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Equity team commentary: AI capex, tariffs and a record earnings season

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Key takeaways

- **AI infrastructure buildout accelerates** — $500B+ private capital raise anchored by Nvidia; hyperscaler capex consensus now exceeds ~$1T for 2027
- **Rates at multi-decade highs, hard assets benefit** — 30-year Treasury near 5.25%; constructive for hard assets with inflation protection
- **Record corporate earnings season** — ~32% underlying S&P 500 EPS growth (ex. One-time items); 86% beat rate; record results from Canadian gold miners and energy producers
- **Tariffs disrupt Canada-US trade** — 50% tariffs on ~$20B of Canadian goods effective Aug 22; TSX composition limits direct exposure
- **Canadian nation-building gains momentum** — $70B Churchill Falls / Gull Island corridor announced; largest clean-energy investment in North American history
- **Broadening market leadership** — Strength in Materials leads S&P/TSX; ~2/3 of S&P 500 names above 200-day MA signals healthy breadth

The marquee structural story remains the scale and financing of the AI infrastructure buildout. Nvidia announced a partnership with Apollo, Blackstone, BlackRock, Brookfield, Goldman Sachs, and KKR to raise more than US$500B in third-party capital for AI infrastructure. Nvidia's 5-year CDS (credit default swaps) initially widened as investors debated balance-sheet risk, then eased after CEO Jensen Huang clarified that Nvidia's direct exposure would be limited.

The industry is increasingly turning to private credit as AI infrastructure spending and hyperscaler bond issuance test the absorption capacity of public debt markets. Nvidia remained active on individual commitments, agreeing to spend up to US$105B to support an Ohio data center campus leased by OpenAI with roughly 8GW of targeted capacity. Lastly on debt issuance, Lambda Inc., a private AI cloud computing provider, issued a US$0.9B GPU-backed leveraged loan, opening a new front in AI infrastructure financing. Consensus estimates for hyperscaler capex now sit above ~US$1T for 2027, with total data centre capex (which extends beyond hyperscaler capex and includes construction, power procurement and generation, electrical equipment and other aspects) estimated at ~US$3T through 2028.

The insatiable need for capex had a profound impact on longer term rates: the 30-year US Treasury Bond traded near 5.3%, a level not seen in roughly 20 years. Against that backdrop, the US Treasury aimed to bring yields lower by announcing an increase in long-end buybacks funded through a corresponding increase in short-term bill issuance. However, this was met with skepticism by the market given the already elevated US federal debt outstanding.

We view this constructively for hard assets with inflation-pricing power, and gold miners in particular, given gold's historical tendency to track broad money supply over longer time horizons. This dynamic is reinforced by the US fiscal backdrop: with deficits running at ~6% of GDP and rates elevated, currency debasement remains a plausible policy path for managing the debt burden, which is a net positive for materials broadly.

At the short end of the curve, the US Federal Reserve (Fed) held rates at the July meeting, with target fed funds rate at 3.75%, but the communication that followed was more hawkish. Minutes released August 19 showed several officials favored a hike, and many indicated that additional tightening would be necessary if inflation did not decline. As the month progressed, softer retail sales, disappointing employment, and slowing inflation were offset by Warsh's keynote at Jackson Hole reiterating that curbing inflation is the central bank's top priority. This ultimately brought rate hike expectations back to September.

Corporate earnings results gave equities the fundamental support that higher rates did not.

One-time investment gains at both Alphabet and Amazon inflated the headline numbers, but the underlying results were still strong. Alphabet reported Q2 net income of US$112B driven largely by ~US$98B in unrealized gains on its stakes in SpaceX and Anthropic. Amazon similarly reported EPS of US$5.75, which included US$53.4B in non-operating income from its Anthropic investment. Stripping that out, normalized net income grew approximately ~23% for Amazon and ~25% for Alphabet year-over-year. Last and certainly not least, Nvidia reported a beat and raise with most of the market's excitement focused, rightfully so, on the 2028 guide of 70% growth which is being constrained by supply.

At the S&P 500 index level, excluding those one-time items, underlying earnings growth is tracking at ~32% year-over-year, the strongest since the post-COVID rebound. Revenue growth reached roughly mid-teens, the highest since Q1 2022 and 86% of S&P 500 companies beat EPS estimates, well above the post-pandemic average of 78.6%. Lastly, net profit margins are tracking near their highest level in more than 15 years.

The forward profile remains compelling, though less forgiving at a ~19-20x forward P/E for the S&P 500. Consensus calls for relatively consistent growth through 2026, with a moderation to mid-teens in 2027.

In Canada, the S&P/TSX Q2 earnings season was broadly constructive, led by Energy, Materials and Technology. Gold and silver miners generally posted record results - Agnico perhaps most impressive given its size, with record quarterly free cash flow of US$1.3B and net income of US$1.6B. Net cash climbed to US$3.3B, and the company returned a record US$0.6B to shareholders. It was a similar theme for the Canadian energy producers including Canadian Natural Resources, Suncor and Cenovus. For example just during the quarter, Cenovus reduced net debt by C$2.7B while still returning C$1.4B to shareholders through dividends and buybacks. In technology, Shopify reported revenue of US$3.6B, up 34% YoY, GMV of US$115.6B (+32%), and free cash flow of US$654M at an 18% margin. Crucially, the Q3 outlook for low-thirties revenue growth cleared a bar analysts had set near 26%, lifting shares roughly ~16% on the day.

The Canadian banks wrapped up earnings for the month where we saw generally positive fundamental results fall short of high investor expectation given the strong run up in shares over the last 12 months. Scotiabank was the exception given most discounted P/E multiple versus the group and was the top performer for the month on a strong beat and hitting its ROE target ahead of schedule. Capital markets segment continued to lead the charge with earnings up ~40% y/y on average, and total bank loan growth of low-to-mid-single-digits sequentially helped to drive strong net interest income growth and another quarter of positive operating leverage. Bank management teams acknowledged tariff risks but remained confident in loan book quality which was supported by generally constructive credit trends.

Turning to domestic policy, on August 17th, Prime Minister Carney with the premiers of Québec and Newfoundland & Labrador announced up to C$10B of federal support for the Churchill Falls upgrade, Gull Island hydro development, enabling transmission and critical-minerals infrastructure in the Labrador Trough. The combined projects are valued at roughly $70B and billed as the largest clean-energy investment in North American history, targeting about 14,000MW of capacity, about 23,000 jobs, and roughly C$31B of GDP through the early 2040s. The government also referred the "Labrador Trough Clean Power, Critical Minerals and Infrastructure Corridor" to the Major Projects Office (MPO) for coordinated review.

Hydro-Québec's C$49.3B, 50-year electricity supply deal with Newfoundland and Labrador gives the agenda commercial substance, and Carney explicitly likened the effort to the Trans-Canada Highway and the St. Lawrence Seaway. The broader infrastructure pipeline already includes more than 25 nation-building initiatives representing about C$190B submitted to the MPO. We view this as a critical step in improving Canada's attractiveness for foreign capital, as Canada slid from 9th to 22nd in global competitiveness from 2001–2024 (as per UN Industrial Development Organization Statistics Portal), driven by higher regulation, taxation, and interprovincial barriers among other factors.

Tariffs were the defining risk event of the month. On July 20, Trump invoked Section 338 of the Tariff Act of 1930 for the first time, imposing 50% tariffs on roughly $20B of Canadian imports including dairy, alcohol, motor vehicles, and cement; even where goods were USMCA-compliant. The measures were set to take effect August 19, before a volatile negotiating sequence intervened and ultimately by the early hours of August 22, talks had collapsed. The main sticking points were reportedly Canada's demand for medium- and heavy-duty vehicle relief, as well as the US insisting that Canada match steel tariffs against other nations, all further compounded by discrepancies between the written text and what Canada believed it had agreed to.

The 50% tariffs took effect on August 22 on roughly $20B of Canadian goods. Carney vowed dollar-for-dollar retaliation, with counter-tariffs set for September 8. The average effective US tariff rate on Canada rose to north of 8% and there is risk of further escalation. Still, it is important to note this remains well below other countries. Economic impacts are more significant for targeted sectors such as manufacturing but manageable at the macro level. Further, the composition of the TSX is less sensitive to tariff headlines given concentration in financials, energy and materials where tariff exposure is minimal.

In conclusion, sector leadership is reflecting the macro regime. In Canada, Materials (+26%) were the clear leader in August, followed by Technology (+13%), while defensive and/or rate-sensitive sectors such as Real Estate (-5%), Utilities (-6%) and Consumer Staples (-7%) were under pressure. Industrials (-3%) were in part hurt by the trade disruption narrative.

In the US, the more important development is not that mega-cap tech has faded, but that it no longer needs to carry the full market. We note all seven Magnificent 7 names are trading below their 52-week highs, Meta and Tesla by ~26-27%. The market has absorbed that without breaking, which speaks to the health of the underlying breadth. Roughly half of the sectors posted positive returns in August with Energy (+8%), Health Care (+5%), Materials (+5%) and Technology (+5%) leading the way. Index participation is widening, with ~66% of S&P 500 constituents are above their 200-day moving average.

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