## Market in Review

At the outset of Q1 2026, the mood among investors was guardedly upbeat. Corporate earnings remained solid, central banks appeared to be holding a steady course and markets carried positive momentum from 2025's strong finish. That calm was shattered on February 28, when the United States and Israel launched military strikes against Iran, triggering one of the most significant geopolitical shocks to financial markets in recent memory.

Oil prices surged roughly 60% in the weeks that followed as Iran moved to close the Strait of Hormuz, a waterway through which approximately 20% of the world's oil supply passes. The International Energy Agency characterized the disruption as the largest supply shock in the history of global oil markets, with Brent crude prices peaking near US$120 per barrel by mid-March.

Equity markets, already dealing with a rotation away from technology stocks, were hit hard by the news. Bonds, which had provided ballast for investors over the prior four quarters, reversed course sharply as rising energy prices fueled inflation expectations and pushed yields higher. The quarter ended with a relief rally in late March after positive diplomatic signals from Washington, but it was not enough to recoup earlier losses across most global markets.

### Risk factors

The defining risk event of the quarter was the U.S.-Iran conflict. The disruption to the Strait of Hormuz sent energy prices sharply higher and raised the spectre of sustained inflation. The U.S. consumer price index for March climbed to an estimated 3.4% year-over-year, up sharply from 2.4% in February, with rising fuel costs the primary driver.

### KEY TAKEAWAYS

- The outbreak of the U.S.-Iran war on February 28 sent oil prices surging roughly 60%.
- Analysts say the shock to global oil markets is the largest in history
- The S&P 500 declined approximately 4.6% in Q1 2026 — its worst quarterly performance since Q3 2022.
- U.S. software stocks plunged approximately 23% through late February as investors grew skeptical of AI valuations and the threat that new AI capabilities posed to the Software-as-a-Service (SaaS) business model.
- The S&P/TSX Composite bucked the broad global decline in markets, rising 3.3%, excluding dividends, supported by Canada's energy- and materials-heavy index composition.
- Energy was the standout sector globally, surging approximately 38% in Q1, driven by the spike in oil prices.
- Fixed income reversed course in Q1 as surging energy prices fueled inflation expectations, causing bond markets to sell off after four consecutive quarters of positive returns.
- The Bank of Canada (BoC) held its policy rate steady at 2.25% in both January and March, as CPI inflation eased to 1.8% in February.
- The U.S. Federal Reserve also held rates unchanged at 3.50–3.75%, with officials now forecasting just one rate cut for all of 2026.
- Canada's unemployment rate rose to 6.7% in February as job gains from Q4 2025 were largely reversed.

Separate from the geopolitical backdrop, technology stocks faced meaningful additional headwinds during the quarter as investors grew more skeptical of AI-related valuations. Software stocks were especially weak, amid concerns that advancing AI capabilities could threaten the durability of the software-as-a-service business model.

On the trade front, the tariff landscape shifted again after the U.S. Supreme Court ruled against the use of the International Economic Emergency Powers Act (IEEPA) to justify the “reciprocal” tariffs introduced by the Trump administration in 2025. In response, the White House implemented a flat 10% tariff on all imports — a more uniform, if still disruptive, outcome.

The Russia-Ukraine war, ongoing Middle East tensions and uncertainty surrounding U.S. trade and foreign policy continued to act as persistent headwinds for global investor confidence throughout the quarter.

## Global Outlook

International equity markets broadly declined in Q1, as the Iran-war oil shock, re-accelerating inflation and renewed concern about slowing global growth weighed on investor sentiment.

In Europe, most major markets fell as surging energy costs threatened to reignite inflation and weigh on the eurozone's fragile growth recovery. The U.K. was a relative bright spot, posting positive returns for the quarter, supported by its significant exposure to energy and commodity-linked stocks.
Across Asia, most markets declined modestly. Japan was a notable exception, posting gains on the back of a weaker yen and political stability following the ruling Liberal Democratic Party's victory in February’s snap election.

The U.S. Federal Reserve held its benchmark rate steady at 3.50–3.75% at both its January and March meetings. In its March economic projections, the Fed raised its year-end inflation forecast and slightly lifted its GDP growth projection. Officials now project just one rate cut in 2026, with another expected in 2027.

## United States Snapshot

U.S. equities struggled in Q1, with the S&P 500 declining approximately 4.6%. This was the weakest quarterly result since Q3 2022.

The technology sector, which had powered the market higher for much of the past two years, gave back significant ground as investors reappraised AI valuations. Software stocks were especially weak, amid concerns that advancing AI capabilities could threaten the durability of the software-as-a-service business model. Microsoft and Nvidia were the largest individual drags on the index.

Meanwhile, energy stocks surged roughly 38% in Q1 as oil prices soared, underscoring a meaningful rotation in market leadership — away from Big Tech and toward energy, commodities, and value-oriented sectors.

The Iran war's economic impact was felt quickly across the U.S. consumer economy. The airline industry faced sharply higher jet fuel costs, and the surge in gasoline prices is expected to weigh on consumer spending into Q2. Despite holding rates steady, the Fed signaled it is monitoring inflation dynamics carefully, with the balance of risks now tilted toward upward price pressure rather than slowing growth.

## Spotlight on Canada

Canada's equity market was a standout in Q1. The S&P/TSX Composite rose 3.3%, excluding dividends, marking one of the strongest performances among major global indices in the quarter.

Of the 223 stocks that were in the TSX Composite at some point during the quarter, 149 (67%) recorded a gain.

The Energy sector dominated sector performance, nearly quadrupling the return of the next best sector, rising on rapidly advancing energy prices since the start of the U.S.-Iran war.

Gold stocks were a particular bright spot, attracting considerable investor interest, and have now overtaken energy in terms of their share of total Canadian equity market capitalization.

In Q1, the Canadian market outperformed the U.S. market in home currency terms (U.S. market returned -4.6%) and in Canadian dollar terms (U.S. market returned -3.0% in C$ terms).

The Bank of Canada held its policy rate at 2.25% at both its January and March meetings. This decision reflected a complex backdrop: while CPI inflation eased to 1.8% in February — below the BoC's 2% midpoint target — the labour market softened materially.

The BoC noted that near-term economic growth was likely to be weaker than anticipated in its January forecast, as the ongoing effects of U.S. tariffs and trade policy uncertainty continued to weigh on business investment and export activity.

## What's next?

Q1 2026 served as a sharp reminder that financial markets can be upended rapidly by unexpected events. The outbreak of the U.S.-Iran war transformed what had been a challenging but manageable quarter into a much more volatile environment within the space of a few weeks.

As we enter Q2, several key questions will be on investors' minds: Will the Middle East conflict escalate or find resolution? Will inflation re-accelerate, delaying or eliminating expected rate cuts? And will corporate earnings remain resilient enough to support current valuations?

Each scenario carries meaningful implications for portfolios. History, however, offers clear perspective. Periods of market turbulence are a recurring feature of investing, not an exception. The investors who fare best over time are those who remain disciplined, diversified and focused on their long-term financial goals.

**MARKET MONITOR (Returns in CAD)**

| MARKET INDICATORS | MARKET CLOSE* | 2025 ANNUAL RETURN | 2026 Q1 ACTUAL* | 2026 YTD ACTUAL* |
|---|---|---|---|---|
| S&P/TSX Composite | 32,768.04 | 31.68% | 3.90% | 3.90% |
| S&P 500 | 6,528.52 | 12.35% | -2.60% | -2.60% |
| Dow Jones | 46,341.51 | 9.53% | -1.40% | -1.40% |
| MSCI World | 4,258.31 | 15.90% | -1.70% | -1.70% |

*As of March 31, 2026

**TOP GIC RATES**

| ACCOUNT TYPE | 1YR | 2YR | 3YR | 4YR | 5YR |
|---|---|---|---|---|---|
| Non-Registered | 3.33 | 3.68 | 3.81 | 3.88 | 3.95 |
| RRSP | 3.33 | 3.68 | 3.81 | 3.88 | 3.95 |
| RRIF | 3.21 | 3.59 | 3.76 | 3.76 | 3.89 |

*As of March 31, 2026

## Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

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