RJL PCS: INSIGHTS & STRATEGIES

APRIL 8, 2026 | 11:53 AM EDT

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April 2026 Insights & Strategies: War in Iran continues to raise uncertainty in markets as we approach Q1 earnings

Macro Highlights for March

- As the War in Iran escalated through March, concerns about higher energy prices raised concerns about higher inflation. The new ceasefire brings a temporary sigh of relief and optimism, and perhaps supports the expectations of easing energy prices. So far, overall economic growth forecast impacts have been relatively mild.
- U.S. payrolls data showed a surprising jump in job creation in March (+178k), reversing a decline in February (-133k) and trimming the U.S. unemployment rate to 4.3%, from 4.4%. The 3-month average now stands at +68k new jobs each month, which is above the job additions required to retain a stable unemployment rate, since population growth has slowed due to immigration curbs.
- Canada's trade deficit jumped again in February to $5.7 billion, from $4.2 billion in January, with overall activity increasing as exports increased 6.4%, but imports increased 8.4%. This implies a drag on 1Q26 GDP, although the surge in oil prices should provide a boost to Canada's largest export sector in March, somewhat offsetting other trade weakness.

Financial Markets in March

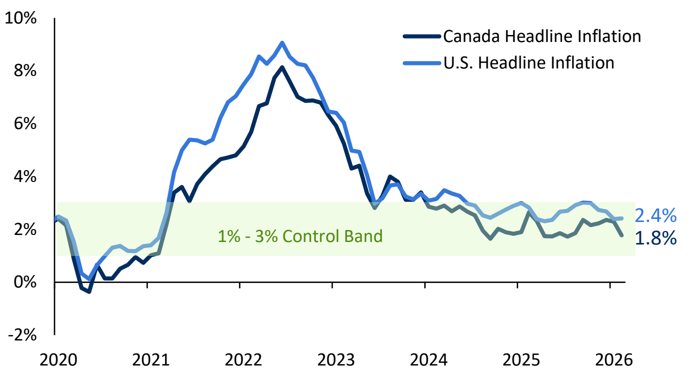
- In March, the S&P/TSX Composite declined by 4.6% in price terms and 4.3% on a total return basis, bringing year-to-date returns to 3.3% and 4.0%, respectively. The S&P 500 posted price and total returns of -5.1% and -5.0%, respectively, leaving year-to-date performance at -4.6% and -4.4%.
- WTI crude oil prices rose from approximately US$65/bbl to around US$101/bbl through March, representing a 51% increase. Since the onset of the Iran conflict, prices have surged by roughly 70%, reaching peak levels just prior to the announcement of a two-week ceasefire. Gold declined by over 10% during the month, but remained among the best-performing asset classes in 1Q26. Meanwhile, the U.S. dollar has strengthened sharply against major currencies, reflecting its safe-haven characteristics amid heightened geopolitical uncertainty.
- Historical analysis suggests geopolitical conflicts tend to drive near-term volatility, but their impacts typically fade as markets absorb the initial shock. In more prolonged episodes, second-order effects, such as higher oil prices feeding into inflation and weighing on consumer spending, can filter into the macro backdrop. Ultimately, market direction remains anchored by macro fundamentals, corporate earnings, and pre-existing risks which have been temporarily overshadowed by the conflict.

Upcoming

- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, or wound down over the next 10 years, will likely be the most consequential event for Canada this year. While we are optimistic of a reasonably good outcome for Canada, we are also braced for demands from the U.S. for adjustments related to rules of origin, digital services, and the dairy industry, to impact various sectors.
- The striking down of IEEPA-based tariffs has forced the U.S. Administration to shift tactics, but not to abandon its goals of tariffs as a policy tool and to drive government revenues. This is leading to persistent uncertainty that keeps businesses from longer-term planning and investing. We will be watching ongoing revisions to the tariff strategy.
- The Iran conflict is rapidly evolving, and despite the latest ceasefire, the war is not yet over, so we will be watching for both short-term and longer-term impacts to energy prices and broader economic impacts, depending on any further escalation and expected duration. Persistence in higher oil prices could stoke inflation concerns and push out the timeline for further Fed rate cuts, although the Fed seems

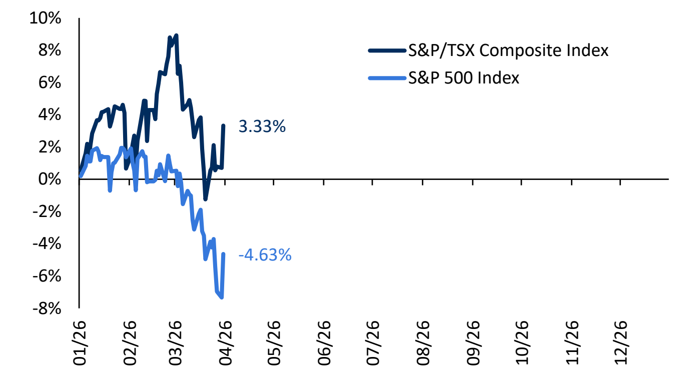
to be willing to consider the energy price spike and resulting impact on inflation as transitory supply-side disruption that rising policy rates would have limited ability to influence.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of February 28, 2026. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 YTD Performance



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026. Price return in local currency.

Executive Summary

Lately, it seems that months feel like years and years feel like decades. That was all the more evident when being recently reminded that only a couple of months ago, the world was concerned about the potential of a U.S. invasion of Greenland. That crisis is now a distant memory, but we are currently faced with a much more significant crisis in Iran, with global economic and inflation concerns, not to mention the devastating humanitarian impact. Will the current two-week ceasefire hold and pave the way to a negotiated settlement, leaving this turmoil as a similar distant memory by August, or will the ramifications reverberate through the end of 2026 or longer, similar to the supply chain problems that seemed to last long after COVID?

The war in Iran has impacted equity markets, as the surging price of oil raises concerns of inflation, lower economic growth, and risks of rising interest rates. This conflict has dominated investor attention and sentiment since the strikes at the end of February, and just over a month later the U.S. Administration is searching for an off-ramp, while sending conflicting messages about the war being over, all goals having been accomplished, and yet threatening military escalation and massive destruction of civilian infrastructure. Investors meanwhile seemed to anticipate the new ceasefire, and expect a path to more normal energy pricing over the coming months, as futures pricing is for WTI crude to be back to US$70-75 per barrel a year from now, versus US$115 (prior to the ceasefire), US$93 currently, and US$60-65 in February. However, investors still remain somewhat cautious of follow-on effects, such as disrupted supply chains for oil, LNG, fertilizer, and helium deliveries further impacting economic growth and inflation. In the next few weeks, as we enter 1Q26 earnings season, we will hear from companies as to their expectations about some of these follow-on effects, although we expect to see limited impacts in the quarterly results themselves.

Energy became the market darling in March

On the TSX Composite, Energy posted the most positive return (+8.2%) in March, as our Energy sector is expected to benefit from the higher price of oil and potentially Canada's position as a reliable supplier of that oil. The only other sectors posting positive returns were Utilities (+0.4%) and Information Technology (+0.4%). The Materials sector had a surprisingly bad month (-16.4%). This might seem counter-intuitive when you consider that gold is typically a safe haven during geopolitical turmoil and our Materials sector is heavily influenced by the price of gold. There are numerous factors for the pullback in gold, most notably the possibility of a pause in central bank buying, investors moving to USD for liquidity, and speculation of higher interest rates, but we also should note that the commodity could also be taking a breather after an incredible run, with the price still being up over 8% YTD and 56% against the same time last year, despite being down ~12% from its high at the end of January.

The U.S. markets have been more deeply impacted than the TSX, with the S&P 500 down ~9% from its peak coming into 2026, with high expectations. Similarly, the U.S. Energy segment has been the only gaining sector YTD, as the average S&P 500 constituent is down ~20% and 44% of stocks are down 20% or more from their highs. Exiting March, the S&P 500 jumped 2.9% on the last day of the month, as President Trump sent further signals that the U.S. could be pulling away from the Iran war, despite subsequent threats.

Interest rate cut expectations being tempered

The inflation being seen from energy prices, and expected to trickle-down into the broader economy, is shifting expectations for interest rate cuts. We had previously expected the Bank of Canada to proceed with one more rate cut this year as economic growth has been somewhat weak, the labour market has been soft, inflation has dropped below target, and the overhanging uncertainty of USMCA renegotiations has dulled business optimism. With the likelihood of upward inflation pressures, we are moving to a more balance 50/50 expectation between a cut and a hold, but think that rate hikes in Canada in the near term are unlikely. In the U.S., we started the year with consensus expectations for as many as three rate cuts in 2026, but with the war in Iran increasing concerns about inflation, talk of rate hikes are back on the table, although the consensus expectation still favours the likelihood of one rate cut in the next 18 months, but that the next meeting or two likely result in the Fed holding rates steady.

Still positive outlook for Canadian equity markets in 2026

While short-term volatility can be nerve wracking, the overall backdrop for 2026, with improving corporate earnings, contained (core) inflation, fiscal stimulus, and still potential easing bias to monetary policy, all play towards our still positive outlook for equity markets. 1Q26 earnings season will soon start to unfold, so we will be watching closely for adjustments to guidance and outlooks. Our target for the TSX Composite by the end of 2026 remains 34,900, using an 18.0x P/E multiple against 2026 earnings of $1,939.

Tariffs

We are now past the one-year mark of "Liberation Day", when on April 2, 2025, the U.S. announced sweeping global tariffs on almost all countries. Pauses and revisions caused massive uncertainty and the S&P 500 dropped 11% in just two days. It bottomed on April 8, 2025, but has since rebounded ~32% from that low. On February 20, 2026, the Supreme Court (SCOTUS) ruled that the President had exceeded his authority under the International Emergency Economic Power Act (IEEPA), and now uncertainty remains as to if and how roughly US$170 billion collected under those measures could be returned to the payers, and what structures will ultimately be used to replace those tariffs, as the current U.S. administration remains steadfast in erecting and maintaining tariffs as both trade barriers and revenue streams.

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. According to the Yale Budget Lab, just prior to the SCOTUS ruling, the overall effective tariff rate was 16.9%, falling to 9.1% after the ruling, only to bounce back to 13.7% with the then threatened 15% Section 122 tariffs.

So far, as a replacement to the IEEPA tariffs, we have seen President Trump threaten 15% tariffs under Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits, although a 10% rate was actually implemented. Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China, or the automotive industry, steel, and aluminum tariffs, were unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1).

USMCA remains Canada's primary concern

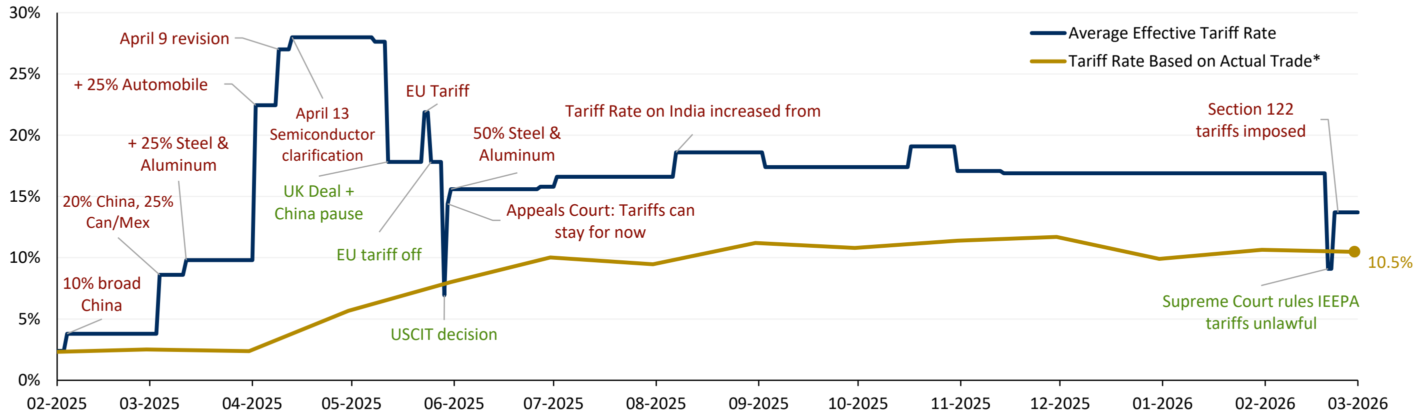
Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, in Table 1, we include brief updates on key tariff-related items. We expect more intensive use of Section 232 tariffs now that the IEEPA tariffs have been struck down.

Table 1 - Section 232 Tariffs Summary, as of April 7, 2026

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3, 2025	25%
Steel and aluminum	Effective June 4, 2025	25-50%
Copper	Effective August 1, 2025	25-50%
Softwood timber and lumber	Effective October 14, 2025	10%
Wooden furniture, kitchen cabinets and vanities	Effective October 14, 2025	25%
Medium/heavy duty trucks & buses	Effective November 1, 2025	25% on trucks/parts; 10% on buses
Specific semiconductors and related products	Effective January 15, 2026	25%
Certain patented pharmaceuticals and ingredients	Effective July 31, 2026	100% (20% for companies with onshoring plans)
Processed critical minerals and derivative products	Investigation initiated April 22, 2025	-
Commercial aircraft and jet engines	Investigation initiated May 1, 2025	-
Polysilicon and its derivatives	Investigation initiated July 1, 2025	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1, 2025	-
Wind turbines	Investigation initiated August 13, 2025	-
Robotics and industrial machinery	Investigation initiated September 2, 2025	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2, 2025	-

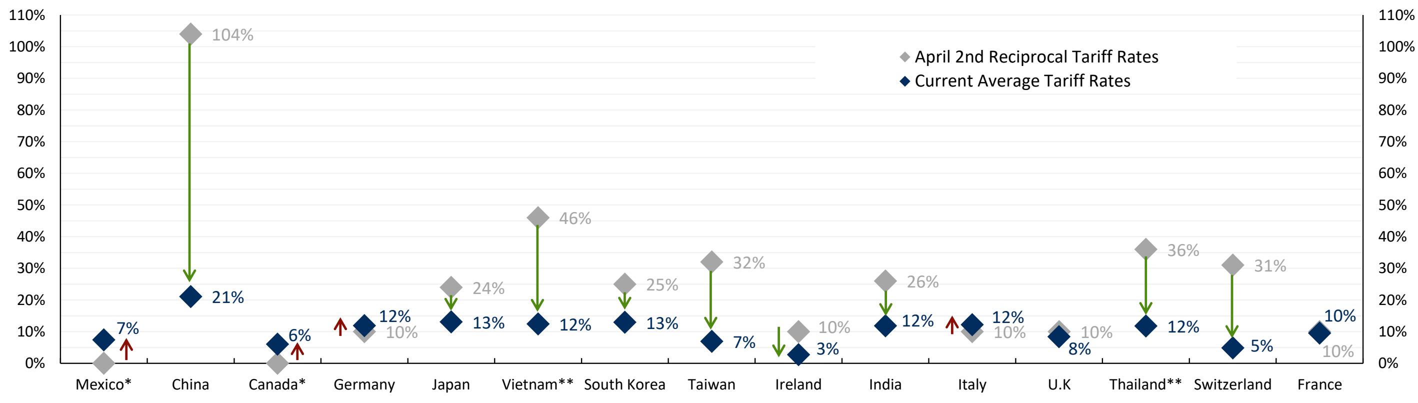
Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate



Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Average Tariff Rates, as of April 7, 2026



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Economics

Canadian GDP staying positive

The Bank of Canada (BoC) has forecast 1.8% annualized growth for 1Q26 (Chart 5). Breaking that down by month, January GDP figures showed a 0.1% m/m rise from December, primarily driven by increased oil and gas extraction in Newfoundland & Labrador and Saskatchewan (+1.6%). Construction (+1.1%), retail trade (+0.8%), and accommodation and food services (+0.7%). Manufacturing (-1.4%) was the biggest drag, impacted by automakers' continuing pause in production for retooling, followed by wholesale trade (-1.2%) and transportation and warehousing (-0.7%), which was likely impacted by bad weather. The advance estimate for February points to a stronger +0.2% m/m rise in real GDP, with strength expected to come from mining and quarrying, and finance and insurance sectors.

Energy could help to offset a growing trade deficit

Canada's trade deficit widened to $5.7 billion in February from $4.2 billion January, as import growth of 8.4% outpaced the 6.4% in imports (Chart 6). This could cause a partial drag on the 1Q26 GDP results, although the surge in energy prices since the War in Iran started on February 28, should give a significant boost to our largest export category in March and narrow that trade deficit slightly for the full quarter.

Overall, as a net energy exporter, Canada should benefit from higher oil prices, providing a lift to nominal GDP, however, the impact is likely limited, as pipeline constraints restrict a meaningful increase in production. At the same time, the rapid rise in oil prices risks weighing on near-term growth in the rest of the economy, by weakening household's real purchasing power, partially offsetting gains from net trade in the GDP calculation.

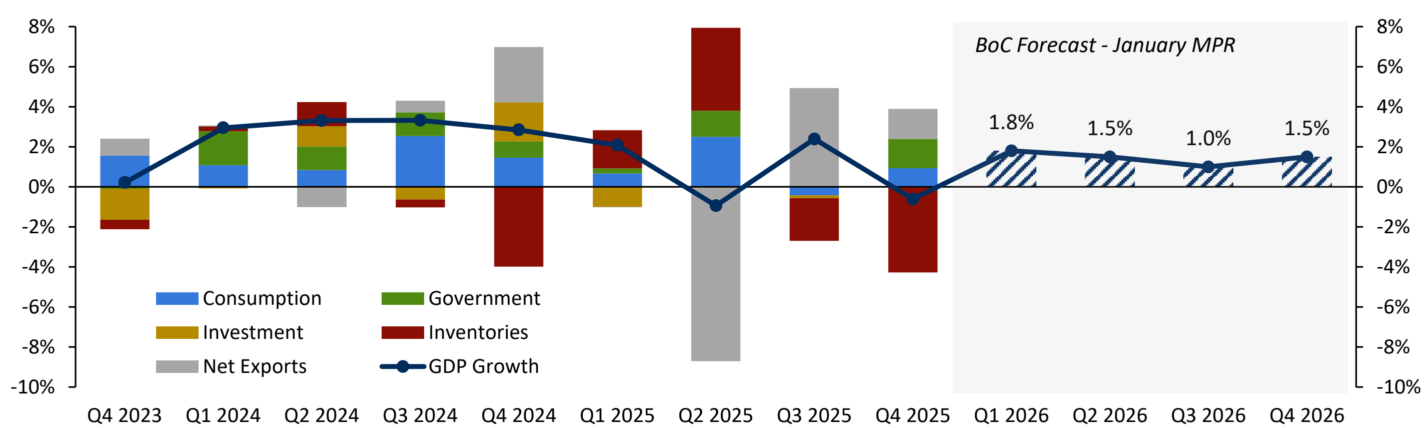
Consumer spending up

January retail sales were strong, rising 1.1% over December, although slightly below the expectations of 1.5% growth. One bright spot was motor vehicle and part sales, which was up by 2.0% m/m, reversing a drop in December. Core retail sales, excluding autos and gasoline, rose 0.9% m/m, taking back a portion of the 4.0% m/m decline in December. The advance estimate for February puts growth at 0.9% over January, although we could see a mixed bag in March as surging gasoline prices could increase that component, yet push down other consumption.

Slowing population growth

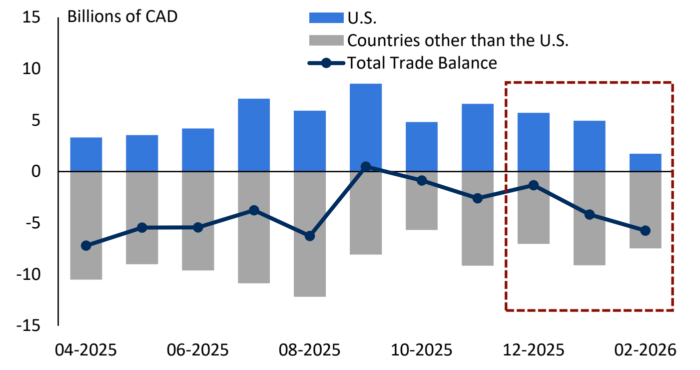
After several years of rapid population growth that strained public services and housing affordability, Canada began implementing measures to slow inflows in 2024. As restrictions on international students and work permits took effect, the country saw the population decline 0.43% in 2H25, and a decline of 0.25% for the full year (Chart 7). As such, 2025 marked the first year of negative population growth in Canada's history, excluding a slight dip in 1918 as a consequence of World War One and the 1918 influenza pandemic. A shrinking population is expected to put pressure on potential GDP growth in the near-to-medium term.

Chart 5 - Contribution to % Change in GDP (q/q annualized)



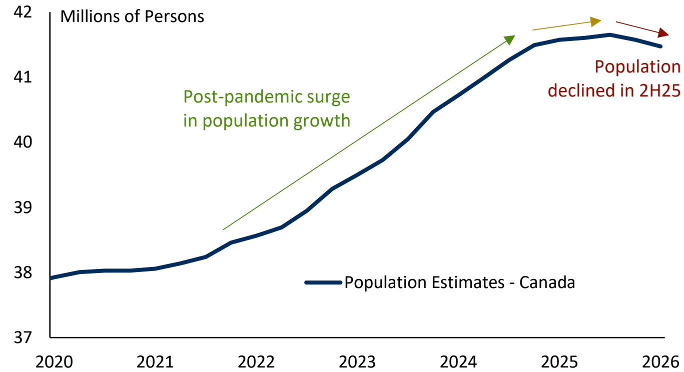
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of December 31, 2025.

Chart 6 - Canada's Growing Trade Deficit



Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2026.

Chart 7 - Population Shrank in the Second Half of 2025



Source: Statistics Canada, Raymond James Ltd.; Data as of January 1, 2026.

Canadian inflation continues to ease, but near-term risk from rising energy prices

Headline CPI slowed to 1.8% y/y in February from 2.3% in January, largely due to favourable base effects as last year's GST/HST holiday rolled out of the annual comparison. On a monthly basis, prices rose just 0.1%, pointing to limited underlying price pressure. Energy provided some offset to the broader disinflation trend. Transportation prices rose 0.6% m/m, partly reflecting higher oil prices ahead of the escalation in the Middle East. With the conflict intensifying, gasoline inflation is likely to move higher in the near term and could push headline inflation back up over the coming months.

Core inflation, however, continued to ease. The Bank of Canada's preferred measures (CPI-trim and CPI-median) rose at an average pace of just 0.09% m/m, marking a fourth consecutive month of below-target-consistent increases. As a result, the three-month annualized rates eased further to 0.7% for CPI-trim, and remained unchanged at 1.3% for CPI-median (Chart 9).

Consistent with this backdrop, the Bank of Canada has also signaled that it is not overly concerned about second-round effects from higher energy prices, citing excess supply and inflation already near target as factors likely to limit broader price pressures. That said, if the conflict in the Middle East continues to prolong and the Strait of Hormuz remains essentially closed for a longer duration, elevated energy prices could persist, increasing the risk of more sustained inflationary pressures.

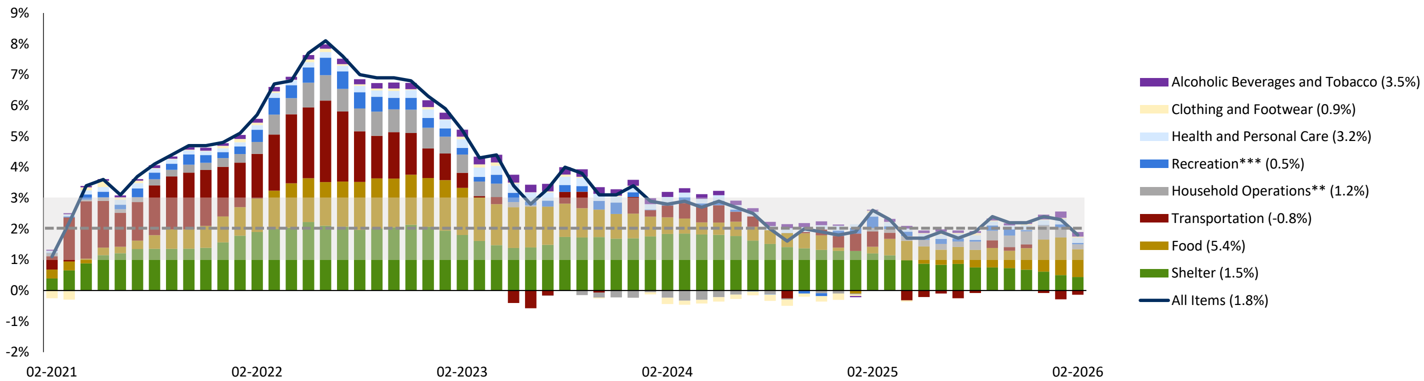
Bank of Canada holds rates

At its March meeting, as expected, the BoC held its policy rate at 2.25%, which is at the low end of its neutral range of 2.25-3.25%. While the easing of inflation could have previously led to discussions of further easing, the recent surge in oil prices following the start of the War in Iran has added uncertainty and revived concerns of rising inflation.

That said, with inflation near target and excess capacity still present, the Bank appears inclined to remain on hold. The Governing Council has signaled they are prepared to look through energy-driven price increases, particularly if second-round effects remain limited. A similar approach was taken between 2010 and 2014, when the Bank held its policy rate at 1.0% even as WTI crude rose from roughly US$75 to around US$100 per barrel. At that time, core inflation remained contained, the economy was operating with a persistent output gap, and heightened external risks (notably the Eurozone sovereign debt crisis) reinforced a cautious policy stance. A comparable backdrop today, with contained core inflation, a still-present output gap, and elevated external uncertainty (including the upcoming USMCA renegotiation), supports a wait-and-see approach, reducing the likelihood of near-term policy adjustments.

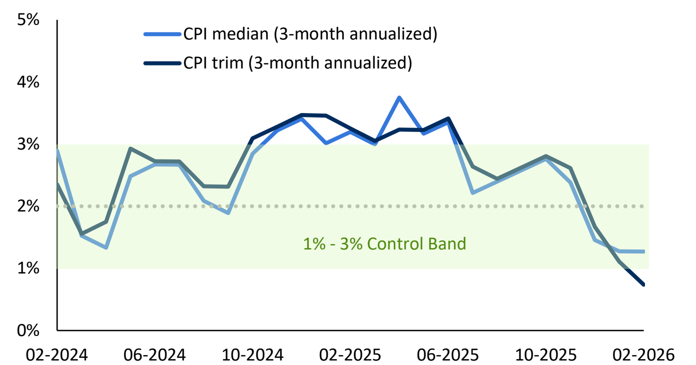
We are 50/50 on our forecast for interest rate cuts by the end of the year, agreeing that a BoC hold for the rest of the year seems reasonable, but we also see the potential for a 25 bp cut if a lasting ceasefire or U.S. withdrawal in Iran quickly normalizes energy prices, or if increasing uncertainty on the USMCA renewal requires a more stimulative stance to support the Canadian economy (Chart 10).

Chart 8 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)



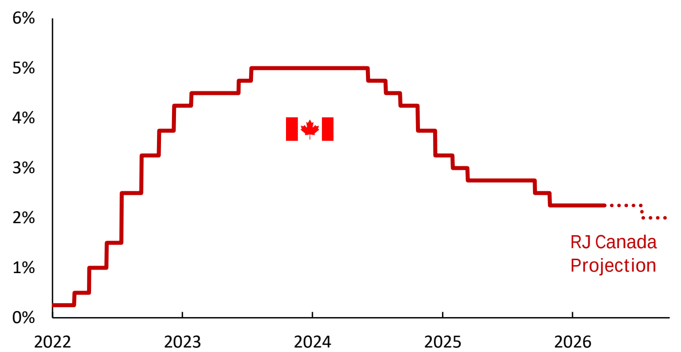
Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2026. **Household operations, furnishing and equipment; ***Recreation, education and reading.

Chart 9 - Core Inflation Remains Contained



Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2026.

Chart 10 - Additional Rate Cut in 2026 Remains a Possibility



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

The U.S. — 4Q25 GDP growth weaker than initially reported

U.S. real GDP growth for 4Q25 was revised down to 0.7% q/q annualized from the initial 1.4%, marking a sharper slowdown from the 4.4% pace in 3Q25 (Chart 11). The downgrade was driven largely by softer consumer spending and weaker investment, with some payback following strong gains earlier in the year, particularly in healthcare-related consumption. Government spending was also revised lower, with the drag from the shutdown more pronounced than initially estimated.

Consumer spending rose 2.0% q/q annualized, down from 2.4% in the initial estimate, while growth in final sales to private domestic purchasers was revised from 2.4% q/q annualized to 1.9%, pointing to a more moderate pace of underlying demand. Overall, for 2025, GDP growth is estimated to be 2.1%, down from 2.2% in the initial estimate.

Despite the weaker end to last year, early data for 1Q26 suggest a rebound is underway. Real consumption rose 0.1% m/m in January, while real disposable income increased 0.7%, lifting the saving rate to 4.5%, from 4.0% in December. This improvement in household income and savings should help support consumption in the near term, with spending tracking toward a solid quarterly gain.

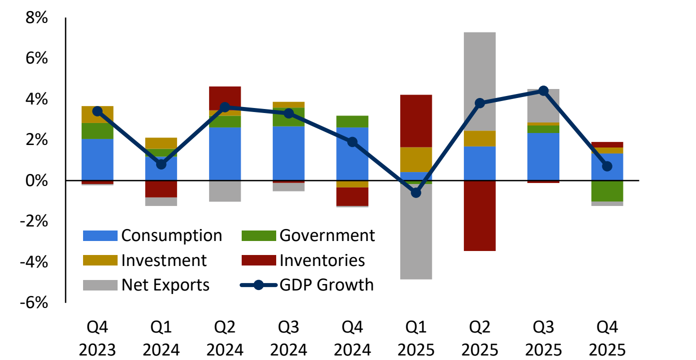
While higher oil prices may weigh modestly on real consumption by eroding purchasing power, the broader impact on growth is expected to be limited. With the drag from the government shutdown fading and a more supportive fiscal backdrop, growth is likely to re-accelerate in the first quarter.

PMIs remain in expansion, but price pressures pick up

The ISM Manufacturing Purchasing Managers' Index (PMI) edged up to 52.7 in March, from 52.4 in February, marking a third consecutive month in expansion territory (Chart 12). Production remained solid, although new orders softened slightly. Notably, input cost pressures increased sharply, with the prices index rising to its highest level in over a year, pointing to renewed inflation pressures in the goods sector. The ISM Services PMI eased to 54.0 from 56.1 but remained firmly in expansion. The slowdown was driven by softer business activity and employment, suggesting some moderation in momentum. At the same time, pricing pressures also accelerated in services, with input costs rising at the fastest pace since 2022.

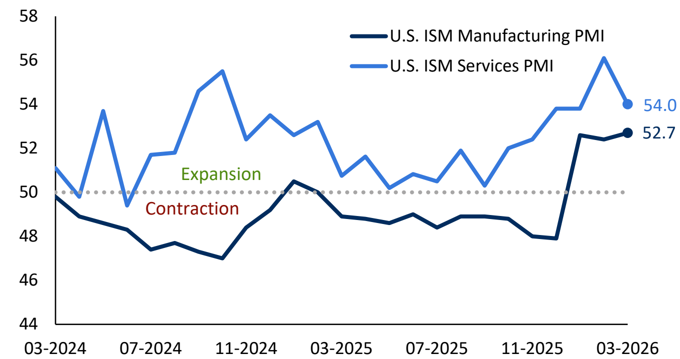
Overall, PMIs suggest economic activity remained resilient through March, with limited signs of a broader slowdown following the escalation in the Middle East. However, the pickup in price pressures across both sectors highlights a potential near-term inflation risk.

Chart 11 - Contribution to % Change in GDP (q/q annualized)



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

Chart 12 - PMIs Stay in Expansion Despite Softened Momentum in March



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

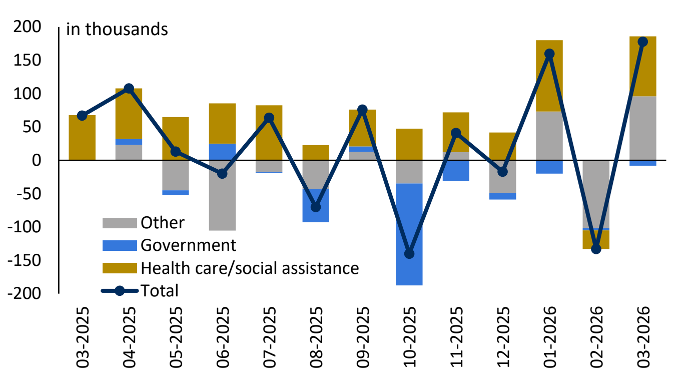
U.S. labour market rebounds in March

Non-farm payrolls rebounded by 178k in March, following a downwardly revised 133k decline in February. The recovery largely reflects a reversal of healthcare strike-related losses and weather disruptions that weighed on hiring in the prior month. Health care and social assistance payrolls rebounded by 90k (Chart 13), while improved weather supported gains in sectors such as leisure and hospitality (+44k) and construction (+26k). Revisions to prior months were modestly negative, with a net downward adjustment of 7k jobs across January and February, leaving the three-month average pace of job growth at 68k.

At the same time, the labour force shrank by 396k in March, combined with the participation rate declining to 61.9%, from 62.0%, driving the unemployment rate lower to 4.3% from 4.4% in the prior month. Notably, the BLS household survey, the official measure used to calculate the unemployment rate, showed a 64k decline in the level of employment in March, indicating the drop in unemployment rate was driven more by labour supply dynamics than stronger labour demand in the broader economy.

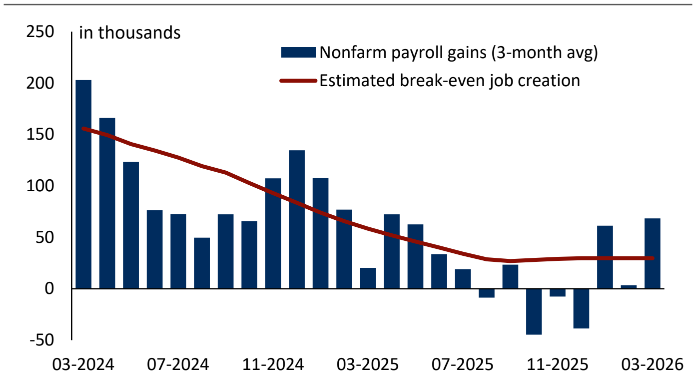
Overall, with participation continuing to trend lower, the breakeven pace of monthly job growth remains low (roughly around 30k), allowing relatively modest gains to keep the unemployment rate broadly stable (Chart 14). This dynamic is likely to persist given the aging demographics and slower population growth in the U.S.

Chart 13 - Monthly Change in Employment



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of March 31, 2026.

Chart 14 - Slower Labour Force Growth Lowers Breakeven Hiring Pace



Source: U.S. Bureau of Labor Statistics, Dallas Fed, Raymond James Ltd.; Data as of March 31, 2026.

U.S. inflation risks tilt higher amid elevated energy prices

U.S. CPI inflation remained broadly stable in February, with headline prices rising 0.3% m/m and holding at 2.4% y/y. Core CPI came in softer than expected at 0.2% m/m, leaving the annual rate unchanged at 2.5%. The moderation was driven in part by easing transportation services inflation and continued gradual cooling in shelter costs, which rose 0.2% for a second consecutive month. In contrast, the Fed's preferred PCE measure continues to point to firmer underlying inflation. Core PCE rose 0.4% m/m in January, pushing the year-over-year rate up to 3.1%, its highest level in two years. While headline PCE eased slightly to 2.8% y/y, the persistence in core inflation suggests underlying price pressures remain elevated despite softer CPI readings (Chart 16).

With oil prices remaining elevated amid the war in Iran, energy is set to push headline inflation higher in the near term. U.S. gasoline prices rose sharply through March, with the national average exceeding US$4 per gallon for the first time since 2022, pointing to a notable pickup in the March CPI print. This could lift headline inflation back above 3% in the near term, while higher transportation costs, reflected in surcharges announced by airlines and companies like Amazon, are also likely to add to core pressures.

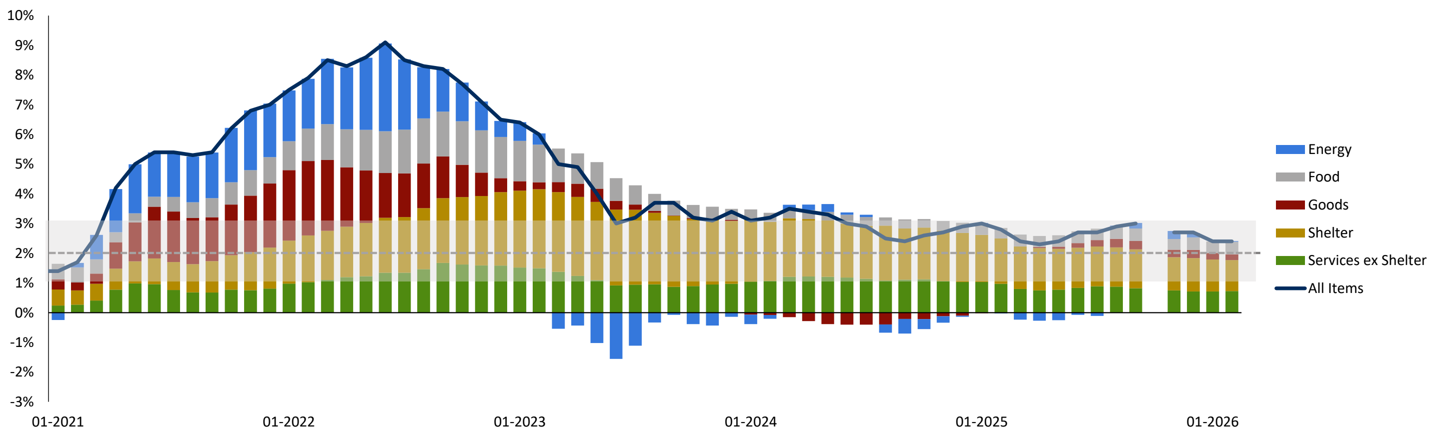
That said, broader pass-through from higher energy costs is likely to occur gradually. While elevated fuel prices will weigh on consumers' purchasing power, second-round effects through higher transportation and input costs could put upward pressure on a wider range of goods and services over time. The extent of this spillover will depend on how long supply disruptions persist, even if the current ceasefire holds.

Fed remains on hold

The Federal Open Market Committee (FOMC) left the policy rate unchanged at 3.50–3.75% at the March meeting, as the Iran war and resulting surge in oil prices add broader uncertainty to the economic outlook. While Chair Powell acknowledged that higher energy prices could push inflation higher in the near term, he reiterated that the Fed would typically look through supply-driven shocks, provided inflation expectations remain anchored. Updated projections in the SEP showed slightly higher inflation expectations and a modest increase in the estimated long-run policy rate, reinforcing a cautious stance.

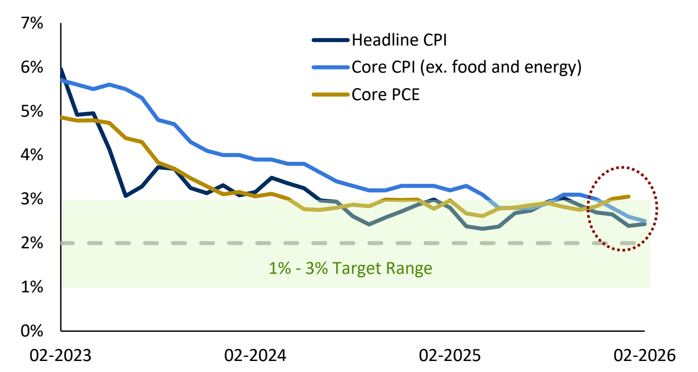
While markets entered the year expecting multiple rate cuts, rising energy prices and firmer inflation outlook have tempered those expectations. Our U.S. economics team continues to expect one rate cut this year, but the path forward is narrowing as inflation risks remain skewed to the upside (Chart 17).

Chart 15 - Major Components' Contributions to U.S. CPI



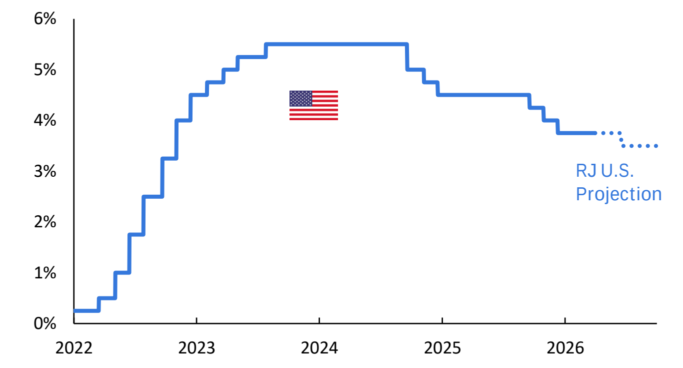
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of February 28, 2026.

Chart 16 - Core PCE Remains Elevated as Inflation Risks Rise



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of February 28, 2026.

Chart 17 - Another Rate Cut Still a Possibility



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Financial Markets

In March, developments around Iran dominated the narrative and were the key driver of equity market performance. The conflict, marked by alternating signals of escalation risk and imminent resolution, alongside continued disruption to the Strait of Hormuz, created a notable divergence between crude prices and broader, non-energy equities.

That said, markets found some footing toward month-end. Both sides have begun to clarify ceasefire conditions and re-establish direct communication, while Chair Powell's March 30 remarks reinforced a measured "wait-and-see" approach to oil-driven inflation, acknowledging the Fed's limited ability to respond to short-term energy shocks and providing support to equities.

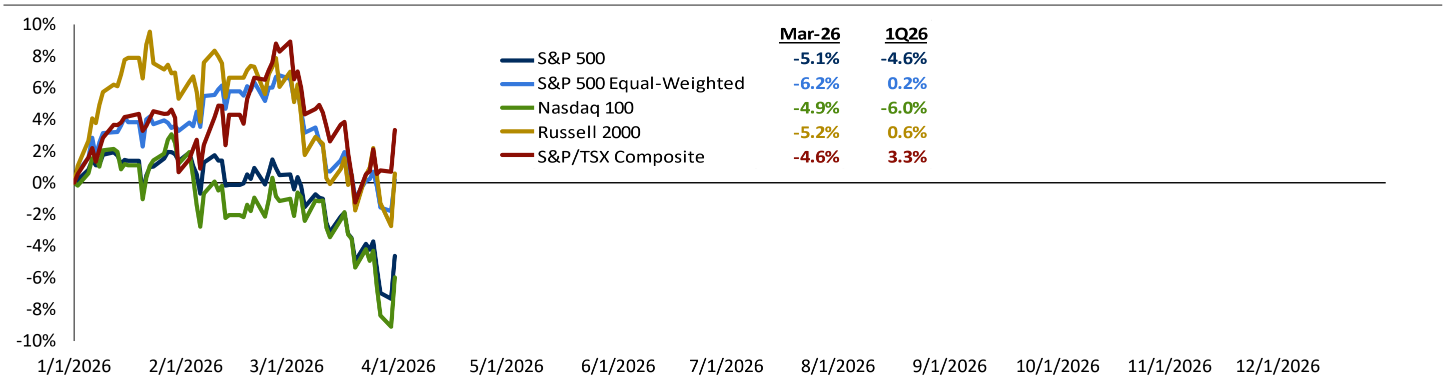
Historically, market attention to geopolitical conflicts tends to fade after the first month, with oil prices typically normalizing within roughly seven months. Beyond the initial shock, North American equity performance has been far more dependent on the broader macro backdrop, policy rates, economic conditions, and episodic risks. As such, while monitoring developments in Iran remains important, the more durable drivers of markets lie in macro fundamentals, corporate earnings, and pre-existing risks such as software valuations and private credit, which have not dissipated but have been temporarily overshadowed.

The S&P/TSX Composite declined by 4.6% in price terms and 4.3% on a total return basis in March, bringing year-to-date returns to 3.3% and 4.0%, respectively. Index performance was largely shaped by opposing commodity moves, as a more than 10% correction in gold weighed on the Materials sector, partially offset by a sharp rally in oil prices, with WTI rising from US$65/bbl to US$101/bbl (+51%), supporting Energy.

In the U.S., the S&P 500 posted price and total returns of -5.1% and -5.0%, respectively, leaving year-to-date performance at -4.6% and -4.4%. The drawdown was primarily valuation-driven, with forward P/E multiples compressing from 22.2x at year-end to 19.9x by March 31, corresponding to a decline in historical percentile ranking from the 91st to the 77th.

Among major U.S. equity indices, performance in March was broadly similar, with all benchmarks declining by approximately 5–6%. Year-to-date, however, small-cap equities and the equal-weighted S&P 500 have outperformed the tech-heavy, cap-weighted S&P 500 and the Nasdaq 100.

Chart 18 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026. Price return in local currency.

Geopolitical Conflicts and Market Reactions: Equities, Commodities, and Policy Rates (Since 1990)

Previously in March, we published an ad hoc report five days into the Iran conflict, examining the impact of geopolitical shocks on oil prices and the performance of the S&P 500 and S&P/TSX Composite. With the conflict now extending beyond one month, and despite President Trump's indication that it may be nearing resolution and the currently two-week ceasefire, the risk of U.S. military escalation cannot be ruled out. As such, it is worth broadening the analysis to a wider set of cross-asset and macro variables around past major geopolitical conflicts to better gauge the current environment.

The charts below present the Geopolitical Risk Index, Fed policy rate, WTI crude oil, gold spot prices, and the S&P 500 and S&P/TSX Composite, respectively. All series are indexed to 0 at conflict onset (week 0). Geopolitical risk and policy rates are shown as level changes, while asset prices represent cumulative percentage changes from that point.

Key takeaways:

Geopolitical conflicts can drive near-term market volatility, but their influence typically fades as markets absorb and reprice the initial shock. In more prolonged episodes, second-order effects, such as higher oil prices feeding into inflation and weighing on consumer spending, can begin to affect the broader macro backdrop. Even so, market direction ultimately reverts to the underlying fundamentals, with macro conditions, corporate earnings, and pre-existing risks reasserting themselves after being temporarily overshadowed by the conflict.

Geopolitical Risk Uncertainty Index: Market attention to geopolitical risk typically fades within roughly three months. A notable exception was 1990, when the initial shock of Iraq's invasion of Kuwait was followed by a second surge as the crisis escalated into full-scale military conflict. In the current environment, with mid-term elections approaching and recent developments pointing to a lower likelihood of major escalation, markets are likely to gradually look through the conflict.

Fed Policy Rate: The Fed rarely tightens policy during geopolitical conflicts; 2022 was a notable exception, driven primarily by post-COVID fiscal stimulus and elevated inflation rather than the conflict itself. That said, monetary policy remains a key transmission channel through which geopolitical shocks affect markets. Higher energy prices can reinforce inflation pressures, prompting a more hawkish policy outlook and pushing up front-end yields, while rising inflation expectations and potential fiscal expansion (e.g., increased defence spending) can steepen the long end. Higher short-term rates increase corporate borrowing costs, while elevated long-term yields weigh on equity valuations via the discount rate. In the current episode, market movements have shown a meaningful inverse relationship with year-end Fed rate expectations. The good news is Fed Chair Powell has reinforced the "wait and see" approach.

WTI Crude Oil Price: The oil price typically normalizes within seven months after geopolitical shocks. However, the current conflict's proximity to the Middle East, and specifically the Strait of Hormuz, a critical chokepoint for approximately 20% of global oil flows, introduces both immediate disruption risk and a more persistent geopolitical risk premium, which could delay the normalization process. On the other hand, the broader economic sensitivity to oil has declined over time; WTI would need to reach approximately US$190/bbl today to match the economic impact of US $100/bbl 15 years ago. In sum, while normalization may take longer due to elevated risk premiums, the macro impact of higher oil prices is likely to be more contained than in past cycles.

Gold Spot Price: Gold typically reacts during the initial phase of geopolitical conflicts, but price moves tend to be relatively contained (generally within ±10%). Beyond the initial risk-off impulse, gold is more meaningfully driven by macro and structural factors, most notably concerns around U.S. fiscal sustainability, sustained central bank buying and real rates, as seen in both 2022 and the current environment. This aligns with our long-term constructive view, where structural tailwinds remain firmly in place.

Equity Market Performance: Historically, North American equity markets (S&P 500, S&P/TSX) have shown limited direct sensitivity to geopolitical conflicts. The more relevant transmission channel is through Fed policy expectations, with ultimate market direction driven by macro fundamentals, earnings, and underlying vulnerabilities, as seen in the 1990 recession and the 2022 growth/tech-led drawdown.

Chart 19 - Geopolitical Risk Uncertainty Index

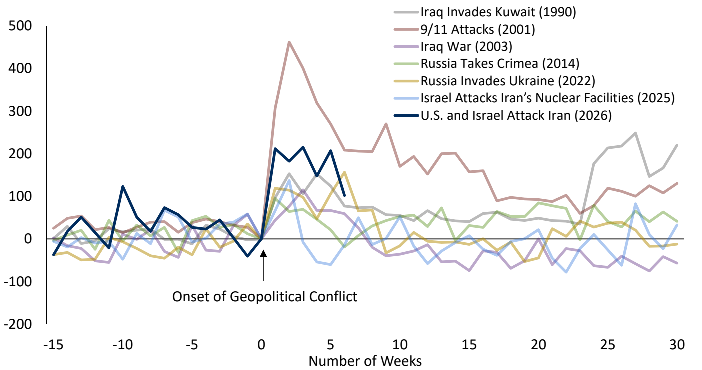


Chart 20 - Fed Policy Rate

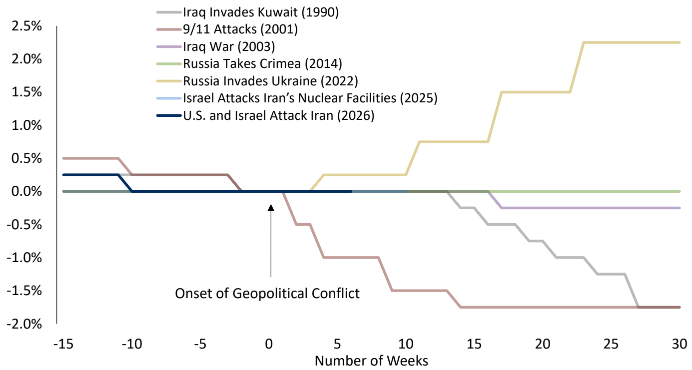


Chart 21 - WTI Crude Oil Price Index

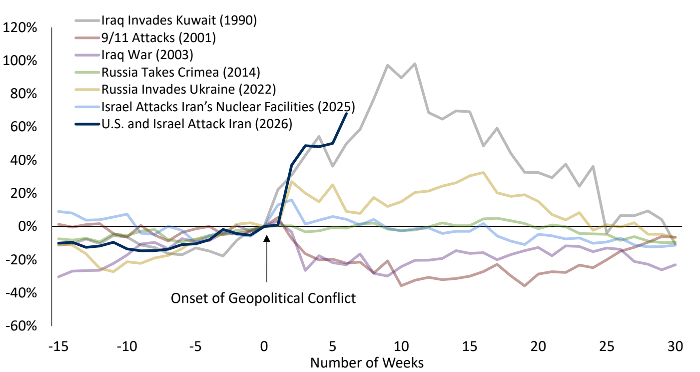


Chart 22 - Gold Spot Price Index

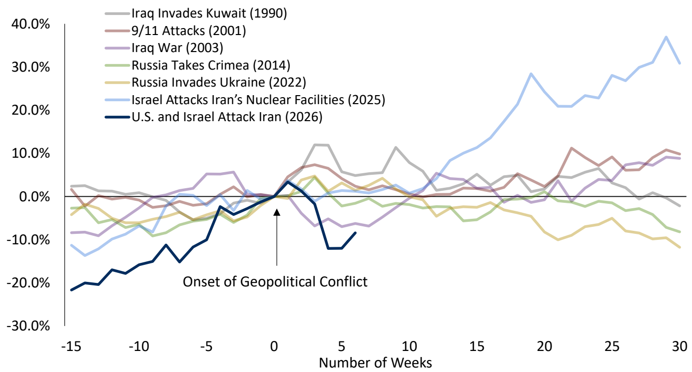


Chart 23 - S&P 500 Price Index

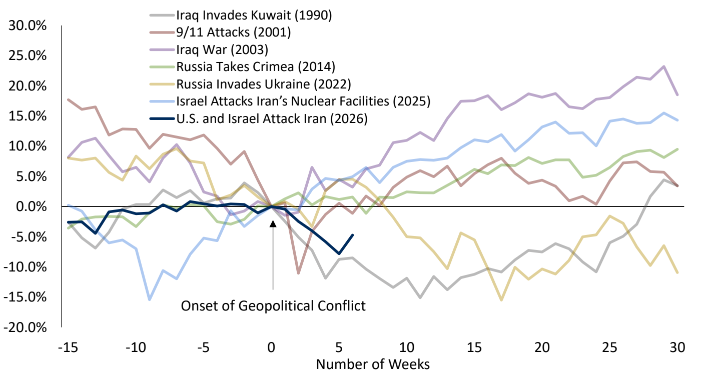
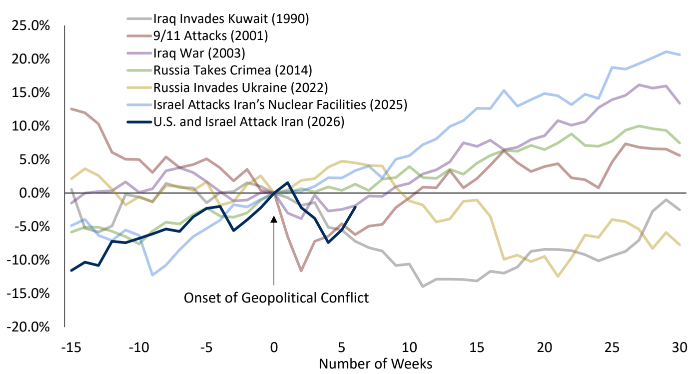


Chart 24 - S&P/TSX Composite Index



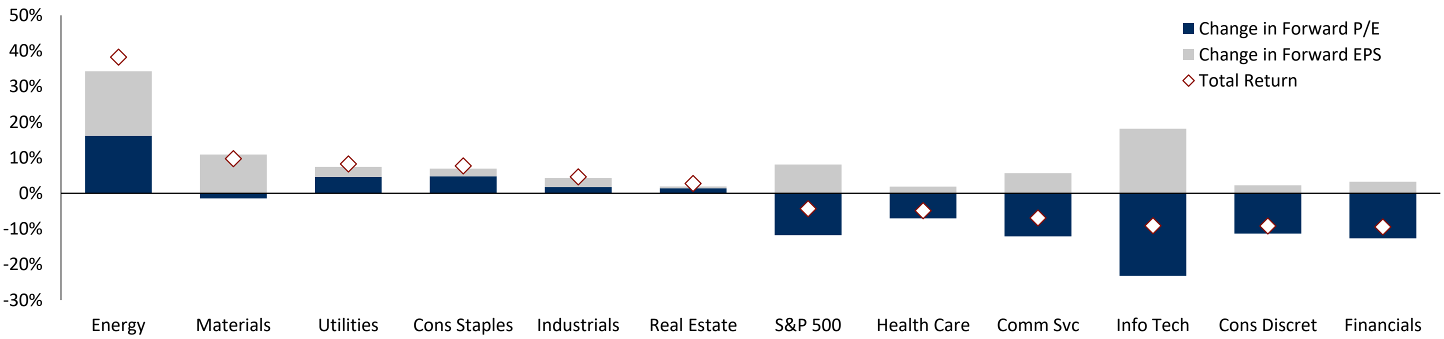
Source: Bloomberg, Raymond James Ltd.; Data as of April 3, 2026.

U.S. Equity Markets

The official kickoff of the 1Q26 earnings season is just one week away. Current consensus points to S&P 500 earnings growth of 12.6% year-over-year, which, if realized, would mark a sixth consecutive quarter of double-digit growth. A solid earnings backdrop could help shift market focus back toward fundamentals. However, underlying earnings growth across sectors remains highly uneven. Earnings growth is expected to be led by Information Technology (+46.0%), Materials (+20.5%), Financials (+14.7%), and Utilities (+9.3%), while Health Care (-8.0%) and Communication Services (-3.9%) are projected to lag. Looking ahead, while the path for energy price normalization remains uncertain, upcoming fiscal support, particularly larger tax refunds associated with the "One Big Beautiful Bill Act", should provide a partial offset to consumer headwinds.

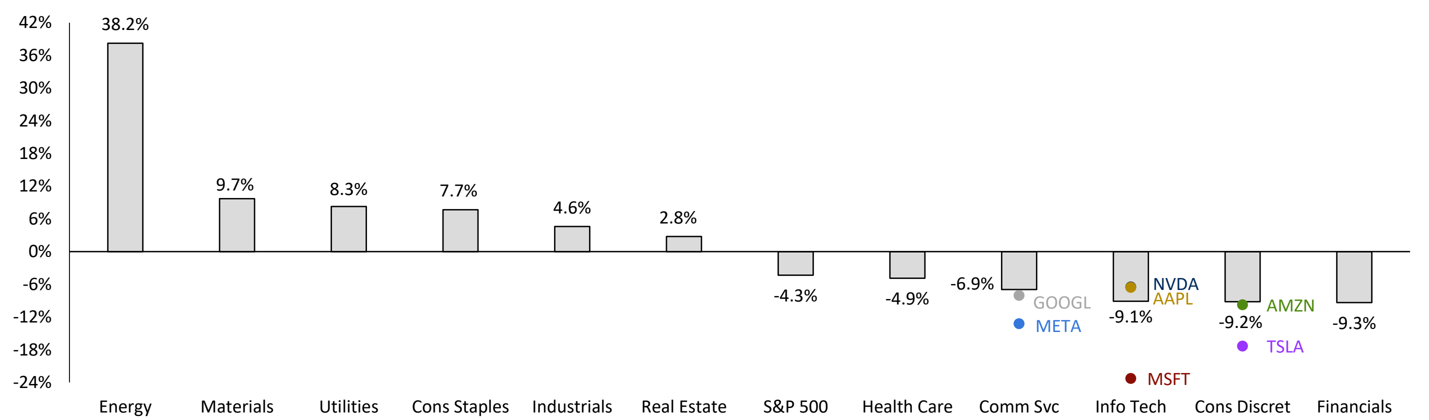
Year-to-date, markets have experienced rapid sector rotations, and we expect volatility to remain elevated. Ongoing concerns around Software-as-a-Service (SaaS) valuations, private credit risks, and the path of Fed policy continue to overhang sentiment. As such, despite increasing signs that the Iran conflict may move toward resolution, it may be premature to switch back to a risk-on positioning, as these pre-existing risks are likely to continue weighing on market performance in the absence of clear catalysts. Our view on the long-term A.I. trend remains unchanged from our March report, although we expect the adjustment in market sentiment to take time. In this environment, selectivity remains critical, with a focus on high-quality companies.

Chart 25 - S&P 500 Sector 1Q26 Total Return Breakdown



Source: Bloomberg, Raymond James Ltd.; Data as of March 31, 2026.

Chart 26 - S&P 500 Sector and "Magnificent Seven" YTD Total Returns



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Canadian Equity Markets

One quarter into 2026, Canadian equities have extended their strong momentum from 2025, outperforming U.S. large caps and leading developed markets. Once again, hard asset sectors have dominated performance, with Energy, Utilities, and Materials at the top of the leaderboard, while Information Technology, largely comprised of software and IT services, has been a notable laggard.

Earnings have also been supportive. 4Q25 earnings for the S&P/TSX Composite were particularly strong, with year-over-year growth of 19.3%. With gold prices remaining elevated and oil prices having surged, consensus expectations for 1Q26 point to even stronger earnings growth of 21.2%. While uncertainties around the Iran conflict and the upcoming USMCA renewal persist, bringing risks of an energy-driven inflation shock and renewed tariff pressures, respectively, the TSX's heavy weighting toward Materials and Energy provides relative insulation, offering a buffer at the index level. In addition, fiscal support from the government is expected to remain a tailwind through the year. Overall, we remain constructive on Canadian equities.

Top 3 Sectors (1Q26):

- **Energy:** The surge in oil prices driven by the Iran conflict, alongside fiscal support from Budget 2025, reinforced Energy as a clear outperformer in 1Q26. We remain constructive on the sector. The benefits of higher oil prices are uneven across segments. Upstream producers, and integrated companies with significant upstream exposure, are the primary beneficiaries, with higher prices directly translating into stronger margins and cash flow. With WTI breakevens for leading oil sands producers just above US$40/bbl, earnings growth in this group should remain robust. Midstream companies are more volume-driven, and with pipeline capacity largely constrained, the upside from higher prices is limited.

Downstream operators, particularly refiners, may face margin pressure from higher input costs, although they may be able to pass these costs through to end consumers.

- **Utilities:** The sector performed broadly in line with the composite index prior to the onset of the Iran conflict, but has since outperformed, consistent with its defensive characteristics and supported by modest P/E multiple expansion. Within the sector, companies with greater exposure to European markets have outperformed those with predominantly North American revenues, as Europe has been more directly impacted by energy supply risks associated with the Strait of Hormuz.

- **Materials:** The sector has been highly volatile in 1Q26, largely moving in tandem with gold prices. Its initial underperformance during the early phase of the Iran conflict may appear counter-intuitive, but likely reflects a shift by institutional investors toward U.S. cash for liquidity, with a stronger dollar acting as a more immediate safe haven than gold. Following Chair Powell's reaffirmation of a "wait-and-see" approach, which effectively reduced the likelihood of near-term rate hikes, gold prices and the sector rebounded. Notably, the sector's positive return has been driven primarily by meaningful upward revisions to earnings growth while valuation multiples have contracted.

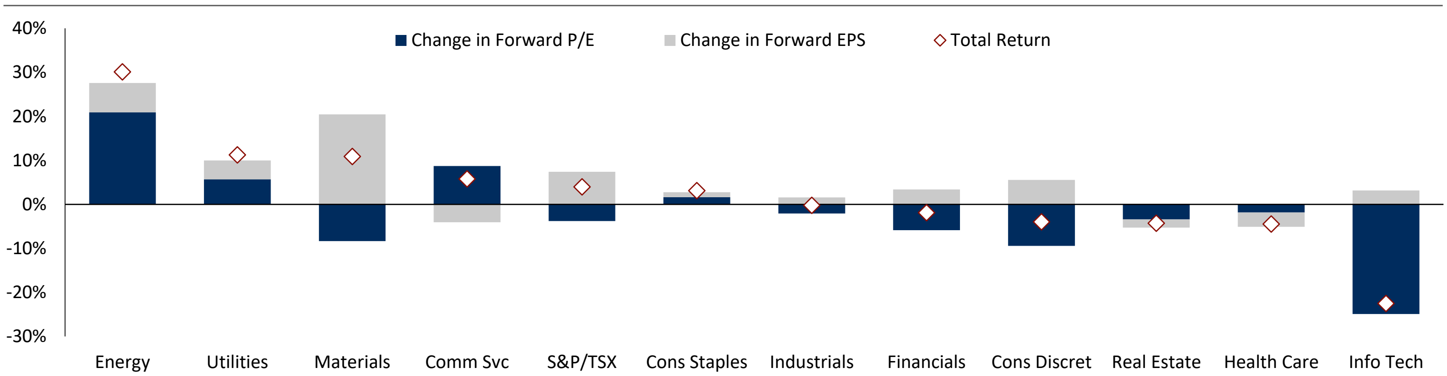
Bottom 3 Sectors (1Q26):

- **Info Tech:** While the sector has performed broadly in line with the composite index since early February, it has yet to recover losses incurred in January, leaving it as the weakest-performing sector in 1Q26. Our broader view remains largely unchanged from last month. As the Iran conflict appears increasingly prolonged, we expect market focus to gradually shift back toward the structural A.I. theme and a reassessment of concerns surrounding software companies. Earnings growth expectations have remained resilient; however, this has been more than offset by significant multiple compression. The sector's forward P/E now sits at approximately 28x (65th percentile), down from 38x (83rd percentile) at year-end 2025.

- **Real Estate:** The sector has underperformed the composite index since early February, although performance has been highly differentiated across industries. Retail REITs have been a clear bright spot, steadily outperforming the broader market in 1Q26, supported by a resilient economic backdrop. In contrast, Multifamily Residential and Office REITs have lagged, remaining the segments most exposed to the macro headwind of slower population growth.

- **Consumer Discretionary:** Sector performance was initially dampened by risk-off sentiment at the start of the year, with the Iran conflict adding further pressure to this cyclical segment. Rising oil prices, and associated increases in petrochemical costs, are expected to lift input costs for auto manufacturing and apparel retailers, while renewed inflation concerns raise the risk of a pullback in discretionary spending. In addition, the sharp drawdown in the dollar store constituent, which accounts for roughly one-third of the sector, has further weighed on overall performance.

Chart 27 - S&P/TSX Composite Sector 1Q26 Total Return Breakdown



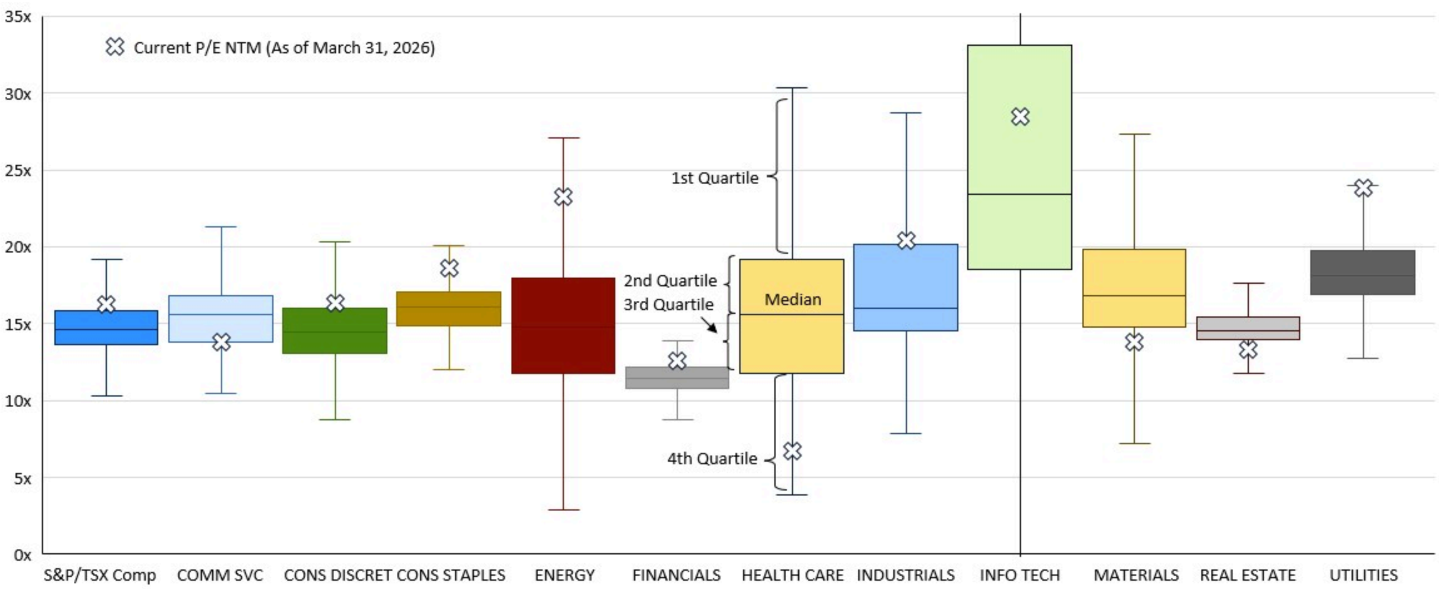
Source: Bloomberg, Raymond James Ltd.; Data as of March 31, 2026.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by 1Q26 Total Return)

Sector Name	Sector Weight	YTD Total Return	1Q26 Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Energy	18.1%	30.1%	30.1%	8.2%	23.3	14.7
Utilities	3.7%	11.2%	11.2%	0.4%	23.9	18.1
Materials	19.6%	10.7%	10.7%	-16.4%	14.0	16.8
Communication Services	1.9%	5.8%	5.8%	-0.7%	13.8	15.6
S&P/TSX Composite	--	3.9%	3.9%	-4.3%	16.2	14.6
Consumer Staples	3.3%	3.1%	3.1%	-2.5%	18.6	16.1
Industrials	10.2%	-0.2%	-0.2%	-6.5%	20.9	16.0
Financials	31.2%	-1.9%	-1.9%	-3.0%	12.6	11.4
Consumer Discretionary	3.1%	-3.9%	-3.9%	-8.2%	16.2	14.5
Real Estate	1.4%	-4.3%	-4.3%	-5.6%	13.3	14.5
Health Care	0.3%	-4.5%	-4.5%	-8.2%	6.6	15.6
Information Technology	7.3%	-22.5%	-22.5%	0.4%	28.7	23.4

Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 28 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026. Historical P/E: 1/1/2000 – 3/31/2026. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	Mar (in LCL)	Mar (in USD)	Mar (in CAD)	1Q26 (in LCL)	1Q26 (in USD)	1Q26 (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	-5.8	-5.8	-3.6	-3.0	-3.0	-1.2	-3.0	-3.0	-1.2	18.1	16.1	2.0
EAFE (DM ex U.S. & Canada)*	-8.2	-8.2	-6.1	1.0	1.0	2.8	1.0	1.0	2.8	14.7	13.6	1.1
EM (Emerging Markets)*	-10.0	-10.0	-7.9	2.8	2.8	4.6	2.8	2.8	4.6	11.2	11.5	-0.2
Selected Developed Markets												
Nikkei 225 (Japan)	-12.6	-14.3	-12.3	2.2	0.4	2.4	2.2	0.4	2.4	18.6	17.3	1.3
Euro STOXX 50 (Europe)	-9.1	-11.5	-9.4	-3.5	-5.6	-3.9	-3.5	-5.6	-3.9	14.9	13.4	1.6
FTSE 100 (U.K.)	-6.2	-8.5	-6.4	3.4	0.5	2.3	3.4	0.5	2.3	12.8	12.3	0.4
CAC 40 (France)	-8.8	-11.0	-8.9	-4.0	-5.8	-4.1	-4.0	-5.8	-4.1	14.9	13.5	1.3
DAX (Germany)	-10.3	-12.5	-10.4	-7.4	-9.3	-7.4	-7.4	-9.3	-7.4	14.0	12.7	1.3
Hang Seng (Hong Kong)	-6.6	-6.9	-4.7	-3.0	-3.7	-1.9	-3.0	-3.7	-1.9	10.8	11.6	-0.8
Selected Emerging Markets												
CSI 300 (China)	-5.5	-6.0	-3.9	-3.7	-2.4	-0.9	-3.7	-2.4	-0.9	17.1	13.9	3.2
Nifty 50 (India)	-11.3	-14.4	-12.6	-14.4	-18.4	-17.2	-14.4	-18.4	-17.2	17.6	18.7	-1.1

Source: FactSet, Raymond James Ltd.; Total returns, data as of March 31, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 03/31/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

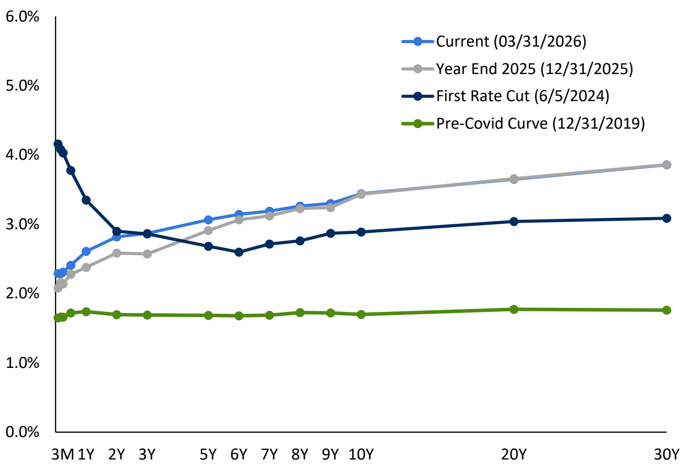
Fixed Income & Treasury Yields

As the Iran conflict has proven more prolonged than initially expected, the risk of disruption to the Strait of Hormuz has increasingly become a key leverage point. Even in the event of de-escalation, supply risks may persist, keeping oil prices elevated for longer. On the policy side, Chair Powell's March 30 remarks reinforced a measured "wait-and-see" approach to oil-driven inflation, acknowledging the Fed's limited ability to respond to short-term energy shocks. This has helped contain a more aggressive repricing at the front end of the curve. Nonetheless, elevated oil prices have materially pushed up near-term inflation expectations, resulting in an upward shift in both U.S. Treasury and Government of Canada yield curves. U.S. 10-year Treasury yields have returned to previous highs above 4.3%, while Canadian 10-year yields have similarly moved back above 3.5%.

Since the onset of the Iran conflict, U.S. Treasuries and Government of Canada bonds have modestly outperformed equities, but their role as an effective hedge has been limited. Inflation remains the dominant concern, with higher energy prices constraining the potential for capital appreciation and leaving investors largely reliant on carry. The recent soft demand at U.S. 2-year and 10-year Treasury auctions reinforces this point, suggesting that inflation risk continues to weigh on bond valuations.

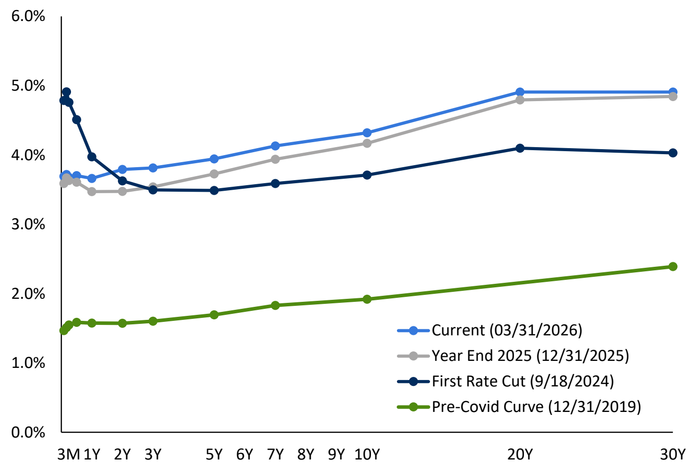
In credit, spreads widened through late January but retraced somewhat in early April and remain near historically tight levels. This leaves the market exposed to asymmetric risk, there is limited scope for further compression, while downside risks could materialize more quickly if inflation proves sticky or growth expectations weaken.

Chart 29 - Canada Government Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

Chart 30 - U.S. Treasury Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2026.

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