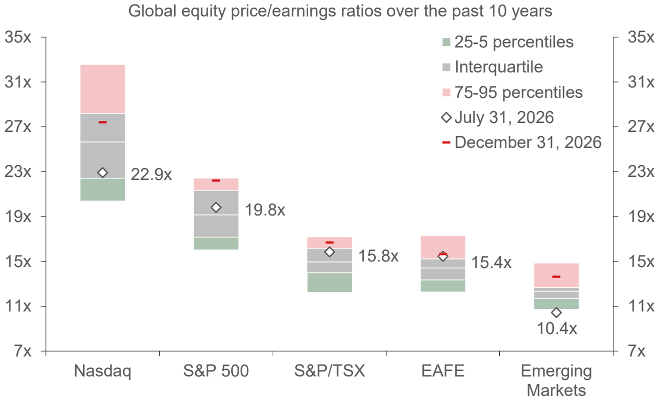


CIO Office (data via Refinitiv).

Combined with still-solid earnings growth, these declines drove further compression in valuations in July. The S&P 500 price-to-earnings ratio now stands near its 10-year median, while the Nasdaq 100 sits near the cutoff for its lowest quartile. Emerging Markets valuations, meanwhile, are near their lowest levels in a decade (**Chart 17**, next page).

In this context, we are maintaining our pro-risk tactical positioning, with a preference for U.S. and Emerging Market equities over the EAFE region. Nevertheless, this status quo should not be

17 | Equities aren't expensive



CIO Office (data via Refinitiv).

interpreted as complacency. The conditions supporting equities have not disappeared, but the reasons to monitor the outlook closely are become more numerous.

CIO Office
CIO-Office@nbc.ca

Martin Lefebvre
Chief Investment Officer
martin.lefebvre@nbc.ca

Louis Lajoie
Senior Director
Investment Strategy
louis.lajoie@nbc.ca

Simon-Carl Dunberry
Senior Director
Portfolio Strategy
simon-carl.dunberry@nbc.ca

Nicolas Charlton
Director
Quantitative Strategy
nicolas.charlton@nbc.ca

Mikhael Deutsch-Heng
Director
Investment Strategy
mikhael.deutschheng@nbc.ca

Zaid Shoufan
Associate
Portfolio Strategy
zaid.shoufan@nbc.ca

Julien Gordon
Analyst
Quantitative Strategy
julien.gordon@nbc.ca

General

The information and the data supplied in the present document, including those supplied by third parties, are considered accurate at the time of their printing and were obtained from sources which we considered reliable. We reserve the right to modify them without advance notice. This information and data are supplied as informative content only. No representation or guarantee, explicit or implicit, is made as for the exactness, the quality and the complete character of this information and these data. The opinions expressed are not to be construed as solicitation or offer to buy or sell shares mentioned herein and should not be considered as recommendations.

Views expressed regarding a particular company, security, industry, market sector, future events (such as market and economic conditions), company or security performance, upcoming product offerings or other projections are the views of only the CIO Office, as of the time expressed and do not necessarily represent the views of National Bank of Canada and its subsidiaries (the "Bank"). Any such views are subject to change at any time based upon markets and other conditions, which could cause actual results to differ materially from what the CIO Office presently anticipate(s) or project(s). The Bank disclaims any responsibility to update such views. These views are not a recommendation to buy or sell and may not be relied on as investment advice.

These index providers may be included in this document: BofA Merrill Lynch, Standard & Poor's, FTSE, Nasdaq, Russell et MSCI. These companies are licensing their indices "as is", make no warranties regarding same, do not guarantee the suitability, quality, accuracy, timeliness and/or completeness of their indices or any data included in, related to or derived therefrom, assume no liability in connection with their use and do not sponsor, endorse or recommend National Bank Investments Inc. and any of their products and services. The above index providers do not guarantee the accuracy of any index or blended benchmark model created by National Investment Bank using any of these indices. No responsibility or liability shall attach to any member of the Index Providers or their respective directors, officers, employees, partners or licensors for any errors or losses arising from the use of this publication or any information or data contained herein. In no event shall the above Index Providers be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, legal or other expenses, or losses (including, without limitation, lost revenues or profits and opportunity costs) arising out of or in connection with the use of the content, even if advised of the possibility of such damages.

The FTSE/TMX indices are trademarks of the LSE Group. S&P Indices are trademarks of S&P Dow Jones Indices LLC, a division of S&P Global. MSCI indices are trademarks of MSCI Inc. BofA indices are trademarks of Merrill Lynch, Pierce Fenner & Smith incorporated ("BofAML"). Nasdaq index is a trademark of Nasdaq Inc. Russell 2000 ® is a trademark of the Frank Russell Company.

National Bank Investments is a signatory of the United Nations-supported Principles for Responsible Investment, a member of Canada's Responsible Investment Association, and a founding participant in the Climate Engagement Canada initiative.