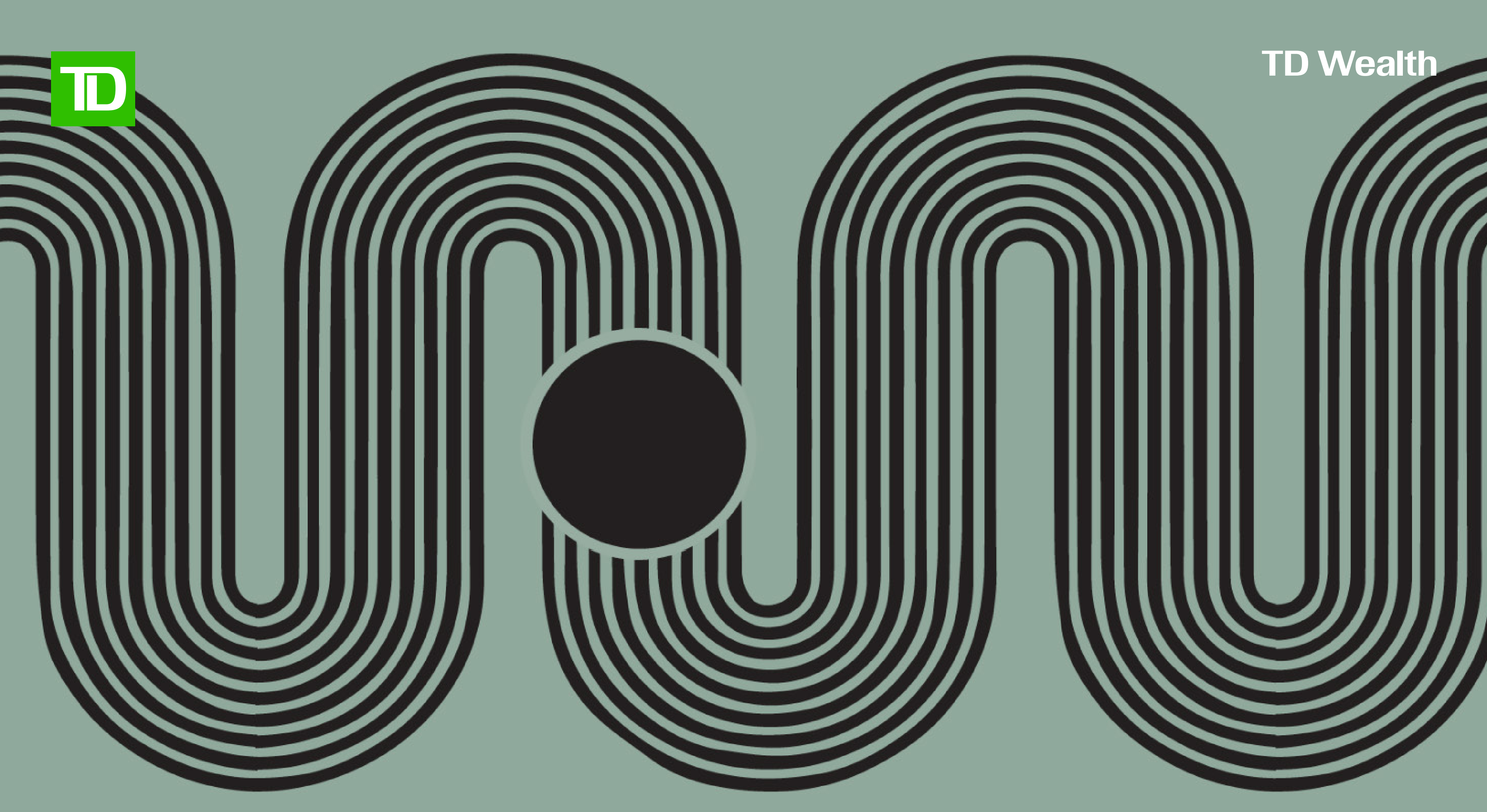


TD Wealth

Q2 | Quarterly Market Review

Everything you need to know about the quarter that was

July 3, 2026

Wealth Investment Office

QMR - Q2 26 | **Highlights**

David Dias • Daniel Carabajal, CFA • Adam Weingarten • Chadi Richa, MBA, CFA | TD Wealth

Unless otherwise indicated, performance figures are stated on a total-return basis. This document is for distribution to Canadian clients only. Please refer to Appendix A of this report for important disclosure information.

U.S. Equities

- The S&P rebounded sharply in Q2 — its best quarter since 2020 — as investors moved back into risk assets.
- The S&P 500 rose by 15.2%, the Dow Jones Industrial Average rose by 13.4% and the Nasdaq Composite Index rose by 21.6%.
- Nine of the 11 sectors within the S&P 500 were positive. Technology and industrials were the top sectors, posting gains of 31.8% and 14.9% respectively. Energy was the worst performing sector, falling 13.4%.
- Small-cap stocks outperformed large-caps; growth stocks outperformed value.

Canadian Equities

- Canadian equities put up a solid return in Q2, though it paled in comparison to American stocks, which were playing a bit of catch-up after a weak first quarter.
- The S&P/TSX Composite Index ended the quarter up 7.0%, with eight of 11 sectors posting positive returns.
- WTI oil finished Q2 at US$69.50, down 31.4% from the close in Q1. In the heavily weighted financial sector, meanwhile, the Big Six Canadian banks delivered an exceptional second quarter, with returns ranging from 25% to 34%.
- Large-cap stocks outperformed small-caps; value stocks outperformed growth.

Canadian & U.S. Fixed Income

- Global fixed income markets rebounded slightly in the second quarter amid the U.S.-Iran conflict, but this modest positive outcome masks dispersion across regions and segments.
- The FTSE Canada Universe Bond Index delivered a solid return of 2.0%, while the Bloomberg U.S. Aggregate Bond Index posted 0.3%.
- Canadian and U.S. investment-grade corporate bond indices rose 2.1% and 1.0%, respectively.
- The Canadian government bond index rose 2.0% in Q2; the U.S. government bond index fell 0.1%.

International Equities

- International developed markets posted double-digit returns, although most of them came well short of the blockbuster quarter enjoyed by the S&P 500.
- The Nikkei 225 Stock Average outperformed all major markets in Q2 with an awe-inspiring 37.4% rise — its best quarter ever
- EM equities outperformed developed markets in Q2, but this was entirely due to the inclusion of stocks in semiconductor-exposed markets (Korean KOSPI +67.7% in Q2).
- The MSCI Emerging Markets Index, in local-currency terms, rose 24.2% in the quarter, despite underperformance from the largest EM nations.

Market Movers

Equities in Review

April 3

U.S. nonfarm payrolls post a blockbuster month, with 214,000 new jobs in March, well above the 60,000 expected by economists, while unemployment fell to 4.3%. The headline helped counter recession fears created by February's job losses.

May 12

The April CPI report showed consumer prices up 3.8% year over year, the fastest annual increase since May 2023. Global equities pulled back as bond yields climbed and investors raised bets that the Fed could hike later in the year.

June 5

The May jobs report showed payrolls rising 129,000, far above the 85,000 expected, with employment gains averaging 121,000 over the prior three months. The report strengthened the view that the U.S. economy remained resilient, which made markets more sensitive to the possibility of Fed tightening.

End of Q2

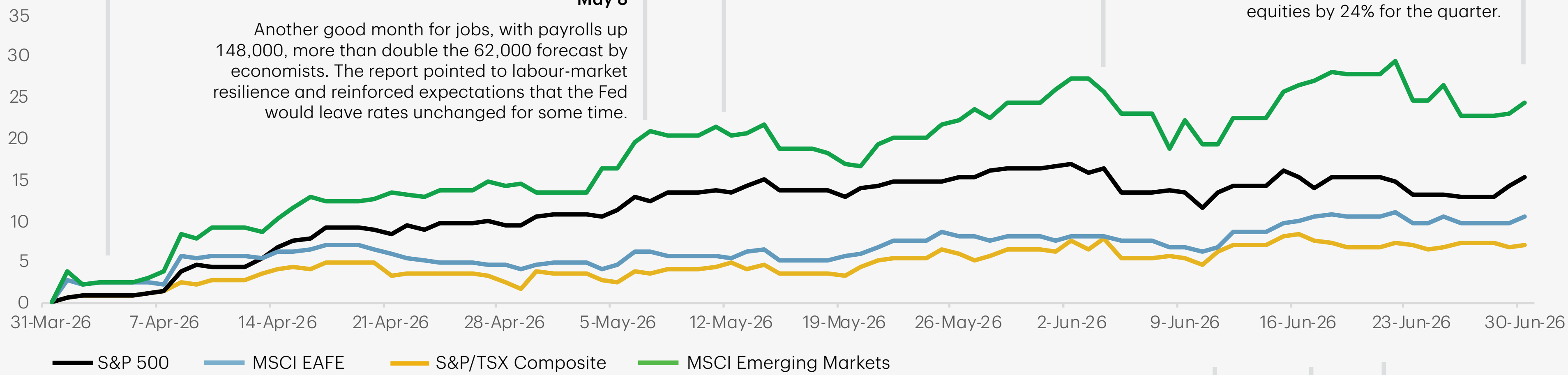
Japan's Nikkei 225 ends the quarter up 37%, its sharpest quarterly advance on record. The rally was driven by technology and semiconductor-related shares as well as the falling yen, which had weakened to a 40-year low.

End of Q2

South Korea's KOSPI rose 68% in Q2, while Taiwan's benchmark index rose 45%, powered by the AI and semiconductor boom. That helped lift emerging-market equities by 24% for the quarter.

May 8

Another good month for jobs, with payrolls up 148,000, more than double the 62,000 forecast by economists. The report pointed to labour-market resilience and reinforced expectations that the Fed would leave rates unchanged for some time.



June 11

The ECB raised its three key interest rates by 25 basis points, citing inflation pressure from the Middle East war. The deposit facility, main refinancing and marginal lending rates were set to rise to 2.25%, 2.40% and 2.65%, effective June 17.

May 15

Trump's Beijing summit with Xi produced warm rhetoric but few concrete results. The U.S. president left China with no major breakthroughs on trade and no tangible help from Beijing on the Iran war.

June 22

UK Prime Minister Keir Starmer announced his resignation, saying he was no longer the right person to lead Labour into the next election. Incoming PM Andy Burnham will be the UK's seventh leader in 10 years.

June 17

The Fed held rates steady at 3.50% to 3.75%, but new projections showed nine of 19 policymakers expected a rate hike by year-end. The Canadian dollar hit a seven-month low on the hawkish message, while gold fell as the U.S. dollar rose and higher-rate expectations weighed on non-yielding bullion.

June 17

The U.S. and Iran signed a 14-point interim ceasefire agreement to halt the war in the Gulf, extending a ceasefire first announced in April by 60 days. The MOU gives both sides time to negotiate a permanent truce.

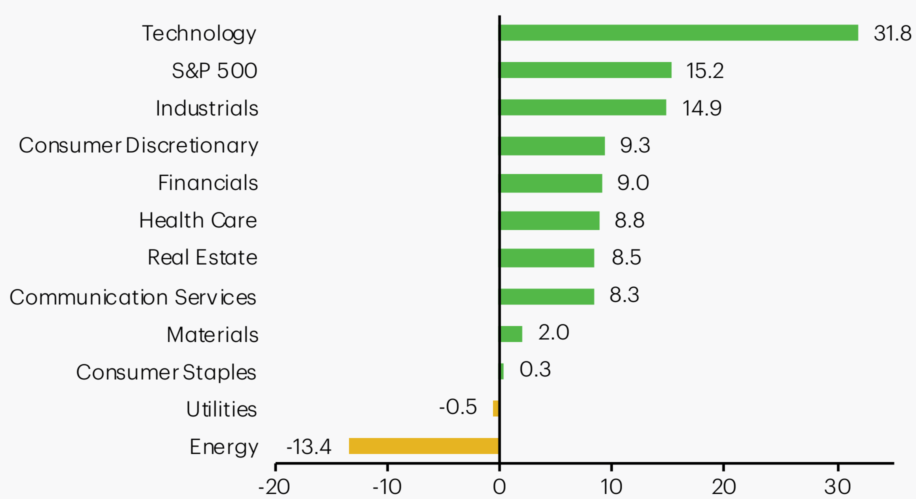
Source: TD Wealth, Reuters, FactSet as of June 30, 2026. *Indices are tracked in local currency.

U.S. Equities

Indices	Q2 Return (%)	Q2 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
Dow Jones Industrial Average	13.38	15.60	9.76	13.65
S&P 500	15.20	17.46	10.21	14.12
S&P 400	14.47	16.72	17.34	21.50
Nasdaq Composite	21.60	23.98	13.13	17.15
Russell 2000	21.49	23.87	22.57	26.92

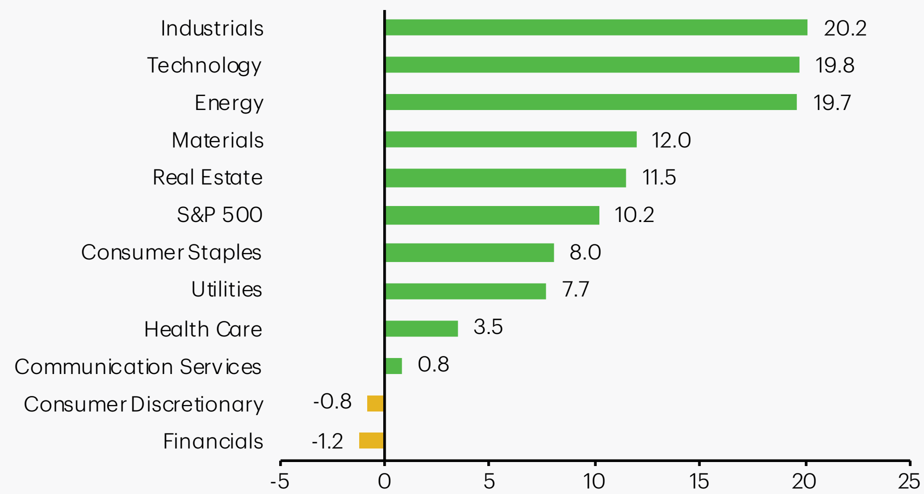
Source: FactSet as of June 30, 2026. *Total returns including dividends and distributions. Index returns calculated in U.S. and Canadian dollars.

Q2/26 S&P 500 Sector Returns



Source: FactSet as of June 30, 2026

YTD S&P 500 Sector Returns



Source: FactSet as of June 30, 2026

The S&P rebounded sharply in Q2 — its best quarter in six years — as investors piled back into risk assets. Early in April, stronger-than-expected payrolls helped ease recession fears. Sentiment improved further as ceasefire hopes in the Middle East dragged down the price of crude, reducing fears of a sustained inflation shock. Big Tech results were also generally better than feared, while cloud-computing and semiconductor companies helped revive confidence that heavy AI investment was translating into actual revenue growth.

The market paused in mid-May after hot inflation data lifted Treasury yields. Enthusiasm was further limited by lingering Iran uncertainty and a largely inconsequential meeting between President Trump and Chinese President Xi Jinping. The pause was a brief one, however, with the rally grinding higher throughout May on hopes for a U.S.-Iran ceasefire framework.

Momentum then stalled completely in June, as investors reassessed Fed easing expectations. On June 5, another hot jobs report fuelled concern that the Fed could shift toward rate hikes. Treasury yields rose again,

Q2/26 Vitals

Policy Rate ↔
0 bps to 3.75%

Core Inflation ↑
February 2.5% | May 2.9%

Economic Growth ↓
Q4 1.9% | Q1 1.6%

Unemployment rate ↓
February 4.4% | May 4.3%

Confidence (Services PMI) ↓
February 56.1 | May 54.5

risk appetite faded and high-flying tech stocks suffered their sharpest daily declines in more than a year. While SpaceX's blockbuster market debut kept speculative appetite alive, volatility returned after Kevin Warsh's first Fed meeting. Although the Fed held rates steady, its projections and communication pointed to a more hawkish stance.

Overall, for the three months ended June 30, the S&P 500 rose by 15.2%, the Dow Jones Industrial Average rose by 13.4% and the Nasdaq Composite Index rose by 21.6%. Nine of the 11 sectors within the S&P 500 were up. Technology and industrials were the top sectors, rising 31.8% and 14.9% respectively. Energy was the worst performing sector, falling 13.4%. Small-cap growth stocks outperformed. Small-cap stocks (Russell 2000) rose by 21.5%, outperforming large-caps (S&P 500), which rose by 15.2%. Growth stocks (S&P 500 Growth Index) rose by 21.9%, outperforming value stocks (S&P 500 Value Index), which rose by 8.0%.

The Bureau of Economic Analysis released its final estimate for Q1 in late June. The economy expanded by 1.6% (q/q annualized) — a bit lower than the Bureau's 2.0% estimate at the end of April but much lower than the 2.4% predicted by TD Economics three months ago. Growth in consumer spending softened (1.4%, 1.9% in Q4). Business investment, however, leapt 10.1% as strength in the safe-haven USD contributed to an acceleration in equipment spending (+17.2%). However, this also led to a surge in imports, which ultimately shaved 1.3 percentage points off the GDP figure.

The data points to resilience in the economy, with growth improving after a sluggish end to 2025. This can also be seen in business confidence indicators, with purchasing managers' indices rising to four-year highs. The Institute for Supply Management's PMI for manufacturers rose from 52.4 in February to 54.0 in May. The larger services side of the economy, meanwhile, declined 56.1 to 54.5 over the same period.

Even the labour market has come alive after a prolonged period of stagnation. In the three months to February, the U.S. economy produced a negligible 6,000 jobs per month. Now compare that to the following three months: 214,000 in March, 148,000 in April and 129,000 in May — for a three-month average of 121,000 jobs. What's more, job growth is no longer exclusively being driven by sectors like health care and social assistance, with more cyclically sensitive sectors also contributing. As a result, the unemployment rate has finally started to tick down, from 4.4% in February to 4.3% in May. And while this would seem to give wage earners more leverage, growth in hourly earnings actually fell from 3.8% in February to 3.4% in May — still heady growth from a historical perspective but much lower than post-Covid inflationary highs.

None of which is meant to imply that inflation has been vanquished. Rather, it remains stubborn, and indeed aggravated by the Iran energy shock, with core inflation rising from 2.5% in February to 2.9% in May, and broader CPI (including gasoline prices) rising from 2.4% to a worrisome 4.2% over the same period. Still, falling wage growth and the potential for an end to the conflict may yet prevent a near-term rate hike.

From the Fed's standpoint, the narrative has clearly shifted from when they'll cut again to when they should hike. Yields across the curve jumped higher after the May payroll figures came out, with Fed futures now pricing in a 77% probability of at least a 25-bp rate hike this summer. While the Fed made no changes to its policy rate in the second quarter (with the upper bound of the federal funds rate still at 3.75%), new Fed Chair Kevin Warsh, at his inaugural policy announcement on June 17, dropped the central bank's easing bias and struck a more hawkish tone, given that the labour market is now showing signs of reaccelerating.

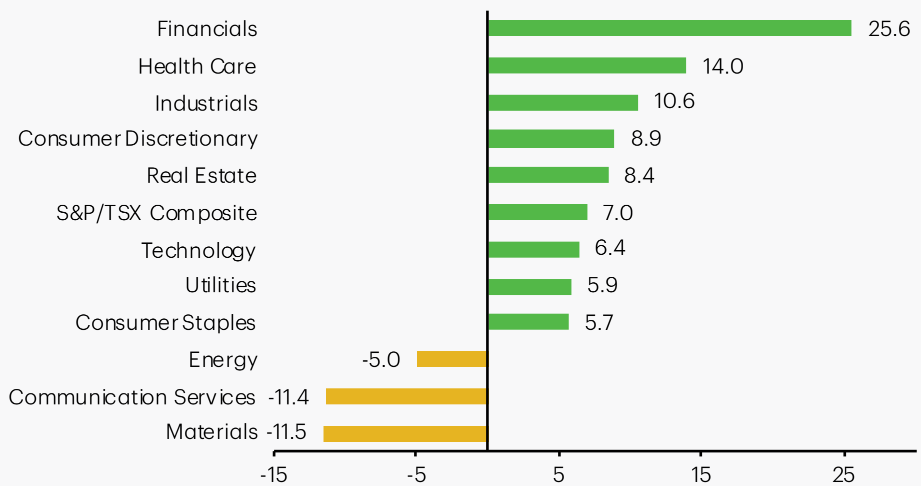
Voting members on the Federal Open Markets Committee are now evenly split on whether a hike is coming, with eight (of 19) projecting status quo and nine projecting at least one rate hike — significantly, though, six of these hawks are projecting two more hikes by year-end. TD Economics, for its part, is much more dovish in its assessment. It projects that the Fed will be forced into a holding pattern, with numerous uncertainties compelling the central bank to remain on the sidelines. As for the economy, TDE expects a rebound in Q2, with real GDP set to rise 2.6% in the quarter before it settles into trendline growth of around 2.2%.

Canadian Equities

Indices	Q2 Return (%)	YTD Return (%)
S&P/TSX Composite	6.96	11.17
S&P/TSX 60	8.24	11.57
S&P/TSX Completion	2.02	9.56
S&P/TSX SmallCap	5.94	18.00
S&P/TSX Preferred Share	4.02	4.39

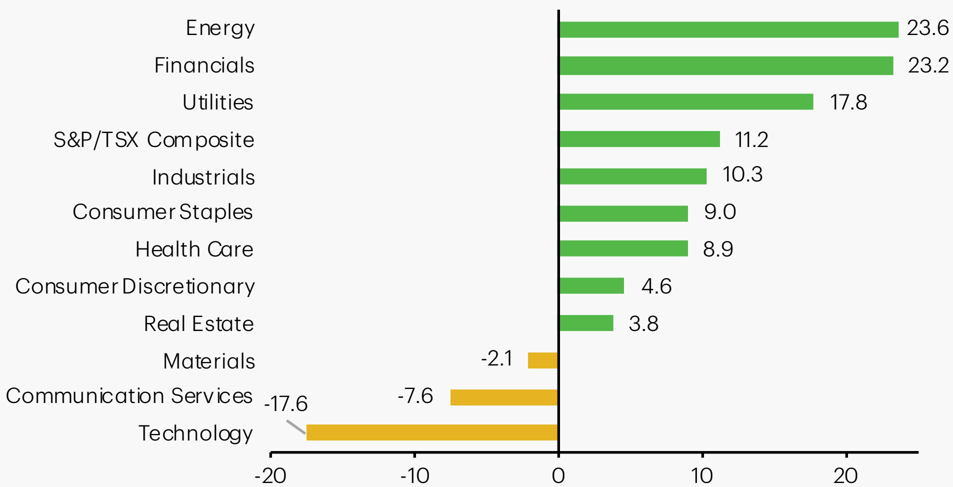
Source: FactSet as of June 30, 2026. *Total returns including dividends and distributions.

Q2/26 S&P/TSX Sector Returns



Source: FactSet as of June 30, 2026. *Index total returns.

YTD S&P/TSX Sector Returns



Source: FactSet as of June 30, 2026. *Index total returns.

Canadian equities put up a solid return in Q2, though it paled in comparison to American stocks, which were playing a bit of catch-up after a weak first quarter. Canadian stocks were also hampered by some unexpected Fed hawkishness, with the loonie and gold prices both falling as a result.

The quarter got off to a good start, though. The TSX gained steadily through the first three weeks of April on hopes for an end to the U.S.-Iran war. The index then pared gains late in the month as the U.S. economy started to heat up, raising the spectre of a Fed rate hike.

Those fears were cemented in early May, when the U.S. labour bureau issued its second consecutive blockbuster jobs report. From that point on, the question was not when the Fed would cut, but whether it would instead need to hike. From early May through June, the greenback rose over 4% against the Canadian dollar, while the price of gold fell around 13%.

Trading turned choppy for the rest of May and then became highly volatile in June, as the war rhetoric shifted from hopeful to hopeless. The market's focus, however, was quickly redirected on June 17, when new Fed Chair Kevin Warsh confirmed investor fears by signalling a hawkish tilt.

Q2/26 Vitals

Policy Rate ⇔
0 bps to 2.25%

CAD/USD ↓
-1.9% to 70.4 cents

WTI Oil ↓
-31.4% to US$69.50

Spot Gold ↓
-14.1% to US$4,008.02

Big Six Bank EPS ↑
+28.0% (y/y) to $17.60

The S&P/TSX Composite Index ended the quarter up 7.0%, with eight of 11 sectors up. In Canada equity indices were led by large-cap value stocks. Large-caps (S&P/TSX 60 Index) rose by 8.2%, outperforming small-caps (S&P/TSX Canadian Small Cap Index), which rose by 5.9%. Value stocks (MSCI Canada Value Index) rose by 14.8%, outperforming growth stocks (MSCI Canada Growth Index), which ended the quarter up 0.4%.

West Texas Intermediate oil prices plummeted back down to earth in Q2, falling 31.4% to end the quarter at US$69.50. Gold also fell in Q2, closing at US$4,008.02, down 14.1%. The precious metals trade was dominated by geopolitical developments and monetary policy, which have ultimately served to strengthen the U.S. dollar at the expense of other reserves, such as gold. While the Iran energy shock has led investors to seek out a safe haven, the possibility of a Fed rate hike has also made the greenback attractive — a win-win for USD and a loss, at least temporarily, for gold prices.

In the heavily weighted financial sector, meanwhile, the Big Six Canadian banks delivered an exceptional second quarter, with returns ranging from 25% to 34%. Earnings increased 28%, four percentage points above market estimates. This, however, was the narrowest beat in six quarters and compares to an average of 8 pp over the previous five quarters.

Turning to economic data, Canada was slightly down in Q1 (-0.1% q/q annualized, -1.0% in Q4), marking the economy's second consecutive contraction — and a technical recession, if just barely. The contraction was below the consensus estimate for 1.5% growth and much worse than the 2.0% growth forecasted by TD Economics three months ago.

Positive news on the labour front, however, should lead to a bounce-back in Q2. In March the economy generated 14,000 new jobs. Then in April that performance was wiped out, with Canada losing 18,000 jobs. In May, however, the economy posted a whopping 88,000 new jobs, with strength in hiring across public and private sectors. The unemployment rate, as a result, crept back down to 6.6% in May from 6.7% in February.

Another silver lining comes in the form of rising wealth. Canadian household net worth (assets minus liabilities) rose by 1.3% q/q in Q1, marking the 10th consecutive quarterly gain. Financial assets increased 1.3%, supported by gains in Canadian equities, which more than offset weakness in U.S. equities in Q1. Residential real estate values also rose 1.3%. That being said, the debt-to-income ratio rose from 177.2% to 179.6%, marking a sixth consecutive increase as debt growth continued to outpace income.

Uncertainty around the economy may eventually lead households to rein in their spending. On the other hand, this may help investors in the short term by providing some offset to the inflationary forces coming from the Iran energy shock. If the inflation shock continues to fade while the economy continues to underperform, these offsetting factors should allow the Bank of Canada to remain on the sidelines.

At its latest policy announcement, on June 10, the BoC noted that the current monetary backdrop "balances" the competing risks of economic weakness and rising inflation. Importantly, the Bank emphasized its own policy flexibility, noting that it could cut rates if U.S. trade restrictions weaken growth, or it could deliver "consecutive increases" if Middle East energy shocks lead to persistent, broad-based inflation.

So far, price growth seems to have been kept in check, with core inflation (excluding food and energy prices) right on target at 2.1%. Headline CPI has risen markedly, from 1.8% in February to 3.2% in May, but so far the Bank of Canada hasn't seen much evidence of pass-through from energy prices to other segments of the market.

The outlook remains highly uncertain. Gasoline prices are still high and trade negotiations between Canada and the U.S. have yet to get started. Recent data point to a moderate bounce-back in second-quarter growth. Given the competing forces on inflation, TD Economics expects the Bank of Canada to stay on hold through the balance of the year. Economic growth, meanwhile, is expected to rise to 1.9% in Q2 and hover around there for the foreseeable future.

Canadian & U.S. Fixed Income

Government Bond Yield	Canada			United States		
	Current (%)	Q/Q Change (pp)	YTD Change (pp)	Current (%)	Q/Q Change (pp)	YTD Change (pp)
91-Day Treasury Bill	2.27	-0.04	0.08	3.81	0.14	0.18
2-Year Government Bonds	2.75	-0.08	0.16	4.17	0.38	0.70
5-Year Government Bonds	3.02	-0.08	0.05	4.23	0.28	0.50
10-Year Government Bonds	3.38	-0.09	-0.05	4.47	0.15	0.30
30-Year Government Bonds	3.77	-0.12	-0.09	4.95	0.04	0.11

Source: FactSet as of June 30, 2026. *Index returns are reported on a total-return basis; pp (percentage point).

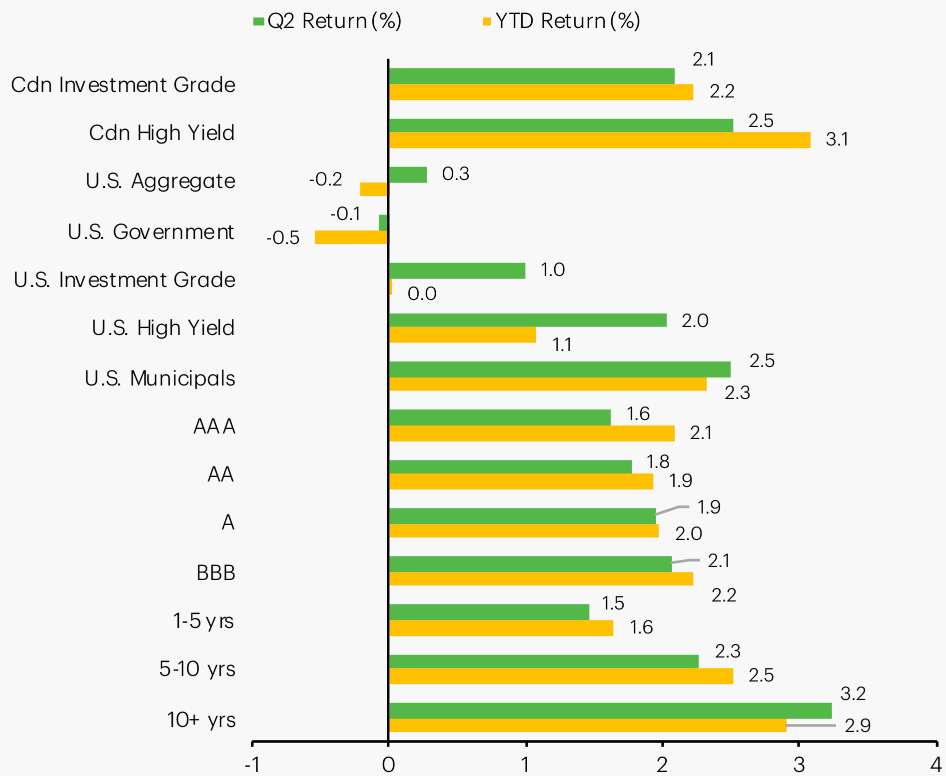
Fixed Income Indices	Q2 Return (%)	YTD Return (%)
FTSE Canada Universe Bond Index	2.0	2.2
FTSE Canada Universe All Government Bond Index	2.0	2.3
FTSE Canada All Corporate Bond Index	2.1	2.2
FTSE Canada Real Return Bond Index	3.7	5.0
FTSE Canada Provincial Bond Index	2.7	2.8

Source: FactSet as of June 30, 2026. *Total index returns.

Global fixed income markets rebounded slightly in the second quarter amid the U.S.-Iran conflict, which began in early March. This modest positive outcome masks dispersion across regions and segments. Most central banks, especially in the U.S. and Canada, maintained a cautious approach, closely monitoring the potential impact of higher energy prices on inflation. Both U.S. and Canadian fixed income markets saw gains during the quarter. The FTSE Canada Universe Bond index delivered a solid return of 2.0%, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) posted modest gains of 0.3%.

In the U.S., the Federal Reserve left its policy rate unchanged in the second quarter, maintaining the federal funds targeted range between 3.50% and 3.75%. At the June press conference, the Fed's new chair, Kevin Warsh, adopted a clearly hawkish tone, stating that "price stability" would be his top priority as chairman. This prompted investors to raise expectations of an interest-rate hike in the not-too-distant future.

Canadian & U.S. Fixed Income



Source: FactSet as of June 30, 2026

The updated dot plot showed that nine of eighteen officials on the Federal Open Market Committee were penciling in at least one 25-bp hike this year, with six of those nine expecting at least two hikes. The remaining officials expected no change or a cut (with the Fed chairman himself abstaining for from the vote).

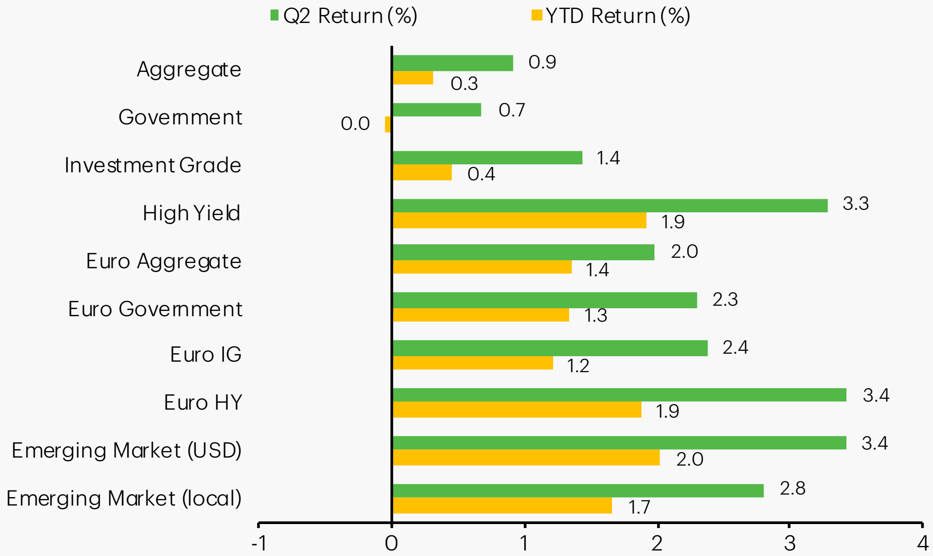
The Bank of Canada held its overnight rate unchanged at 2.25% in the second quarter. In its June meeting, the Bank warned of a policy "dilemma," noting that economic weakness and rising inflation may force either rate cuts or consecutive hikes. Governor Tiff Macklem said monetary policy needs to be "nimble" as uncertainty remains elevated.

The broad global fixed income universe, represented by the Bloomberg Global Aggregate Index (CAD-hedged), posted a 0.9% return over the second quarter. Canadian government bonds outperformed both U.S. Treasuries and the global universe, with the Canadian government bond index returning 2.0%, while the U.S. Treasury index (CAD-hedged) was flat and the global government bond index returned 0.7%. The U.S. 10-year Treasury yield started the quarter at 4.32% and ended at 4.47% (a 15-bp increase), while the equivalent Canadian government bond yield started at 3.47% and ended at 3.38% (a 9-bp decrease).

The resilient economic data and solid technicals continue to support current credit-spread levels. In Canada, investment-grade (IG) spreads narrowed, tightening by 7 bps and ending at an option-adjusted spread of 87 bps, while U.S. investment-grade spreads tightened by 15 bps to end at 74 bps. Solid coupon income and tighter spreads helped Canadian credit outperform, boosting the outperformance from Canadian government bonds. The corporate sector posted a return of 2.1%, outperforming the 2.0% return of the aggregate Canadian fixed income index. Diving deeper, lower-quality corporate credit outperformed higher-quality ones, with BBB-rated bonds returning 2.1%, A-rated bonds returning 1.9%, and AA-rated bonds returning 1.8%.

Long-maturity corporate bonds with higher interest-rate sensitivity outperformed both short- and medium-maturity bonds, despite credit spreads tightening across all credit maturity profiles. Over the same period, the shortest-maturity cohort of one- to five-year bonds posted a return of 1.5%, the medium-term cohort of five- to 10-year returned 2.3% and the longest-maturity 10-year and above cohort returned 3.2%. Lower real yields led to positive performance for Canadian real-return bonds, which posted 3.7% over the quarter. They outperformed the government bond universe, at 2.0%. Canadian provincial bonds, with longer maturity profiles, modestly outperformed corporate bonds over the second quarter, posting a return of 2.7%.

Global Fixed Income



Source: FactSet as of June 30, 2026

For global corporate bonds, the risk-on narrative amid easing tensions in the U.S. and Iran conflict aided the performance across geographies as spreads tightened over the quarter. U.S. investment-grade corporate spreads tightened by 15 bps over the quarter, while U.S. high-yield (HY) corporate spreads tightened by 47 bps. The U.S. investment-grade corporate bond universe (CAD-hedged) returned 1.0%, underperforming the global investment-grade corporate universe (CAD-hedged), which returned 1.4%. U.S. high-yield corporate bonds (CAD-hedged) performed positively, posting a 2.0% return, underperforming the global high-yield corporate universe (CAD-hedged) at 3.3%. USD-denominated emerging-market debt performed well, posting a return of 3.4% over the quarter, while local-currency debt returned 2.8%.

International Equities

Indices	Q2 Return (%)	Q2 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
FTSE 100	4.04	6.36	7.60	9.75
DAX	10.21	11.13	2.06	2.87
CAC 40	10.09	11.02	5.73	6.48
MSCI European Monetary Union	13.61	17.19	10.60	14.03
Nikkei 225 Stock Average	37.35	36.86	40.35	40.05
MSCI Emerging Markets	24.22	26.58	26.93	28.42

Source: FactSet as of June 30, 2026. *Total returns including dividends and distributions. Index returns calculated in local currencies and Canadian dollars.

International developed markets posted double-digit returns, although most of them came well short of the blockbuster quarter enjoyed by the S&P 500. The one big exception was in the UK.

United Kingdom: Commodities left out

The FTSE 100 underperformed all developed markets in Q2, posting a still respectable return of 4.0%. Like the TSX, the British blue-chip index lacked exposure to high-growth tech companies that drove performance in America, while miners and oil producers were weighed down by falling commodity prices. The political environment didn't help either, given the resignation of Prime Minister Keir Starmer (the UK's fifth PM to resign in the past decade). Gilt yields rose on the news as investors fretted about the incoming PM's support for a higher capital-gains tax.

As usual, however, backward-looking economic data conflicted with forward-looking market sentiment. Real GDP growth for Q1 came in above expectations, rising 2.4% (q/q annualized, 0.4% in Q4). The acceleration was a result of broad-based improvements, particularly in the growth of consumer spending (2.4%, 0.4% in Q4) and strong momentum moving into March. However, the Q1 performance follows a similar pattern, where Q1 outperforms the rest of the year by a large margin. Falling energy prices in recent months have taken some of the sting out of price growth, with inflation falling from 3.0% in February to 2.8% in May. This remains above-target, but given geopolitical uncertainty, the Bank of England will have little reason to come off the sidelines. The BoE made no change to its policy rate (3.75%) in Q2, with Governor Andrew Bailey suggesting at his latest policy announcement that he was in no rush to act.

Euro Area: A middling performance

In the euro area, stocks finished in the middle of the pack, underperforming tech-heavy indices but outperforming commodity-heavy ones. The MSCI European Monetary Union Index rose by 13.6% (all local currency). Europe is a net importer of fuel, and so equities there weren't as exposed to falling energy prices. However, its reliance on energy imports also makes it more susceptible to inflation, and thus central-bank tightening. Inflation rose sharply in the past three months (1.9% in February, 3.2% in May). This led the European Central Bank, at its June 2026 meeting, to raise its policy rate for the first time in three years, by 25 bps (to 2.40%). ECB President Christine Lagarde was circumspect in her policy announcement but suggested that the Bank saw a real inflationary problem brewing.

The European economy, meanwhile, suffered a surprise contraction in Q1. Real GDP was down 0.8% (+0.8% in Q4), mainly due to a contraction in France as well as a large downward revision for Ireland, where numerous multinationals are based. Spain and the Netherlands also saw their economies slow. Meanwhile, the German economy picked up, in part due to the country's fiscal support for defence and infrastructure projects. Analysts expect the European economy to rebound in Q2, although the outlook is uncertain. If the Iran war starts up again, a secondary energy shock may continue to choke off consumer spending.

Japan: Flying semis, crashing yen generate a record quarter

The Nikkei 225 Stock Average outperformed all major markets in Q2 (and perhaps in recent history) with an awe-inspiring 37.4% rise — its best quarter ever, since data collection started in 1965. The extraordinary gain owed mainly to the Nikkei's heavy exposure to the semiconductor industry, which has been the beneficiary of enormous investment by AI hyper-scalers like Alphabet, Microsoft and Amazon. Weakness in the yen amplified the tech and AI story. The Japanese currency fell to 40-year lows in Q2, breaching 162 yen to the dollar and giving the export-reliant economy a boost. Even the political environment was supportive, with the government of Sanae Takaichi leaning into a multi-year 370-trillion-yen framework aimed at strategic sectors like AI, semiconductors and space.

The Nikkei, however, has been highly volatile of late, and it remains to be seen whether markets will rethink valuations given a number of headwinds. Central-bank tightening, for instance, is starting to chip away at the "carry trade," where international investors carry low-interest Japanese debt in order to hold higher-yielding assets elsewhere. In June, the Bank of Japan raised its policy rate from 0.75% to 1.00%, its highest in 31 years. The Bank cited inflationary risks and wage-price dynamics, but the Nikkei still hit records because investors interpreted the move as a "one and done," especially given political pressure from the Takaichi administration. Economic data, meanwhile, proved to be stronger than expected, with real GDP growing 2.1% (0.2% in Q4). Ultimately, however, Japan is still an outlier, with a low policy rate and low inflation (1.5% in May), and both these figures will trend higher if the economy continues to heat up.

Emerging Markets: Tech powerhouses lift EMs

EM equities outperformed developed markets in Q2, but this was entirely due to the inclusion of stocks in semiconductor-exposed markets like South Korea and Taiwan. To put this into perspective, the Korean KOSPI index leapt 67.7% in Q2. As a result, the MSCI Emerging Markets Index, in local-currency terms, rose 24.2% in the quarter, despite underperformance from the largest EM nations. Among the top four by GDP, Indian shares were the highest performing, with the Nifty 50 rebounding 6.9% in Q2 after a weak Q1. India's performance was in large part due to lower energy prices, given that the country imports nearly all its oil. Chinese equities, meanwhile, were up (SSE Composite +5.2%) on supportive policy changes. The central bank there kept rates unchanged, while the government in March set out a five-year plan to embed AI across its industrial economy and prioritize technological self-sufficiency.

Mexico's IPC index fell 2.4%, in part due to uncertainty around the North American trade agreement. An economic contraction in Q1 (-3.2%) didn't help matters either. And among the four largest EM economies, Brazil posted the worst performance, with the Bovespa down 8.2%. Politics were a clear drag on the markets, after a report alleged links between right-wing presidential contender Flavio Bolsonaro and a disgraced banker. Falling oil prices were also unhelpful, cutting into the profits of Petrobras, the state-controlled standard-bearer. The economies of Brazil, Mexico, China and India (the four largest emerging markets) grew 7.8% (fiscal year), 5.0%, 0.7% and 2.6% respectively in 2025. TD Economics forecasts 2026 growth of 6.5%, 4.5%, 0.5% and 2.1% for these nations.

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