MACKENZIE Investments

2026 mid-year outlook

Crude awakening: the Strait and the narrow

The playbook we laid out at the start of 2026 has, by and large, held up. Our constructive view on equities was rewarded as broad markets delivered positive double-digit returns in the first half, with non-US markets, notably Canadian and international equities, outperforming the familiar US large-cap names we cautioned against overweighting. US small caps also experienced the upside of a strengthening domestic economy.

Gold continued to climb through the early months of the year, on the structural drivers we identified, before correcting in response to the start of the US-Iranian conflict. Other commodities like copper and steel were buoyed by capital investment in infrastructure and data centre expansion, further validating our commodity thesis. Remaining overweight corporate bonds with a bias toward quality served portfolios well, as the strong corporate earnings backdrop continued to support this asset class.

Not everything played out completely as expected. As the US and Israel began an incursion into Iran, the market playbook shifted quickly. Oil replaced gold as the commodity market darling with the closure of the Strait of Hormuz. This event became the dominant theme driving asset class returns, with equities and bonds both initially selling off due to widespread inflation fears as approximately 34% of global oil trade became landlocked, driving up global oil prices. Inflation fears altered the outlook for Federal Reserve (Fed) policy which moved market expectations from an easing to a tightening bias.

Although we were optimistic towards a capital expenditure driven earnings growth cycle, even our bullish expectations proved to underestimate the power of this trend as companies reported significant upside surprises in the first half of the year, record profit margins and continued enthusiasm from the widespread deployment of artificial intelligence. This served as a useful reminder that when earnings momentum is intact, markets can tolerate a great deal of geopolitical uncertainty.

The US economy proved its resilience in the first half, with the fiscal impulse from the One Big Beautiful Bill Act providing a tangible lift to consumer spending and AI expenditures supporting business investment. The complication as we flagged, is inflation. Core inflation has remained stubbornly close to 3%, giving the FOMC ample reason to be hawkish.

The Canadian experience has been more uneven. Mortgage refinancing headwinds continued to weigh on households, and trade-related uncertainty created a meaningful drag on business confidence and in turn

Lesley Marks,
CIO, Equities

Steve Locke,
CIO, Fixed Income & Multi-Asset Strategies

the Canadian economy. The Bank of Canada has held the policy rate steady so far this year reflecting these growth concerns despite a commodity-driven rise in consumer inflation. Prime Minister Carney's budget offered a fiscal counterweight through infrastructure commitments and capital investment incentives, directionally the right policy, even if the full effect will take time to work through. Canadian yields held relatively steady, and while productivity remains an ominous structural challenge, fiscal and monetary policy signals appear to be supportive.

The equity story of the first half is one of broadening participation, not just across geographies but within the market cap ranges. The Mag 7 names significantly underperformed the broader US market as the declining free cash flow profile of these companies created a headwind for investors. Fixed income was modestly positive, with investment-grade spreads holding tight and government bonds trading in a narrow range as the market waited on the Fed. It was commodities that made the most compelling case as a diversifier: gold reached parabolic highs before staging a rapid retreat, while copper and uranium advanced on the structural demand we had identified. Maintaining a neutral equity-bond mix with diversification across regions and the market-cap stack plus selective commodity exposure proved a sensible way to navigate an environment where geopolitical risk dominated the market narrative.

Looking forward to the second half of this year, we see many of the constructive conditions remaining in place to support equities. The One Big Beautiful Bill Act is transmitting its intended stimulus through the real economy, and Canada's infrastructure-focused budget adds a source of fiscal support for the Canadian growth story. Deficit-financed impulses across major economies in Europe and Asia continue to provide an earnings tailwind. Capital spending also continues to be supportive through increased defense commitments as well as AI related capital expenditures, not just limited to data centre expansion, but also grid modernization and electricity. This cycle is no longer narrowly defined by technology capital expenditure, it has spread into industrials, utilities, and real assets, deepening the investment case for the diversification we have been advocating for.

On central bank policy we see the Fed's tightening bias as a function of inflation pressure, with monthly inflationary data having taken on outsized meaning in the outlook for both stocks and bonds. Recent data suggest the Fed will likely need to act to increase interest rates in the fall of this year, thus removing one of our four pillars supporting risk assets. The pace and the number of rate increases will ultimately determine how much of a headwind this ends up being for risk assets. The Bank of Canada's (BoC) policy path is less clear given the tug-of-war between inflation and a slower economic growth outlook, but we don't anticipate the BoC to follow the Fed with a tightening bias for the remainder of this year. The Canadian dollar has reflected the central bank policy divergence and concerns about the outcome from Canada-US-Mexico (CUSMA) trade negotiations by weakening but it is close to the low end of its trading range and likely has limited downside from here.

A key risk for bond investors is whether the Fed can tame inflation this year. Because the US economy has solid growth prospects, setting a credible monetary policy rate path to bring inflation meaningfully below 3% will build confidence that the central bank is not falling behind the curve. Otherwise, long term bond yields may need to rise to keep bond investors interested amid increasing inflation uncertainty. We recommend a neutral portfolio duration stance.

Corporate bond spreads have narrowed since March, and we believe that this requires investors to maintain discipline in selecting credit quality. Corporate fundamentals are sound, in general, allowing us to recommend a modest overweight in investment grade corporate bonds, while maintaining a slight caution toward high yield debt markets.

With the same broad themes intact, our equity positioning philosophy is one of continued, disciplined diversification — broadening rather than concentrating, quality rather than speculation. We maintain a neutral equity-bond asset mix, but the nuance lies in what we hold within it. We continue to favour looking beyond the US large-cap heavyweights toward Canadian equities, international developed markets, and small to mid-cap names offering more compelling growth and valuations. Commodities warrant continued representation, as the underlying drivers remain intact with the structural themes of AI, energy security, and heightened geopolitical risk.

We would also be remiss not to remind that with the US mid-terms approaching and President Trump's approval rating under pressure, the potential for Congressional change and renewed policy uncertainty should not be dismissed. The path will not be a straight line, and a correction would be a normal occurrence, not a signal that something has broken. For investors who stayed the course through the machinations of the first half, the second half of this year warrants that same resolve.

6440200 07/26