THE PLAYBOOK

CI PRIVATE WEALTH

MONTHLY COMMENTARY

July 2026

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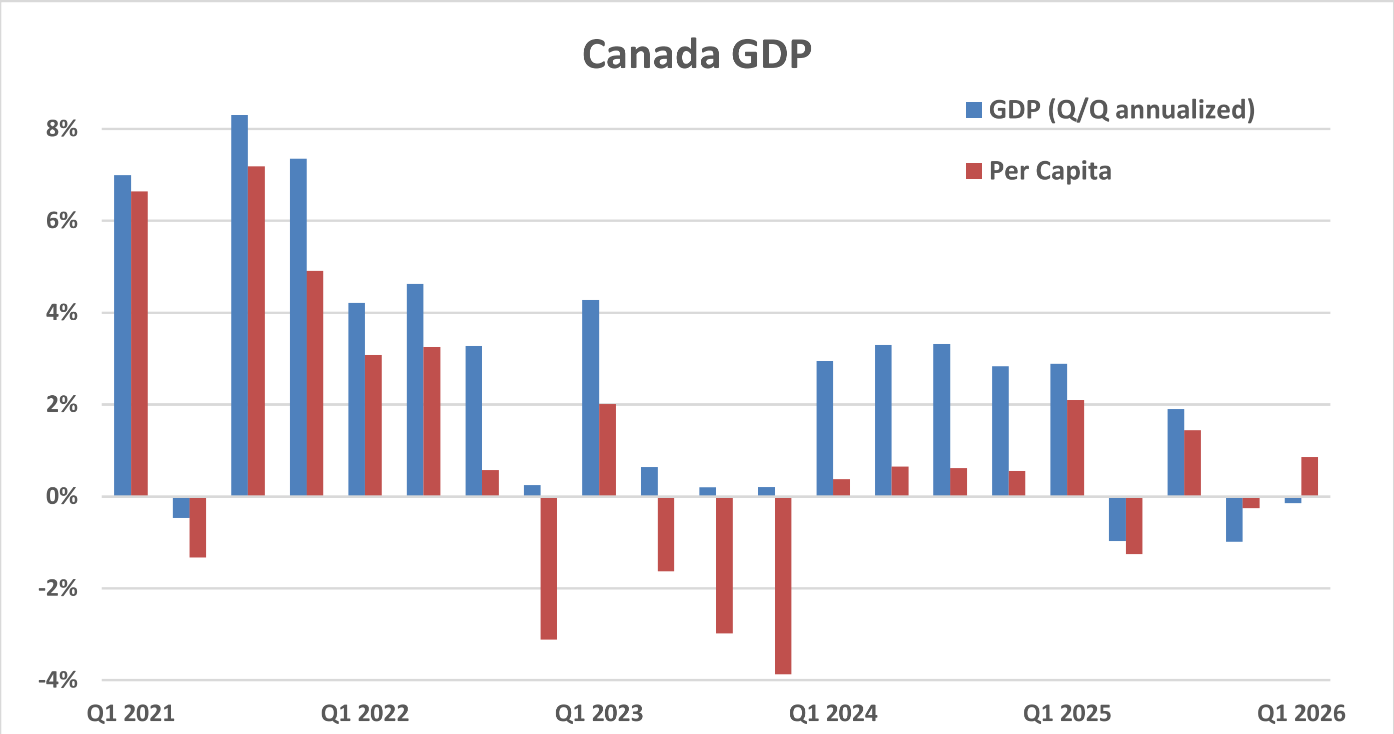
Canada enters recession.



Source: Statistics Canada

MARKET FOCUS

Weak economic results revealed.

Statistics Canada announced that real gross domestic product (GDP) contracted by 0.1% (on an annualized basis) in the first quarter of 2026. This follows a 1.0% contraction in the fourth quarter of 2025 and ushers in a technical recession (two consecutive quarters of negative growth). The first quarter contraction was considerably weaker than the 1.5% ***advance*** that was forecast by the Bank of Canada in its latest (April 2026) Monetary Policy Report. As can be seen in the accompanying graph, the second quarter of 2025 also saw an economic contraction (-1.0%). On the surface, this may not appear to be too troubling, as the three contractions in the last four quarters represent just a 0.1% cumulative decline in total output. However, on a per capita basis (which more clearly reflects the nation's standard of living), there have been six contractions in the last 14 quarters. The population surge in the post-pandemic period has created a number of economic challenges and output per capita is 1.2% less than it was in the third quarter of 2022. In addition, May employment data revealed that there are now 796,000 potential workers still on the sidelines compared to 95,000 at the end of 2010. A return to pre-pandemic participation would produce a more realistic unemployment rate of 9.7%, consistent with the ongoing recession.

New Fed Chairman expected to take a page from the "maestro".

Following its two-day monetary policy meeting, the U.S. Federal Reserve (Fed) held interest rates steady, leaving the target for the federal funds rate in the range of 3.50% to 3.75%. This is the fourth "on hold" result following six interest rate cuts during the current easing cycle. This was the first policy meeting chaired by Kevin Warsh, who took over the role from Jerome Powell. As Warsh cited former Fed Governor Alan Greenspan four times during his swearing-in ceremony, many anticipate a return to shorter policy statements and less explicit forward guidance. Greenspan, who passed away at the age of 100 on June 22, was at the helm of the Fed from 1987 through 2006, the second longest tenure in the position. Either way, administered interest rates remain at their lowest level since November 1, 2022, following a total reduction of 175 basis points (a basis point is 1/100th of one per cent). Importantly, the Fed statement contained the text: "Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy." This indicates that the Fed remains more clearly focused on inflation rather than on unemployment. The annual growth of the consumer price index stood at 4.2% in May.

LONGER VIEW

In the near term, investor sentiment remains constrained by escalating geopolitical tensions stemming from the U.S.–Israel–Iran conflict. These developments have driven a sharp rise in oil prices, reigniting inflation expectations and increasing uncertainty across global markets. However, looking beyond this tragic and destabilizing episode, the medium- to longer-term outlook remains constructive. Economic growth and corporate earnings should be supported by increasingly accommodative central bank policies as inflation pressures eventually normalize. At the same time, productivity gains driven by the next phase of the Industrial Revolution—led by rapid advancements and widespread adoption of artificial intelligence—have the potential to meaningfully enhance efficiency, profitability, and long-term growth prospects across sectors.

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