MONTHLY COMMENTARY

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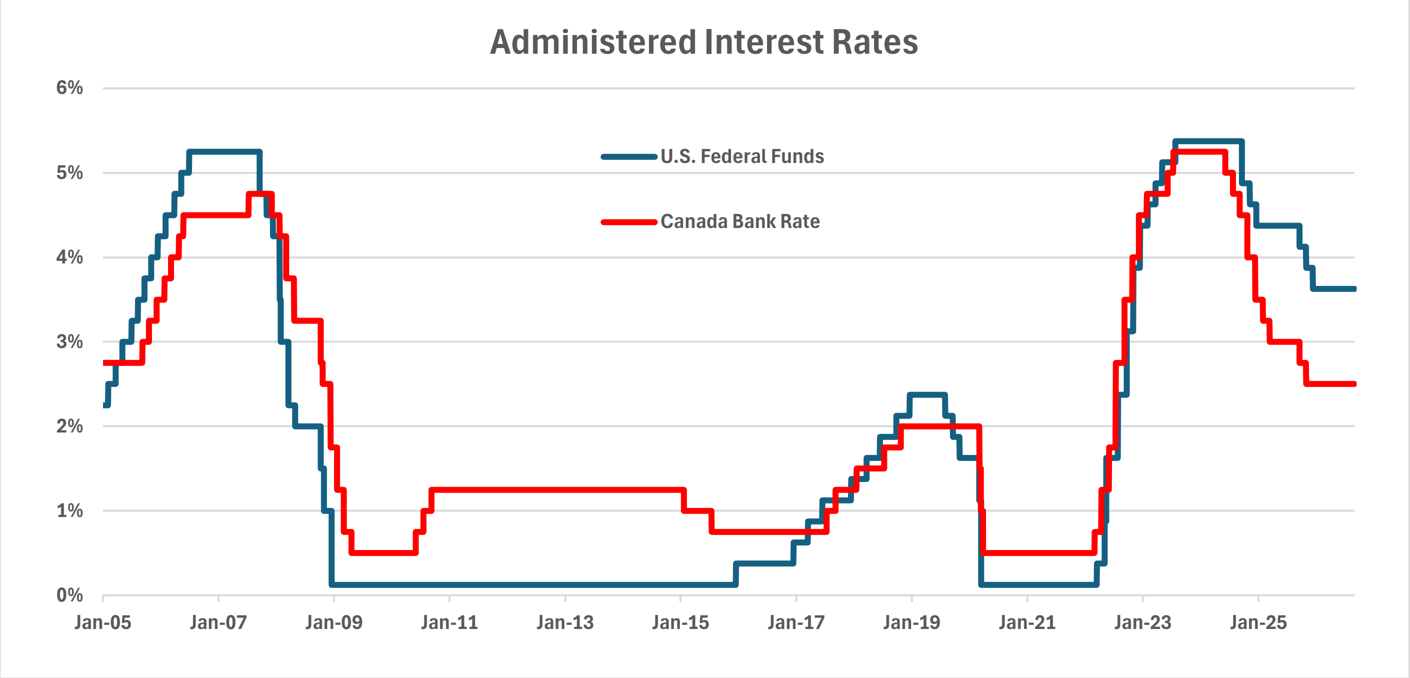
Bank of Canada dilemma.



Source: Bank of Canada; U.S. Federal Reserve

MARKET FOCUS

Central bank may see opportunity to cut rates.

The Bank of Canada announced that it was holding administered interest rates steady once more at the conclusion of its July 15 monetary policy meeting. The announcement left the target range for overnight borrowing at 2.25% to 2.50% with the official, benchmark Bank Rate at 2.50%. The Bank also maintained the official Deposit Rate at 2.20%. This is the sixth consecutive "on hold" announcement but it did leave administered interest rates at their lowest level since July 12, 2022. As can be seen in the accompanying graph, interest rate cuts between June 2024 and October 2025 resulted in a total reduction of 275 basis points (a basis point is 1/100th of one percent). These cuts served to partially reverse the cumulative 475 basis points of interest rate hikes that began in March 2022 as the Bank scrambled to reclaim its lost credibility when inflation surged to a 40-year high. The press release that accompanied the most recent announcement highlighted the continued weakness in the job market as the unemployment rate “has hovered in a range of 6½%–7% since the end of 2024.” Not surprisingly, the Bank also lowered its GDP growth forecast for 2026 to 1.4% from the 1.8% estimate provided in April. Given the ongoing recession, there have been growing expectations that another move to lower interest rates could emerge. Above-target inflation has been the stumbling block. However, Statistics Canada reported that the consumer price index edged 0.1% lower (seasonally adjusted) in June. On a year-over-year basis, the CPI was up 2.8%, slower than the 3.2% pace posted in May and the first retracement since February. A *sustained* decline in the annual pace of inflation could eventually provide the opportunity for the Bank to cut interest rates again.

U.S. economy continues to strengthen.

The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew by 2.1% (q/q annualized) in the first quarter of 2026. This is the “third estimate” and is stronger than the 1.6% figure previously reported and the 0.1% contraction reported for Canada. In the final quarter of 2025, real U.S. GDP expanded by 0.5% (on the same basis). The weakness in the fourth quarter of 2025 was largely attributed to the federal government shutdown. Regardless, the current report suggests that the U.S. has returned to a solid economic growth path with a steady rise in the nation’s standard of living. The data also revealed a new all-time high for GDP per capita during the quarter. Conversely, Canadian data for the first quarter of 2026 showed that GDP per capita remained below the level seen in the third quarter of 2022.

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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