

### Key Takeaways

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- Markets started 2026 constructively, with positive returns in both stock and bond markets in the first two months of the year. However, the war on Iran by the U.S. and Israel drove significant changes to markets in March. The biggest driver was the spike in oil prices. Oil prices increased over 70% during the quarter to over US\$100 per barrel as 20% of global oil production became trapped in the Middle East when Iran closed the Strait of Hormuz.
- Canadian equities returned 3.9% in the first quarter, outperforming U.S. equities which lost -4.3%. The Canadian market benefitted from its 40% exposure to strong performing Energy, Materials and Utilities sectors, which each gained over 10% in Q1. Conversely, the U.S. market has much less exposure to those strong performing sectors and therefore fell as geopolitical tensions weighed on performance of most other sectors.
- Canadian bonds posted modest gains as early-quarter strength was largely offset by March weakness. Rising commodity prices reignited inflation fears and prompted speculation for central bank interest rate hikes. Credit spreads widened as concerns regarding defaults and liquidity in the private credit market intensified.
- The Bank of Canada and the U.S. Federal Reserve held policy rates unchanged during the first quarter. Both central banks maintained a wait-and-see approach amid slowing labour markets, persistent inflation risks, and heightened global uncertainty.

### Economic and Market Update

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#### Economic Summary:

The U.S. economy continued to grow at a steady pace in the first quarter. Inflation remained above the Federal Reserve's target. The labour market showed signs of cooling as hiring slowed, but the unemployment rate remained stable. However, higher energy prices and risks to global supply chains added near term inflation pressures and weighed on the global outlook. The Federal Reserve held its policy interest rate unchanged during the quarter, maintaining the target range at 3.50% to 3.75%. Chair Powell highlighted ongoing uncertainty and reiterated that the Federal Reserve is well positioned to adjust policy as economic conditions evolve.

In Canada, economic growth remained subdued in the first quarter as excess supply persisted, and the labour market softened. Inflation stayed close to the 2.0% target, though rising global energy prices increased short term inflation risks. Trade uncertainty continued to weigh on confidence and business activity. The Bank of Canada held its policy interest rate steady at 2.25% throughout the quarter. The Governing Council noted it stands ready to respond if the economic outlook shifts materially.

### Bond Markets: The Canada

Aggregate Bond Index returned 0.23% in the first quarter. A strong start to the year in January and February (+2.25%) was mostly offset by a weak March (-1.97%), as higher

oil prices from the war in Iran led to higher interest rates on Canadian bonds (bond prices fall as interest rates go up). The increase in interest rates was most predominant in shorter term bonds, with higher oil prices driving inflation fears. These inflation fears reframed the market's interest rate cut expectations for 2026: a 40% chance of an interest cut by the Bank of Canada has now shifted to a 70% chance of not just one, but two 25 basis point increases to the Bank of Canada overnight rate in 2026. In addition, the war in Iran has resulted in a higher risk premium for corporate bonds: credit spreads (i.e. the extra yield on corporate bonds versus government bonds to compensate for their extra risk) moved higher in March after reaching record low levels in January and February. These higher credit spreads resulted in corporate bonds modestly underperforming the overall index, albeit still with positive returns. Despite the modest risk off tone, investors remain buyers of corporate bonds as evidenced by investors' enthusiasm to support the primary issuance market. Corporate bond supply continues to set new records, with an impressive \$50 billion in new issuance in the quarter, a record start to the year and 23% higher than the same period in 2025.

	March Performance	YTD Performance
US 10 Year	38 bps	15 bps
Canada 10 Year	35 bps	4 bps
Canada Aggregate Bond	-2.0%	0.2%
US Aggregate Bond	-1.8%	0.0%

### Stock Markets – Overview:

The first quarter of 2026 marked a period of heightened investor caution with geopolitical tensions rising. Equity markets remained under pressure in March, as dip buyers remained cautious. Early market

volatility was driven by several geopolitical developments, including Japan's snap election, events in Venezuela, and U.S. interest in Greenland. Private credit markets also came under pressure as liquidity tightened and default risks increased, particularly in semi-liquid lending structures. The war on Iran raised concerns around demand destruction and inflation, pushing oil prices above US\$100 per barrel for the first time since 2022. Gold continued to rise strongly early in the quarter. However, it later recorded its sharpest decline in years, driven by central bank selling. Despite this pullback, gold finished the quarter up 8% and continues to be viewed as a key safe-haven asset.

	March Performance	YTD Performance
S&P 500	-5.0%	-4.3%
S&P/TSX Composite	-4.3%	3.9%
EAFE	-7.9%	0.3%

Returns are in local currency terms

## U.S. Equities:

U.S. equities entered the first quarter with strong momentum, supported by robust earnings growth from technology companies. While earnings results confirmed this strength, investor sentiment weakened, particularly toward Software-as-a-Service (SaaS) companies. Rapid progress in AI agents developed by firms such as Anthropic and Google highlighted how quickly generative AI could automate core SaaS functions. As a result, software stocks sold off sharply in February, triggering a broader rotation away from large-cap growth. Furthermore, tighter financial conditions and rising geopolitical tensions reduced risk tolerance and drove sharp sector rotation. The Energy sector led market performance, while Technology lagged and Financials underperformed due to stress in credit markets.

## Canadian Equities:

The Canadian stock market was supported by its high exposure to commodities. That structural tilt helped Canadian equities outperform U.S. equities as macro narratives shifted toward inflation concerns and supply risks. Performance during the quarter was marked by a sharp whipsaw between gold and oil, reflecting shifting investor sentiment. Investors sold gold aggressively and scrambled to source U.S. dollars as financial conditions tightened. Conversely, oil prices rose sharply on Middle East supply disruptions, lifting Energy stocks to become the strongest-performing sector of the quarter, up 29%.

## Bottom line:

The first quarter showed how quickly geopolitical shocks can reshape sectors' performance. Canada outperformed U.S. growth markets due to its higher exposure to commodities, as energy prices rose and inflation concerns returned. The sharp move in gold and oil prices highlighted the market's sensitivity to macro developments. The war against Iran forced investors to reprice both inflation expectations and Federal Reserve policy expectations. Looking ahead, geopolitical stability, energy prices, and central bank policy are likely to remain key drivers of market performance and sector leadership.

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