



UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT

Market News: Overview - CUSMA - Our Team Strategy

Q3 2026



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- **Overview of markets and risks for the remainder of the year**
- **CUSMA: a summary of what is happening**
- **Our team strategy**

1. Overview of markets

North American markets reached new highs in the second quarter of 2026. The S&P500 and S&P/TSX Composite indexes returned respectively 9.6% and 9.9% as of June 30, 2026 (*Source: National Bank Monthly Market Performance, June 30 2026. Returns are in local currencies*).

International markets also rebounded after the fall during the initial days of the US-Iran conflict. The MSCI EAFE index which tracks the performance of large and mid cap stocks in developed economies in Europe, Australasia and Far East, returned 10% as of June 30, 2026 (*Source: National Bank Monthly Market Performance, June 30 2026. Return shown in USD*).

What Drove Markets Higher? **Artificial Intelligence Continues to Lead**

Artificial intelligence remains one of the strongest investment themes. Unlike the past two years, when the largest technology companies led market gains, leadership has broadened to include businesses that build the infrastructure supporting AI, particularly semiconductor and memory manufacturers.

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Canadian Banks Deliver Strong Results

Canadian financial institutions were among the strongest performers during the second quarter. Solid earnings, healthy lending activity, and improving profit margins helped drive gains across the banking sector.

A Stronger U.S. Dollar

The U.S. dollar strengthened against most major currencies during the quarter. Expectations for higher U.S. interest rates, together with developments following the U.S.-Iran agreement, have supported demand for the U.S. dollar.

What Are We Watching for the Rest of the Year?

Although markets remain resilient, several factors could create periods of volatility.

Inflation

Inflation has increased over the past several months, largely because of higher energy prices. The key question is whether these pressures prove temporary or become more persistent. The answer will influence future decisions by central banks on interest rates.

Artificial Intelligence Expectations

AI continues to create tremendous opportunities, but investors are also debating several longer-term questions:

- Are companies investing too aggressively before meaningful profits materialize?
- Which industries will experience the greatest disruption?
- How will AI affect employment and future economic growth?



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These questions are unlikely to be answered quickly and may contribute to market volatility along the way.

Market Valuations

After such a strong rally, investors naturally question whether markets have become expensive. While valuations have increased, corporate earnings have also remained strong, helping support current market levels. Even so, periods of consolidation should be expected after significant gains.

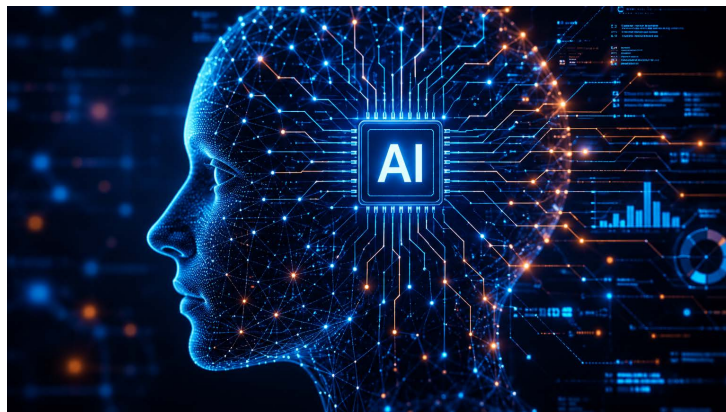
2. CUSMA / USMCA: The 2026 Joint Review - What's happening, what it means, and how forecasters see the Canadian economy responding.

Note on terminology: "CUSMA" (Canada-United States-Mexico Agreement) is the Canadian name for the deal Americans call "USMCA" and Mexico calls "T-MEC." It is the same agreement, signed in 2020 as the successor to NAFTA. This document uses CUSMA and USMCA interchangeably.

• What Just Happened

CUSMA/USMCA entered into force on July 1, 2020, with a mandatory six-year "joint review" built into Article 34.7. That review date arrived on **July 1, 2026**. The three parties met virtually, and U.S. Trade Representative Jamieson Greer stated that the United States "did not agree to renew the USMCA in its current form."¹

This is **not** a termination. The agreement has neither lapsed nor expired - it has a 16-year term running through July 1, 2036 under Article 34.7.1. What didn't happen was the **optional** decision to extend it early. The U.S. decision instead triggers an annual joint-review process that continues until the parties agree to an extension or the



agreement expires in 2036. Mexico and Canada, by contrast, each confirmed their support for extending the agreement for another 16 years.²

Next steps: the next U.S.-Mexico bilateral round is scheduled for the week of July 20 in Mexico City, focused on resolving outstanding issues. Canada has not been announced as a participant in that round; Canadian negotiators have not yet begun substantive text-based talks with Washington.³

• Anticipated Changes and Sticking Points

- Sectoral tariffs: The U.S. has already imposed tariffs of 25% on Canadian and Mexican autos, 50% on metals, and 10% on lumber. Canada's stated priority is resolving these sectoral tariffs on steel, aluminum, autos and lumber.⁴
- Auto rules of origin: Regional content requirements for vehicles and EV supply chains are a central focus of the review.⁵
- Scale of what's at stake: Since CUSMA took effect, three-way trade has grown 37%, now exceeding \$1.9 trillion USD annually, and CUSMA currently shields roughly 85-90% of Canadian goods exports from U.S. tariff measures.^{6,7}

SOURCES

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² White & Case LLP, "USMCA 2026 Joint Review: United States Declines to Extend Agreement, Triggering Annual Reviews," July 2026, whitecase.com

³ Mike Crawley, "U.S. declines to extend CUSMA trade deal with Canada, Mexico," CBC News, July 1, 2026, cbc.ca

⁴ Mike Crawley, "What July 1 means for CUSMA, Canada's trade deal with the U.S. and Mexico," CBC News, June 30, 2026, cbc.ca

⁵ WealthNorth, "Canada Interest Rate Forecast 2026-2030: 5-Year Rate Projections," wealthnorth.ca

⁶⁻⁷ Doane Grant Thornton, "2026 Real Estate Market Summary: Transitioning to the Future," November 28, 2025, doanegrantthornton.ca



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• Implications for the Canadian Economy

Most forecasters treat this as a drag on confidence and investment rather than an acute shock, since the deal stays fully in force during negotiations. But the uncertainty itself carries real costs:

- The Bank of Canada identifies U.S. tariffs and CUSMA uncertainty as the main factors weighing on Canada's outlook, with potential output growth expected to slow in 2026 as tariffs drive a structural adjustment.⁸
- Canada's exposure is structural: intermediate goods cross the border multiple times before final assembly, making Western Canada exposed via energy/resources, Ontario via autos and machinery, and Quebec via aerospace and transportation equipment.⁹
- A CFIB survey found 68% of small business owners report being negatively affected by U.S. tariffs; about 40% of businesses expect to pass tariff-related costs to customers, rising to 65% among exporters.¹⁰

• Growth and Employment Forecasts

- Bank of Canada: GDP growth forecast at 1.2% in 2026, rising to 1.6% in 2027 and 1.7% in 2028. The labour market is described as soft, with subdued employment growth, job losses in tariff-targeted sectors, and unemployment in the 6.5-7% range.¹¹
- TD Economics: Slightly more optimistic — GDP growth picking up from 0.7% in 2025 to 1.3% in 2026 and 1.8% in 2027 — though unemployment (6.6%) stays well above what TD views as a balanced labour market. TD explicitly flags the CUSMA talks as a risk event to this forecast.¹²

- Federal government (Spring Economic Update 2026): Real GDP grew 1.7% in 2025, with unemployment at 6.7% in March, better than earlier budget projections; private-sector economists expect growth near 2% by year-end.¹³

• Canadian Dollar and Interest Rates

A Reuters poll of 39 FX analysts (June 26-July 1, 2026) found the loonie is now expected to strengthen less than previously thought, as CUSMA uncertainty weighs on the economy and reduces the odds of Bank of Canada rate hikes. The three-month forecast was revised to 1.40/USD (from 1.37), and the 12-month forecast to 1.36 (from 1.34).¹⁴

Bank forecasts for the policy rate (currently 2.25%) diverge sharply:

- National Bank: holds at 2.25% through 2026, rising to 2.50% in Q1 2027 and 2.75% by Q2 2027.¹⁵
- TD Economics: holds at 2.25% through 2031.¹⁶
- Scotiabank & CIBC: rise 0.75 points to 3.00% by year-end 2026, holding through 2027.¹⁷
- RBC: holds at 2.25% through 2026, then rises to 3.25% by end-2027.¹⁸

Most forecasters expect no change in 2026, with Scotiabank and CIBC as the outlier hawks. The CUSMA review is explicitly cited as adding a structural risk premium to Canadian bond yields and business confidence.¹⁹

SOURCES

⁸ Bank of Canada, "Outlook," Monetary Policy Report, April 2026, [bankofcanada.ca](https://www.bankofcanada.ca)

⁹ WOWA, "Canada Mortgage Interest Rate Forecast: 2026-2031," [wowa.ca](https://www.wowa.ca)

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¹¹ CFIB survey, cited in True North Mortgage, "Mortgage Rate Forecast (2026-2030)," [truenorthmortgage.ca](https://www.truenorthmortgage.ca)

¹² TD Economics, "Canadian Quarterly Economic Forecast," [economics.td.com](https://www.economics.td.com)

¹³ Department of Finance Canada, "Economic and Fiscal Overview," Spring Economic Update 2026, [budget.canada.ca](https://www.budget.canada.ca)

¹⁴ Reuters poll of 39 FX analysts (June 26-July 1, 2026), reported in "Analysts cut Canadian dollar forecasts as CUSMA uncertainty clips rate hike chances," BNN Bloomberg, July 3, 2026, [bnnbloomberg.ca](https://www.bnnbloomberg.ca)

¹⁵⁻¹⁹ National Bank, TD Economics, Scotiabank, CIBC and RBC forecasts, compiled in True North Mortgage, "Mortgage Rate Forecast (2026-2030)," [truenorthmortgage.ca](https://www.truenorthmortgage.ca)



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• Stock Market (TSX)

The market's reaction so far has been calm-to-positive, since the "non-renewal" changed little in practice:

- When Greer announced the non-renewal on July 1, the TSX still gained ground. Wealth manager Brianne Gardner (Raymond James) said CUSMA uncertainty "will remain a headline risk, but is not necessarily a reason to avoid the TSX," adding that modernization could create opportunities in energy, defence, transportation and domestic supply chains.²⁰
- By Friday, July 3, the S&P/TSX Composite gained nearly 1% and closed at a record 35,275, led by gold miners, as weaker-than-expected U.S. jobs data boosted rate-cut hopes for the Fed.²¹
- Analysts continue to flag the CUSMA renegotiation as a key risk to the Canadian equity outlook, even as other developments (like new Canada-China trade deals) have boosted momentum.²²

• Real Estate

- CMHC expects exports to decline again in 2026, and flags that the timing of the CUSMA review coinciding with U.S. midterms raises the risk of non-renewal or delay-feeding into weak household spending and elevated unemployment assumptions through 2028.²³
- TD Economics notes the "upcoming CUSMA negotiations also loom large for the broader economy and, by extension, the housing market," with a rebound in home sales and prices expected only in 2027 as uncertainty wanes.²⁴

- The GTA condo segment is hit hardest: TD expects GTA resale condo prices to keep falling through 2026, with a sustained uptrend not returning until 2028 - one of the longest corrections on record, with prices down 25-30% from their early-2022 peak by the time it ends.²⁵
- On the upside, resource - heavy regions benefit from firmer commodity prices: high global gold and oil prices are providing a cushion for Canada's GDP even as CUSMA uncertainty damages long-term industrial capacity.²⁶

• Bottom Line

Nothing terminates in the near term - CUSMA runs through 2036 regardless of the July 1 outcome. But the U.S.'s refusal to confirm renewal converts what was meant to be a one-time checkpoint into a recurring annual negotiation, and that ongoing uncertainty - more than any specific tariff - is what shows up in bank forecasts as a persistent drag on Canadian business investment, hiring, and housing recovery, even as stocks have held up well so far, helped by gold and a weaker-than-expected U.S. jobs report.

Key near-term catalysts to watch: **July 14** (U.S. CPI), **July 20** (next U.S. - Mexico negotiating round), and **August 7** (next U.S. jobs report).²⁷

This document reflects publicly available information as of July 5, 2026. Forecasts are inherently uncertain and subject to revision as negotiations progress.

SOURCES

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3. Our team strategy

Strong markets can create excitement and encourage investors to chase recent winners. At the same time, headlines predicting major market corrections become more frequent whenever markets reach new highs.

Rather than reacting emotionally to either extreme, we continue to focus on disciplined portfolio management.

Over the past several months we have been:

- Rebalancing portfolios by taking profits from investments that have appreciated significantly and reallocating proceeds according to each client's target asset mix.
- Building cash reserves for retirees and clients with significant spending needs over the next 12 months.
- Diversifying portfolios by gradually reducing concentrated positions in areas that have performed exceptionally well, particularly technology and Canadian financials.
- Maintaining a disciplined fixed-income strategy by laddering bond maturities, helping manage interest-rate risk while supporting future cash flow needs.
- Remaining selective with new investments and avoiding highly speculative areas where valuations have become difficult to justify.

Looking Ahead

While uncertainty remains around inflation, interest rates, artificial intelligence, and international trade, the overall economic back-drop continues to support long-term investing.

Markets rarely move in a straight line, and periods of volatility are a normal part of investing. Our focus remains on building well-diversified portfolios that are aligned with each client's financial goals rather than reacting to short-term headlines.

As always, if your financial situation or objectives have changed, or if you would simply like to discuss your portfolio, please don't hesitate to reach out. We're always happy to help.

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