NCM Core Global

Equity Strategies

NCM Monthly Commentary for July 2026

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Q2 2026 Review

Global equity markets generated attractive returns during the second quarter of 2026 despite a backdrop marked by geopolitical tensions and elevated energy price volatility. The key factors that drove stock prices higher included better than expected economic activity across several major economies, evidence of progress in negotiations between the U.S. and Iran regarding the Strait of Hormuz, and another quarter of robust corporate earnings. Returns were positive across all major developed market regions as highlighted in Chart 1 below, with many indices generating double digit returns.

Several themes impacted the performance of the stock market during the quarter. These themes included energy price volatility, economic resiliency, artificial intelligence, and strong corporate earnings.

During the quarter, investors were forced to balance the inflationary implications of rising energy prices against an economic environment that continues to demonstrate surprising durability. Tensions in the Middle East escalated during the quarter on the back of the mounting conflict between the U.S. and Iran as it pertains to the Strait of Hormuz. This conflict led to renewed volatility in oil markets and reinforced the potential for higher input costs across the global economy. Despite these concerns, economic growth remained sufficiently firm to offset fears of an imminent slowdown. It also helped that there was a de-escalation between the U.S. and Iran towards the end of the quarter. The de-escalation paved the way for a return towards normalization in the Strait of Hormuz. The number of cargo ships and oil tankers passing through the Strait of Hormuz increased significantly during the last few weeks of the second quarter. This is illustrated in Chart 2 on the next page.

In the United States, economic activity remained remarkably resilient as consumer spending, labour market conditions, and business investment remained firm despite elevated interest rates. Across Europe, activity proved more durable than anticipated, supported by improving real incomes, stabilizing manufacturing activity, and continued fiscal support. Japan's economy remained on a firmer footing than many investors anticipated entering the year. Rising wages, improving business sentiment, and continued capital expenditure supported

CHART 1

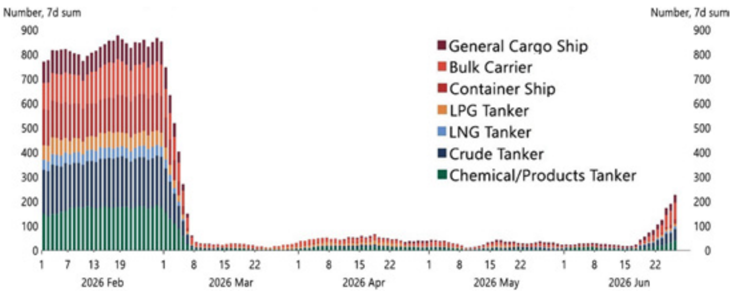
Q2 2026 Global Stock Market Returns

Index	Geographic Region	Currency	Q2 2026 Price change	Q2 2026 Total return including dividends
MSCI World	Global	US$	13.3%	13.9%
S&P 500	United States	US$	14.9%	15.2%
Euro Stoxx 600	Europe	Euro	10.1%	11.9%
Tokyo Stock Exchange	Japan	Yen	14.2%	14.3%
Toronto Stock Exchange	Canada	CAD$	6.4%	7.0%

Source: Bloomberg

CHART 2

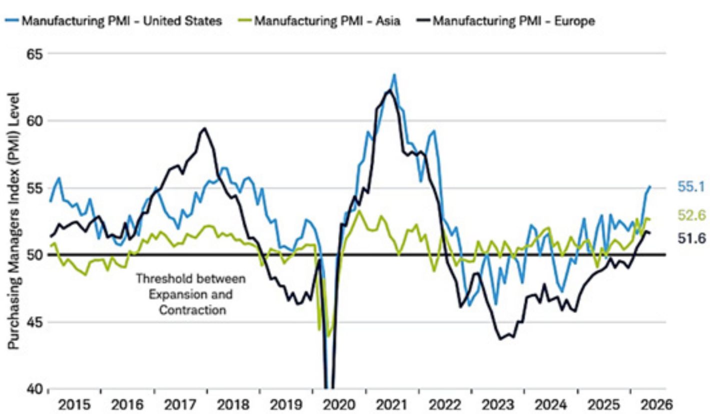
Number of vessels crossing Strait of Hormuz



Source: Bloomberg, Macrobond, Apollo Chief Economist

domestic demand. One area of the global economy that has shown significant improvement is the manufacturing sector. The Manufacturing PMI index in the U.S., Europe, and Asia has inflected higher in 2026. All 3 regions currently have PMI readings comfortably above 50, which is threshold between expansion and contraction. This positive momentum in manufacturing has provided a tailwind to the global economy and is encouraging to see given that these PMI indexes spent several years in contraction as can be seen in Chart 3 below.

CHART 3



Source: Charles Schwab, S&P Global, and Macrobond data between 12/31/2014 and 6/2/2026

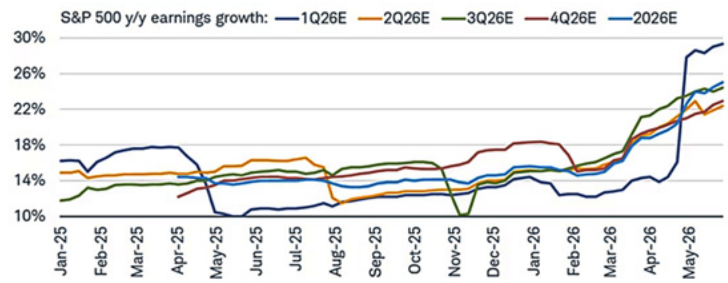
Artificial intelligence (AI) continues to represent one of the most important drivers of capital investment globally. While investors have become increasingly focused on declining AI inference costs and the rapid adoption of lower-cost models, demand for data centres, networking equipment, and AI-related infrastructure remains exceptionally strong. The investment cycle is broadening beyond a narrow group of technology leaders and increasingly benefiting a wider ecosystem of companies participating in the AI value chain. The investments being made across the AI ecosystem represent one of the key pillars of the global capex super cycle.

However, AI is not the only driver given that there are several underlying catalysts that are powering the capex super cycle. Geopolitics is one of these catalysts as governments and corporations are prioritizing supply chain resilience, energy security, strategic independence, and defense spending. This evolving landscape continues to reshape global trade patterns, manufacturing investment, and capital allocation decisions across the globe.

Corporate earnings continue to be strong. This is especially the case in the U.S., where there have been significant upward earnings revisions since the beginning of 2026 as shown in Chart 4 below.

CHART 4

2026 earnings estimates have surged

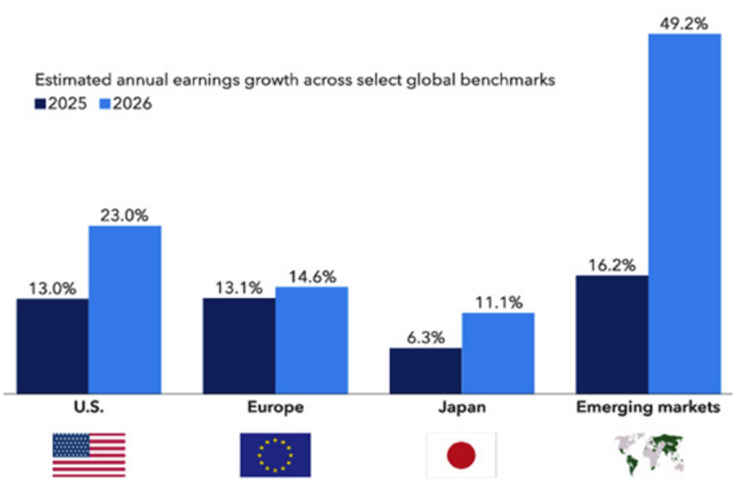


Source: Charles Schwab, London Stock Exchange Group Institutional Broker's Estimate System (LSEG I/B/E/S), as of 5/29/2026

Earnings revisions have also been strong across many other geographic regions. Given this trend, most of the major economic regions around the world are expected to generate double digit earnings growth in 2026 as seen in Chart 5 below.

CHART 5

Robust earnings growth is not just a U.S. phenomenon



Sources: Capital Group, FactSet, MSCI, S&P Global. Estimated annual earnings growth is represented by the mean industry analyst consensus earnings per share estimates for the year ending December 2026 across the S&P 500 Index (U.S.), the MSCI Europe Index (Europe), the MSCI Japan Index (Japan), the MSCI EM Index (Emerging markets) and MSCI China Index (China). Earnings growth represented in USD. Estimates are as of May 31, 2026.

It's good to see that the global economy is resilient and that corporate earnings are strong. We are also encouraged that this is happening at a time when credit markets are showing little signs of market stress. The ICE BofA US High Yield Index Option-Adjusted Spread (OAS) is a widely watched financial indicator that measures the difference in yield between junk corporate bonds and risk-free U.S. Treasury bonds. It specifically shows how much extra interest investors demand to hold riskier below-investment-grade debt. As seen on Chart 6 below, credit spreads are currently sitting towards the tight end of the range seen in the last 3 years. This implies that there is little to no stress in credit markets.

CHART 6

ICE BofA US High Yield Index Option-Adjusted Spread

Source: ICE Data Indices, LLC via FRED®

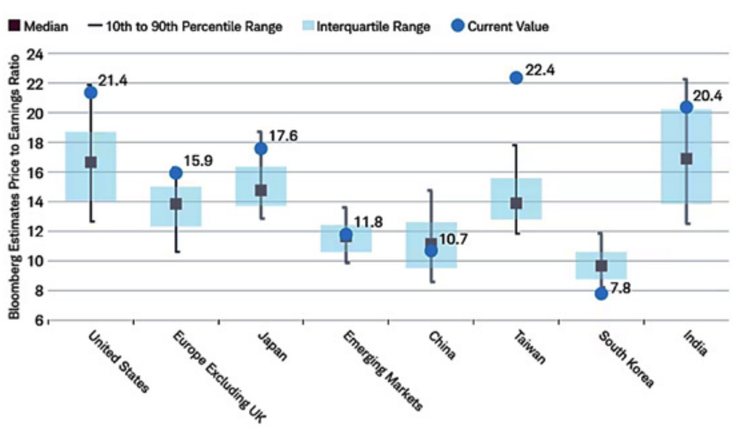
Risks

In terms of the risks, we would highlight global stock market valuations, inflation, geopolitics, and the potential for volatility as we approach the U.S. Midterm Elections.

Based on the Price-to-Earnings ratio, the valuations for most global equity markets are above the historical average as seen in Chart 7 below.

CHART 7

Valuations at the higher end of their 20-year range in most major markets



Source: Charles Schwab, MSCI, S&P Global, Bloomberg, and Macrobond data from 5/1/2006 through 5/29/2026.

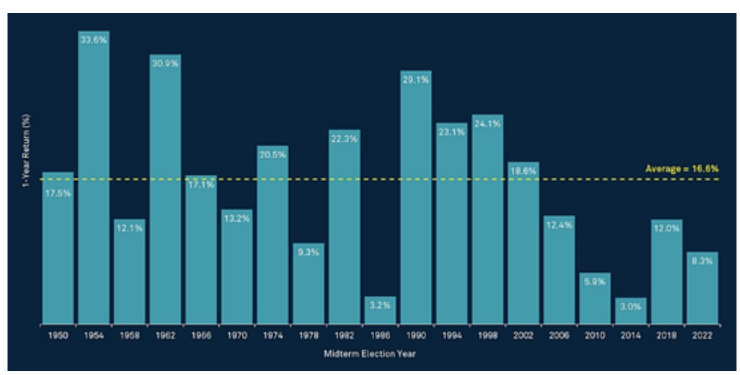
However, an elevated Price-to-Earnings (P/E) ratio doesn't always signal imminent downside risk for the stock market. In fact, there is a very weak correlation between forward P/E multiples and 1-year forward stock market performance. Furthermore, the returns on invested capital (ROIC) have improved significantly for most stock markets around the world and there is a strong positive correlation between the ROIC and the P/E multiple for any given stock.

In terms of inflation risk, there is the potential for a renewed bout of inflation given that many governments around the world are stimulating their economies through both monetary and fiscal policies. Inflation has proven to be sticky in recent years and it has not returned to the optimal levels desired by central bankers. This is something that we are mindful of and it's an area that we will monitor closely. The recent decline in the price of a barrel of oil from US$110+ to US$70 over the last few months should be helpful on the inflation front. With regards to geopolitics, it appears that things are moving in the right direction between the U.S. and Iran although risks remain in other parts of the world.

Finally, there is potential for elevated volatility as we approach the U.S. Midterm elections in the Fall. Midterm Elections have historically led to short-term spikes in market volatility in the months leading up to election day. However, stocks have typically moved higher in the periods that follow Midterm Elections. If we look back at Midterm cycles since the 1950's, we can see the S&P 500 Index has posted positive price returns, gaining 16.6% on average in the next 12 months after the election. This is illustrated in Chart 8 below.

CHART 8

On average, the S&P 500 has gained +16.6% one year after a midterm election, going back to 1950



Source: BNY Investment Strategy & Research Group, Macrobond

Outlook for the remainder of 2026

We enter the second half of the year with cautious optimism. The underlying drivers of growth remain firm and suggest to us that the global expansion remains intact despite an increasingly complex geopolitical backdrop. These drivers include technological innovation, healthy labor markets, and continued corporate investment. In addition, corporate earnings expectations have generally moved higher, with positive earnings revisions becoming increasingly broad-based across sectors and regions. This trend has provided an important foundation for global equity markets despite elevated valuations in certain areas. Putting it all together, we have a constructive view on global equity markets.

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