NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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Monthly newsletter

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Inflation temporarily persistent

Even my kids are saying things are expensive! As we grind through the noise coming out of the Strait of Hormuz, it becomes more apparent that the world is different today than it was yesterday. Presumably we should expect this as nothing really remains the same, ever! We get older, the world rotates daily and things just change. One constant in our life outside of taxes has been price increases. We have chatted about this before, and it is the challenge of central bankers globally but more acutely here at home with Tiff and across the border in the US and A with Kevin. The reality for both is this designated target of 2% inflation, simply put it is an impossible target to hit and maintain. Basically, because there are too many factors at play. The reality for us is higher prices today and tomorrow. This is our world, the inflations spike on the radar because of oil supply, constraints are temporary but the 2% inflation target is persistent. Hence the subject title and our future.

Excitement (Bubble?)

The recent passing of Alan Greenspan at the ripe age of 100 (RIP), the former Fed Chair's quote reminded us of the historical comment of "irrational exuberance"! We are constantly being asked about price discovery and in a world of everything higher, price discovery is but a blip on the radar these days. The most recent new issue and introduction of Space X into the publicly traded market place is perhaps an example of the comment above or NOT? IF you believe the AI Overview, it tells us that Space X is trading around 100 times revenue. In normal times this is an excessive valuation, but hey, we are not in normal times. SO, yes, we can identify this as potentially a bubble valuation but if the next buyer does not care, the bubble can maintain itself and become larger and irrational exuberance can last longer. Everyone pile in the spaceship, it's going to be an awesome ride! (Please note this is not a recommendation to buy or otherwise at this juncture)

Fundamental Underpinnings

Some things are happening and it is likely there will be some positive outcomes from those things that are happening. The Strait of Hormuz is sort of opened right now and will likely remain open or get to a point where it becomes back burner news. This development likely means lower energy prices. Which should answer for the temporary spike in inflation and get Tiff and Kevin in a more doveish state of mind. Now these are BIG macro predictions fraught with a mosaic of additional factors of consideration that could might or will happen but in an irrational world these seem to be somewhat rational thoughts. This means rates remain at current levels and not higher. Low(er) rates historically have helped growth stocks in good times. Today we have a narrow market with much of the excitement focused on AI and semiconductor stocks. In these sectors things have in some cases burst and in other cases remain bubbled or at a minimum have a high degree of expectations building in. As an example, the Price-to-Earnings (P/E) ratio for the VanEck Semiconductor ETF (SMH) is approximately 45.11 times (source: VanEck, 2026). Reference above the price to sales of Space X at 100 times!

The global semiconductor industry revenue is expected to surge past the $1 trillion mark, with projections forecasting revenues ranging from $1.29 to $1.3 trillion (source: IDC, 2026). This represents a record-breaking year-over-year growth of 29% to over 50%, driven overwhelmingly by massive investments in AI infrastructure and an explosion in memory segment revenues. IF these statistics transpire in the future one could argue that the semiconductor and presumably some stocks are fairly valued... The basic rationale is that when growth equals the Price Earnings multiple, we have a degree of equilibrium or fair value.

Word of Caution

The fuel for the ongoing semiconduction purchases seems to be financed by continued spending from the super majors. In several cases the BIG companies have raised debt levels and in selected cases issued equity to fund the AI spend. More AI spend demands more semiconductor demand (and less share buybacks – you remember them). If someone blinks or something happens to shift this pace or direction, demand destruction may be next.

Summer World Cup

Congrats to Canada! We are inspired by the positivity and outcomes of the Canadian effort. Summer is here, enjoy and be safe. It's still a crazy world, but a good one, and we are happy to be here.

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