ETERNA FINANCIAL GROUP

MONTHLY

FINANCIAL LETTER

JULY 2026

Washington is refusing to renew CUSMA and threatening Canada with 50% tariffs, reviving trade uncertainty. Renewed tension between the United States and Iran has also driven up energy prices and interest rates. Can markets withstand so many shocks at once?

WASHINGTON REVIVES TRADE UNCERTAINTY BY REFUSING TO RENEW CUSMA

July brought a fresh escalation in trade tensions between Canada and the United States. On July 1, the U.S. administration confirmed its intention not to renew the Canada-United States-Mexico Agreement (CUSMA) in its current form. While the agreement remains in effect as negotiations continue, the decision opens the door to annual revisions that could stretch on for several years, keeping businesses and investors in a prolonged state of uncertainty.

That uncertainty deepened near the end of the month when the White House announced plans to impose new 50% tariffs on a range of Canadian products. Unlike previous measures, these tariffs could apply even to goods covered under CUSMA. Although their implementation and legal standing remain uncertain, the announcement poses a significant risk to the Canadian economy and could further dampen business investment.

At the same time, markets also had to contend with a deteriorating geopolitical backdrop in the Middle East. Renewed hostilities between the United States and Iran near the Strait of Hormuz reignited concerns, pushing energy prices and interest rates higher.

This combination of trade and geopolitical tensions added to market volatility, as investors reassessed the outlook for economic growth and inflation in the months ahead.

A mixed month for equity markets

In Canada, the S&P/TSX Composite Index rose 1.2%, a gain driven largely by the energy sector, which climbed 6.9% during the month. Higher oil prices benefited Canadian energy companies and supported the broader market's performance.

In the United States, major indices moved in opposite directions. The S&P 500 slipped 0.1%, while the Nasdaq posted a sharper 3.2% decline. The technology sector took a hit as investors booked profits after substantial gains earlier in the year. The Dow Jones, meanwhile, closed the month up 0.3%.

European markets turned in solid performances. The FTSE 100 rose 3.5% in the United Kingdom, while France's CAC 40 gained 1.3% and Germany's DAX 30 advanced 2.5%. These results reflect renewed investor optimism toward European economic prospects, even as trade tensions continue to weigh on the global backdrop.

Japan's market moved in the opposite direction, posting a sharp decline. After a strong run earlier in the year, the Nikkei 225 fell 8.1% in July. Despite the pullback, the index still holds an impressive 27.9% gain year-to-date, suggesting many investors simply took profits after months of significant gains.

Fixed income markets trended lower. The FTSE Canada Universe Bond Index fell 1.5% during the month. Rising interest rates, fuelled in part by inflation concerns tied to higher energy prices, weighed on every segment of the Canadian bond market. As a result, both government and corporate bonds posted negative returns in July.

Canada's growth returns, but trade risks linger

On the economic front, the Bank of Canada held its policy rate at 2.25% at its July 15 meeting. Governing Council members expressed greater confidence in the economy's resilience following two quarters of negative growth. Growth data, in fact, came in better than expected: real gross domestic product (GDP) rose 0.3% in May, following a 0.6% increase in April, and preliminary estimates point to further growth in June.

Despite this improvement, the Bank of Canada remains cautious. Trade-related risks with the United States continue to pose a significant threat to the country's economic outlook. Policymakers noted that potential new tariffs could weigh on economic growth in the coming quarters.

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Canadian inflation also drew attention. After peaking at 3.2% in May, it eased to 2.8% in June. That said, escalating tensions in the Middle East and rising oil prices continue to pose an upside risk to consumer prices going forward.

A resilient U.S. economy despite a divided Fed

In the United States, the Federal Reserve left its policy rate unchanged at its July meeting. While the decision was widely expected, investors' reaction proved more surprising: yields on long-term U.S. government bonds climbed to their highest level in nearly 20 years.

This reaction reflects growing concern over inflation risk. Many market participants appear to doubt that the Fed's new chair will take a firm enough stance to bring inflation sustainably back to its 2% target, and are demanding higher yields to hold long-term bonds as a result. That concern surfaced within the central bank itself: three of the twelve voting members supported an immediate rate hike, a sign that pressure for tighter monetary policy remains very much alive.

On the economic front, U.S. growth stayed positive in the second quarter. Real GDP grew at an annualized rate of 1.5%, a slight disappointment relative to market expectations. Despite this slowdown, domestic demand remains robust: household consumption spending picked up during the quarter, underscoring the resilience of the U.S. economy.

Please note that our monthly publication will take a break in August. We'll be back in October with our quarterly review.

Until then, the entire team at Eterna Groupe Financier wishes you a wonderful end to the summer.

Bobby Bureau, MBA, CIM®
Senior Manager, Fixed Income Portfolio Manager

KEY TAKEAWAYS

- Washington announced its intention not to renew CUSMA and is threatening 50% tariffs on a range of Canadian products, prolonging trade uncertainty.
- Renewed tension between the United States and Iran drove up energy prices and interest rates, adding to market volatility.
- Stock markets delivered mixed returns in July: the S&P/TSX rose 1.2%, the S&P 500 slipped slightly, the NASDAQ fell, and European indices outperformed.
- The Bank of Canada and the Fed both held their policy rates steady, but long-term U.S. bond yields climbed to their highest level in nearly 20 years.

ECONOMIC DATA AND CURRENCIES

STATISTICS AS OF JULY 31, 2026								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (June)	6.5%	↓	Unemployment (June)	4.2%	↓	USD / CAD	0.71	↓
IPC (June)	2.8%	↓	IPC (June)	3.5%	↓	USD / EUR	1.15	↓
3-month T-Bills	2.29%	↑	3-month T-Bills	3.75%	↓	JPY / USD	157.40	↑
5-year bonds	3.27%	↑	5-year bonds	4.45%	↑			
10-year bonds	3.66%	↑	10-year bonds	4.73%	↑			
S&P/TSX	35,226	↑	Dow Jones - Industrial	52,485	↑			
			S&P 500	7,490	↓			

The arrow indicates the trend since the publication of the last monthly data or end of the month.

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF JULY 31, 2026	YTD	3 months	6 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	1.33%	0.61%	1.15%	2.46%	3.74%	3.13%
BONDS						
FTSE Canada Universe Bond Index	0.66%	0.30%	0.08%	2.61%	4.26%	0.28%
FTSE Canada Short Term Overall Bond Index	1.09%	0.76%	0.64%	2.84%	4.92%	2.10%
Eterna Adapted Private Wealth Index[1]	0.85%	0.67%	0.49%	3.00%	4.96%	1.55%
FTSE Canada Mid Term Overall Bond Index	0.85%	0.53%	0.25%	3.22%	4.98%	0.67%
FTSE Canada Long Term Overall Bond Index	-0.41%	-0.82%	-1.19%	1.35%	2.24%	-2.71%
NORTH AMERICAN STOCK MARKETS						
Canada - S&P/TSX Composite	12.52%	4.29%	11.58%	32.26%	22.93%	14.95%
United States - Standard & Poor's 500	12.62%	7.39%	12.14%	21.14%	21.88%	15.54%
United States - Dow Jones Industrial Average	12.66%	9.39%	11.79%	22.50%	18.42%	13.20%
INTERNATIONAL STOCK MARKETS						
United Kingdom - FTSE-100	14.12%	7.73%	9.84%	26.71%	20.59%	15.11%
France - CAC-40	4.78%	6.16%	4.93%	11.84%	8.17%	7.05%
Germany - DAX	5.10%	6.80%	4.65%	8.79%	20.22%	12.48%
Japan – Nikkei-225	28.58%	9.94%	20.83%	50.13%	22.63%	12.82%
Hong Kong – Hang Seng	2.50%	3.39%	-2.77%	5.97%	10.96%	2.14%
Australia - S&P/ASX 200	10.92%	4.45%	5.35%	13.63%	10.49%	5.49%
CURRENCIES						
USD versus CAD	2.16%	3.23%	3.00%	1.19%	2.06%	2.36%

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

[1] The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.