IA Clarington Canadian Leaders Class

Manager Commentary – Q2 2026

Similar to recent quarters, the second quarter of 2026 was dominated by the conflict in Iran, as fighting continued to begin the period. A ceasefire was announced in early April, followed by several weeks of negotiations and culminating in a peace agreement by mid-June.

The Strait of Hormuz remained largely closed for most of the quarter, leading to a significant drawdown in global oil inventories. However, oil prices began to decline soon after the ceasefire announcement and dropped sharply once the peace deal was confirmed, moving from around US$100 on April 1 to US$70 by June 30. Shipping through the Strait gradually resumed toward the end of June.

Rising energy prices pushed inflation higher. In the U.S., headline CPI inflation exceeded 4%, while core inflation (which excludes energy) remained more contained at around 3%. The sharp decline in oil prices in June is expected to help ease inflation in the coming months, though inflation is likely to remain above target.

At the same time, the U.S. economy remains resilient, supported by expansionary fiscal policy and strong investment in artificial intelligence (AI). The labour market has strengthened again, with job creation rising and unemployment remaining stable.

Against this backdrop, the new Chair of the U.S. Federal Reserve, Kevin Warsh, has taken office. With inflation still elevated and policymakers increasingly focused on inflation risks, markets now expect one to two additional interest-rate hikes by year-end.

Over the quarter, this resulted in stable long-term interest rates and rising short-term rates. In other words, the yield curve flattened, reflecting expectations of tighter monetary policy alongside reduced fears of a sustained inflation spiral. Ten-year yields held near 4.4%, while two-year yields rose from 3.8% to 4.1%.

In Canada, GDP declined in the first quarter, but available indicators suggest a rebound in the second quarter. Meanwhile, the labour market has stabilized, with unemployment between 6.5% and 7%. Slower population growth, due to changes in immigration policy, is acting as a headwind for economic growth. Overall, the Canadian economy is slowing, but the risk of recession remains low.

Inflation in Canada has also increased, driven by higher energy and food prices, although core inflation remains well controlled. Inflation is expected to hover around 3% in the coming months. In this environment, the Bank of Canada is likely to keep interest rates unchanged in 2026, with potential rate hikes in 2027 if growth strengthens. Interest rates edged down slightly over the quarter, reflecting weaker growth and lower inflation risks. As a result, markets have revised down their expectations for the policy rate.

Several central banks raised interest rates during the quarter. Notably, the European Central Bank (ECB), the Bank of Japan and the Reserve Bank of Australia each increased their policy rates by 25 basis points. While modest so far, this tightening cycle could gradually weigh on global economic growth over the medium term.

The second quarter of 2026 saw sector leadership shift toward financials and health care, while energy and materials lagged in Canada. On the U.S. side, the information technology sector remained strong, supported by the AI theme. Despite ongoing trade policy uncertainty, markets in both Canada and the U.S. remained resilient, supported by solid corporate earnings and continued investment in AI-related infrastructure.

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Fiscal policy and trade negotiations are likely to remain key sources of market uncertainty through year-end, but markets have so far remained resilient. Against this backdrop, we continue to see compelling long-term opportunities in infrastructure, energy security and critical minerals. At the same time, AI-related investments remain robust as adoption accelerates, while reshoring trends, increased defense spending and energy security initiatives are expanding investment opportunities well beyond the mega-cap technology market segment.

The Fund posted a strong return of 10.3% in the second quarter of 2026, compared with 11.0% for its benchmark (40% S&P 500 Index (CAD), 60% S&P/TSX Composite Index), a difference attributable to security selection and asset allocation.

Security selection in the industrials sector weighed on relative performance. On the asset allocation side, an underweight position in the information technology sector detracted from performance.

During the quarter, we added exposure to companies participating in AI and industrial technology where we continue to identify attractive opportunities supported by long-term structural trends. We continue to actively refine the portfolio by initiating positions in companies operating within the infrastructure build-out and defense themes.

We also maintained exposure to the energy and materials sectors, where select opportunities remain despite ongoing commodity price volatility. Elsewhere, we continue to selectively deploy capital toward our highest-conviction ideas across the portfolio.

Fund and benchmark performance, as at June 30, 2026	Q2 2026	1-year	3-year	5-year	10-year
IA Clarington Canadian Leaders Class – Series F	10.3%	24.5%	21.9%	13.8%	12.8%
40% S&P 500 Index (CAD), 60% S&P/TSX Composite Index	11.0%	30.8%	23.6%	15.6%	14.4%

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For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted market indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's benchmark is a blend of 40% S&P 500 Index (CAD), and 60% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. The S&P/TSX Composite Index is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. The Fund's market capitalization, geographic, and sector exposure may differ from that of the benchmark. The Fund's currency risk exposure may be different than that of the benchmark. The Fund may hold cash while the benchmark does not. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance. Effective February 7, 2014, IA Clarington Canadian Leaders Fund merged into the Fund.

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Indicated mutual fund rates of return include changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Returns for more than one year are historical annual compounded total returns while returns for one year or less are cumulative figures and are not annualized.

Series F securities are available only to investors participating in fee based advisory programs through their dealer. No sales charges apply when investing in Series F. iA Clarington does not pay ongoing trailing commissions to dealers for Series F and therefore are not embedded in the Management Expense Ratio (MER). Instead, investors pay an explicit dealer advisor fee for investment advice and related services. Any differences in performance between fund series are primarily due to differences in fees and expenses, as described in the fund's prospectus.

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