

## Hypertension

### Highlights

- The kidnapping of Venezuela’s president, an adverse Supreme Court ruling on tariffs, and a U.S. military operation against Iran – by any measure, the first two months of 2026 have been rich in geopolitical developments. Yet despite this turbulent backdrop, global equities have posted respectable gains so far this year, masking significant vulnerabilities beneath the surface.
- These weaknesses are particularly evident from a geographic perspective. Canadian equities and overseas markets have significantly outperformed U.S. stocks, which have effectively stagnated over recent months.
- From a macroeconomic standpoint, fundamentals remain supportive. That said, the cooling in labour demand, the trajectory of services inflation, and the renewed rise in energy prices will be key factors to monitor.
- On the tariff front, the Supreme Court’s decision provides two important clarifications. First, it materially constrains the president’s ability to unilaterally threaten the imposition of tariffs under virtually any pretext. It also reinforces the view that tariff levels have likely peaked, even if they remain elevated.
- Meanwhile, artificial intelligence (AI) – previously a tailwind for markets – has become a source of uncertainty for equities. Massive investment in the sector has weighed on free cash flow expectations for technology leaders, while advances in software development have called their valuation premiums into question. Rather than fueling broad-based optimism, AI is now accelerating dispersion across sectors and business models, thereby reinforcing the case for diversification.

### Global Asset Allocation Views

Asset Classes	-		N		+
Equities					
Fixed Income					
Cash					
Alternatives					
<b>Fixed Income</b>					
Government					
Credit					
Duration					
<b>Equities</b>					
Canada			←	→	
United States					
EAFE					
Emerging Markets					
<b>Alternatives &amp; FX</b>					
Gold					
Uncorrelated Strategies					
Canadian Dollar					

CIO Office

**Bottom line:** Overall, the base-case outlook remains constructive, supported by earnings growth. Recent positioning reflects this view: increasing exposure to Emerging Markets amid improving earnings momentum, while taking profits in Canadian equities after significant outperformance and a material narrowing in valuation discounts.



## Market review

### Fixed income

- The Canadian fixed income universe had its best month since September 2025, supported by falling bond yields amid somewhat disappointing economic data and prevailing geopolitical anxiety.

### Equities

- The significant geographical dispersion of equity returns continued in February, with the main theme being the underperformance of the United States relative to the rest of the world. U.S. equities ended the month slightly down, while Canada, the EAFE region, and Emerging Markets posted excellent returns over the period.
- Within the S&P 500, there was significant sector rotation. Concerns about AI prompted investors to abandon certain specific industries, such as software and financial services, in favour of highly cyclical sectors such as Industrials, Energy, and Materials. Some large-scale cloud service providers (including Google, Meta, and Amazon) also suffered significant declines, affecting Communication Services and Consumer Discretionary.

### FX & Commodities

- Oil and gold continued to climb in February amid growing threats of U.S. military intervention in Iran, which ultimately took place the day after the markets closed in February.
- After several months of decline, the U.S. dollar stabilized in February, supported in part by continued resilience in the U.S. labour market.

## Market Total Returns

Asset Classes	Feb	YTD	12M
<b>Cash (S&amp;P Canada T-bill)</b>	<b>0.2%</b>	<b>0.4%</b>	<b>2.7%</b>
<b>Bonds (ICE Canada Universe)</b>	<b>1.7%</b>	<b>2.3%</b>	<b>2.4%</b>
Short Term	0.7%	1.2%	3.6%
Mid Term	1.9%	2.5%	3.7%
Long Term	3.0%	3.9%	-0.3%
Federal Government	1.7%	2.1%	1.8%
Corporate	1.2%	2.0%	4.5%
U.S. Treasuries (US\$)	1.9%	1.9%	5.3%
U.S. Corporate (US\$)	1.2%	1.6%	6.7%
U.S. High Yield (US\$)	0.1%	0.6%	7.0%
<b>Canadian Equities (S&amp;P/TSX)</b>	<b>7.7%</b>	<b>8.6%</b>	<b>38.8%</b>
Communication Services	2.8%	6.5%	14.0%
Consumer Discretionary	10.5%	4.7%	34.0%
Consumer Staples	10.0%	5.8%	22.9%
Energy	8.8%	20.3%	45.4%
Financials	2.7%	1.1%	33.5%
Health Care	8.6%	4.0%	9.6%
Industrials	6.3%	6.7%	7.0%
Information Technology	-6.2%	-22.8%	-10.4%
Materials	21.7%	32.5%	136.7%
Real Estate	-0.3%	1.4%	5.9%
Utilities	8.7%	10.8%	28.7%
S&P/TSX Small Caps	12.6%	22.4%	86.8%
<b>U.S. Equities (S&amp;P 500 US\$)</b>	<b>-0.8%</b>	<b>0.7%</b>	<b>17.0%</b>
Communication Services	-5.1%	0.4%	31.1%
Consumer Discretionary	-5.4%	-3.8%	7.9%
Consumer Staples	7.9%	16.3%	12.0%
Energy	9.4%	25.2%	28.2%
Financials	-3.7%	-6.0%	0.0%
Health Care	3.5%	3.5%	9.5%
Industrials	7.1%	14.3%	31.8%
Information Technology	-3.9%	-5.5%	22.3%
Materials	8.4%	17.8%	23.4%
Real Estate	6.4%	9.4%	6.3%
Utilities	10.3%	11.9%	24.0%
Russell 2000 (US\$)	0.8%	6.2%	23.3%
<b>World Equities (MSCI ACWI US\$)</b>	<b>1.3%</b>	<b>4.3%</b>	<b>24.7%</b>
MSCI EAFE (US\$)	4.6%	10.1%	35.3%
MSCI Emerging Markets (US\$)	5.5%	14.9%	50.8%
<b>Commodities (GSCI US\$)</b>	<b>2.4%</b>	<b>12.4%</b>	<b>18.2%</b>
WTI Oil (US\$/barrel)	3.8%	16.9%	-4.3%
Gold (US\$/oz)	4.4%	21.5%	84.3%
Copper (US\$/tonne)	1.7%	6.8%	42.4%
<b>Forex (US\$ Index DXY)</b>	<b>0.6%</b>	<b>-0.7%</b>	<b>-9.3%</b>
USD per EUR	-0.8%	0.5%	13.5%
CAD per USD	0.2%	-0.6%	-5.7%

CIO Office (data via Refinitiv, as of 2026-02-27)

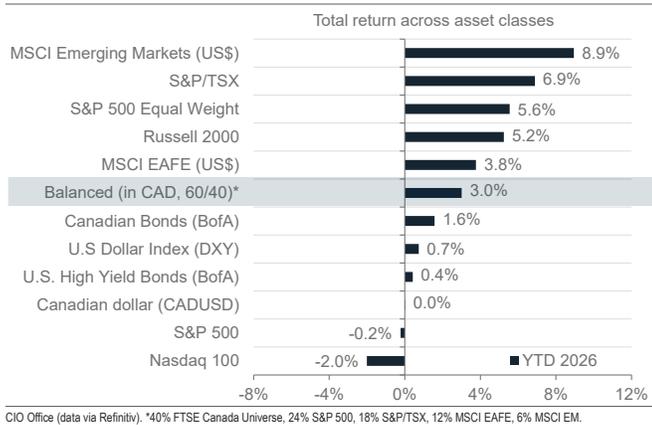


## Hypertension

The first two months of the year have seen a flurry of geopolitical developments. February was notably shaped by an adverse Supreme Court ruling on the legality of U.S. tariffs, but more importantly by the flare-up in the Middle East following a military operation by the United States and Israel against the Iranian regime (see our Quick Take “[Chaos in the Middle East](#)”, published Monday, March 2, for more details).

That said, the overall picture remains largely positive for investors since the start of 2026 (Chart 1).

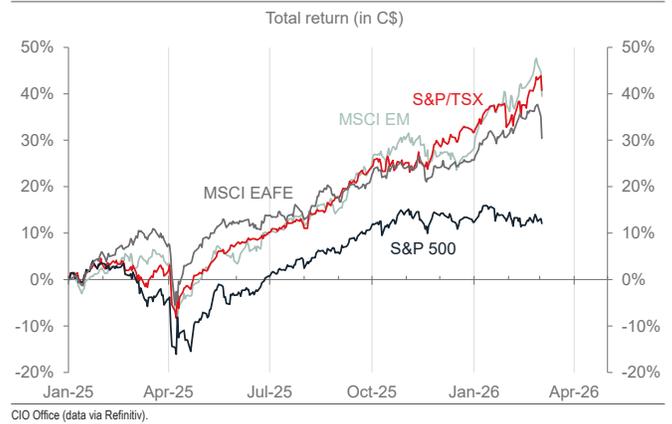
### 1 | A positive start to the year...



That said, the strong performance of global equities masks sizable disparities across market segments. These divergences are especially evident on a geographic basis, with Canadian and non-U.S. markets significantly outperforming U.S. equities, which have remained essentially flat over the past five months (Chart 2).

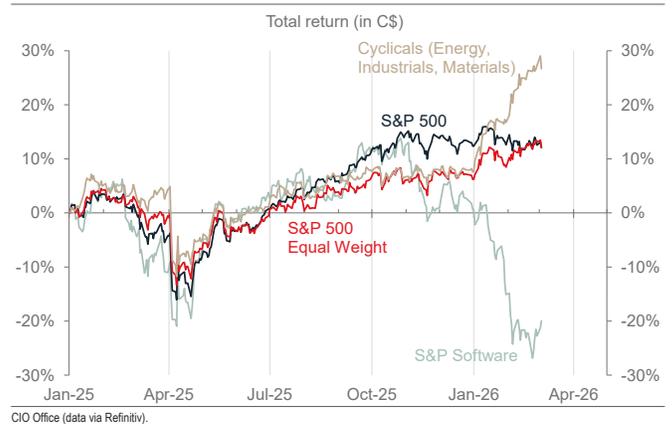
Significant divergences are also evident within U.S. equities themselves. Investors continue to turn away from large-cap technology names, amid concerns over the scale of capital expenditures by hyperscalers. These worries are compounded by AI-related threats specific to the software sector, a

### 2 | ... especially outside the United States...



combination that has benefited the rest of the market, most notably cyclical sectors (Chart 3).

### 3 | ... and outside sectors under pressure from AI

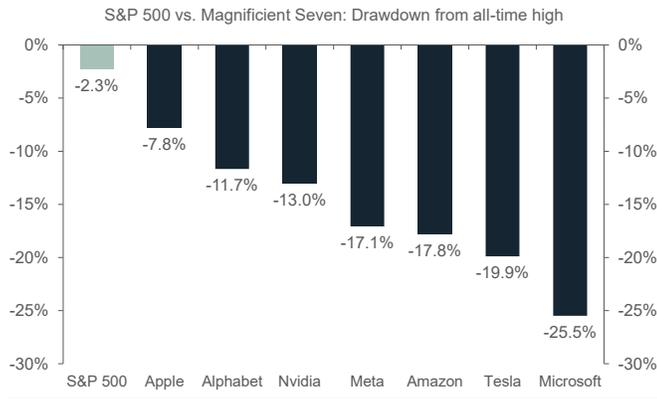


The good news is that this rotation has largely contained losses in the S&P 500, which has shown remarkable resilience given the declines posted by the Magnificent Seven, which together account for 36% of the index (Chart 4, next page).

The remaining question is how sustainable these divergences and this resilience are in such a tense environment. Let's take stock.

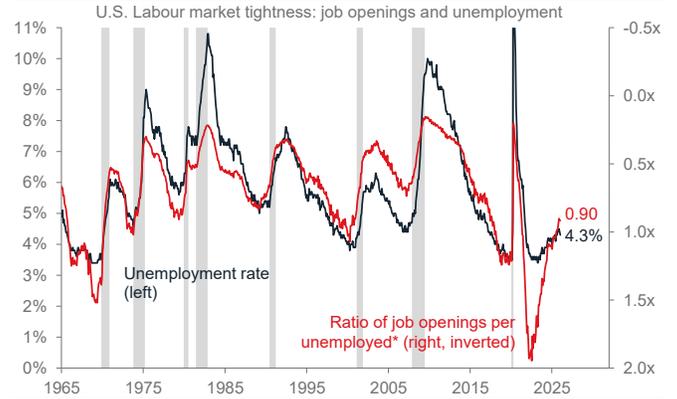


**4 | Tech giants tumble; broader index holds steady**



CIO Office (data via Refinitiv).

**6 | ... but let's keep an eye on employment...**



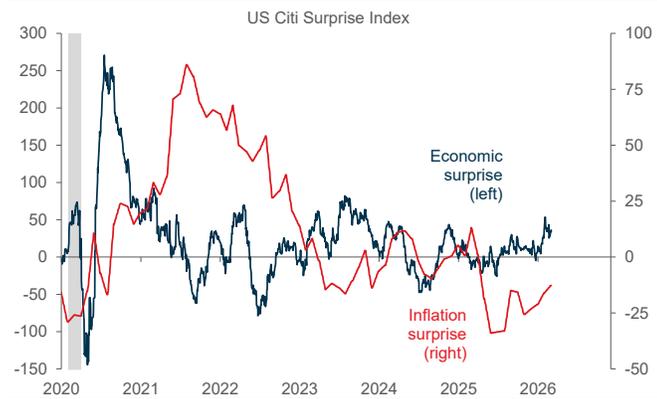
CIO Office (data via Refinitiv). \*Job openings data before 2001 is based on the Help-Wanted index published by the Conference Board and the methodology outlined in Barnichon (2010). The most recent observations use "indeed" data as a proxy.

assess whether the slowdown in services inflation continues (**Chart 7**), especially as energy prices are expected to rise substantially over the coming weeks because of the military operation against Iran.

**Taking the pulse**

Overall, economic surprise indices suggest that recent data have continued to evolve in a direction favourable to investors – namely, stronger-than-expected growth and weaker-than-expected inflation (**Chart 5**).

**5 | No bad surprises on the economic front...**

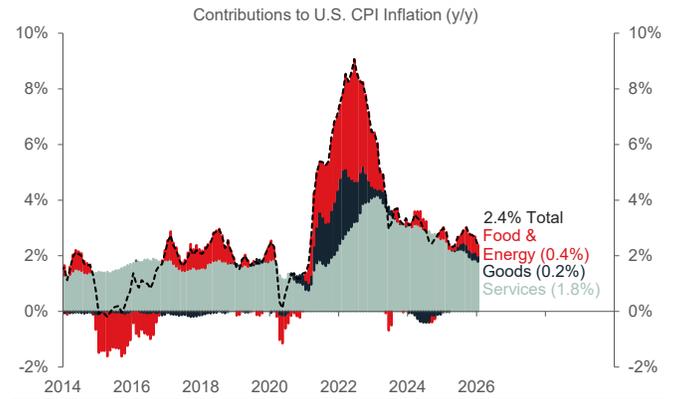


CIO Office (data via Refinitiv).

That said, not everything is rosy or risk-free. In particular, the unemployment rate remains a key variable to watch, as labour demand – measured notably by the ratio of job openings to unemployed workers – continues to cool (**Chart 6**).

On the inflation front, while headline CPI remains confined between 2% and 3%, it will be important to

**7 | ... and inflation, still stuck between 2% and 3%**



CIO Office (data via Refinitiv).

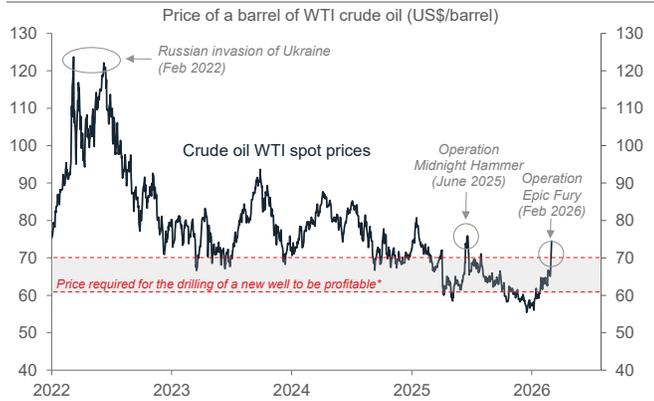
Oil prices have been under pressure since the start of the year, a trend that has intensified in recent days. The conflict in the Middle East is causing significant disruptions at the Strait of Hormuz, a strategic maritime chokepoint located south of Iran through which, under normal conditions, roughly 20% of global oil consumption transits each day.

So far, the increase in oil prices – the WTI sits at \$74 per barrel at the time of writing – remains manageable from an economic standpoint, as



producers benefit from higher prices without costs becoming excessively burdensome for consumers (**Chart 8**). That said, a military conflict stretching over several weeks, with prices remaining sustainably and materially above the \$70 threshold, would inevitably lead to more adverse consequences.

**8 | Oil prices: not really a problem, for now**



CIO Office (data via Refinitiv). \*Dallas Federal Reserve Survey, March 2025.

Regarding U.S. tariffs, while the Supreme Court ruled the use of the IEEPA illegal as a pretext for imposing reciprocal tariffs tied to the “fentanyl crisis,” the Trump administration quickly turned to another statute (Section 122 of the Trade Act of 1974) to impose a universal 10% (or 15%, it’s unclear) tariff on U.S. imports<sup>1</sup>

This ruling does not resolve all issues. Tariffs remain relatively high, as does the U.S. president’s propensity to use hostile rhetoric toward trading partners. Nevertheless, it brings two pieces of good news.

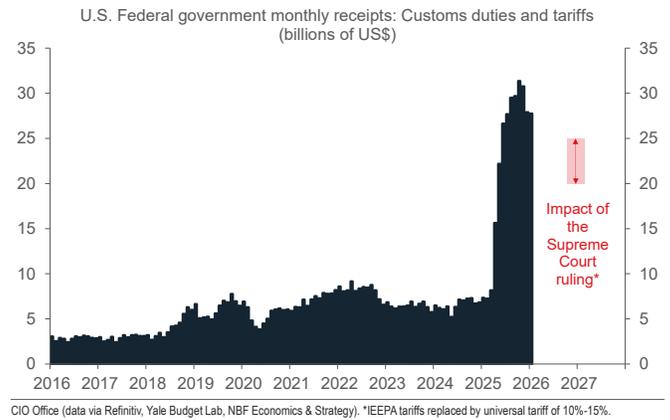
First, President Trump can no longer, at any time, toward any country, or under any pretext, brandish the threat of large-scale tariffs. Second, it

<sup>1</sup> For more details on the ins and outs of these changes, please refer to the [special report by our economist and geopolitical analyst colleagues at FBN Economics and Strategy on the subject](#).

<sup>2</sup> [Fox News Poll: Trump’s tariffs faced broad disapproval even before Supreme Court ruling, February 20, 2026](#).

essentially confirms that the peak in tariffs – far from popular<sup>2</sup> – is now behind us (**Chart 9**).

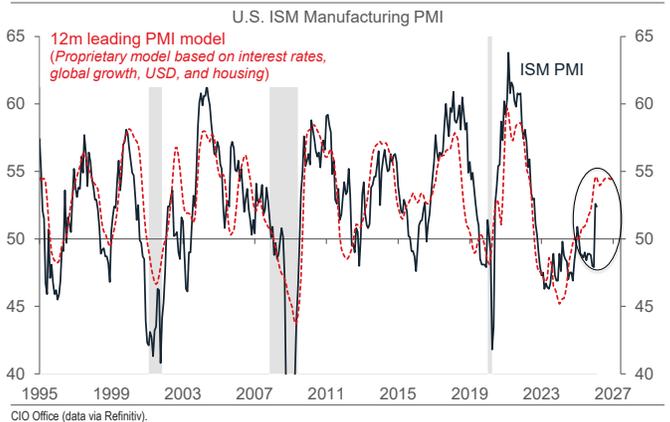
**9 | The peak in tariffs is behind us...**



CIO Office (data via Refinitiv, Yale Budget Lab, NBF Economics & Strategy). \*IEEPA tariffs replaced by universal tariff of 10%-15%.

In this context, the latest manufacturing survey appears to indicate that economic activity is beginning to move on. The ISM PMI jumped sharply, approaching the level it would likely have reached in the absence of the tariff shock, according to our projection model (**Chart 10**).

**10 | ... and it's starting to show in economic data**



CIO Office (data via Refinitiv).

Whether this continues remains to be seen. For now, equity markets appear far more focussed on another source of concern – one that has nothing to

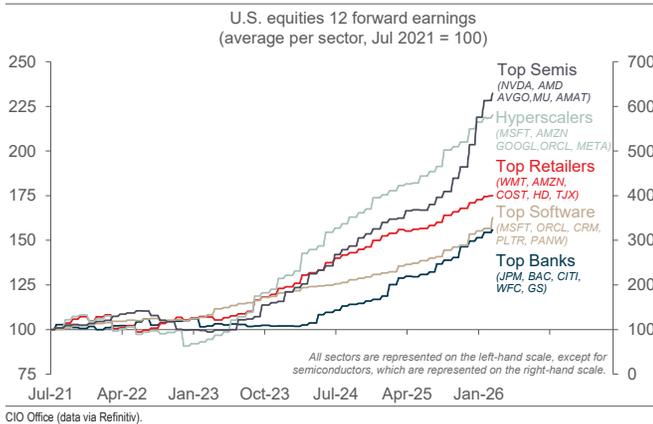


do with tariffs and everything to do with the exponential advances in artificial intelligence.

## Artificial intelligence, tangible impacts

With the earnings season largely behind us, the overall assessment is positive for U.S. companies, which continue to see forward earnings revised higher – across major banks, retailers, software companies, semiconductor firms, and hyperscalers alike (**Chart 11**).

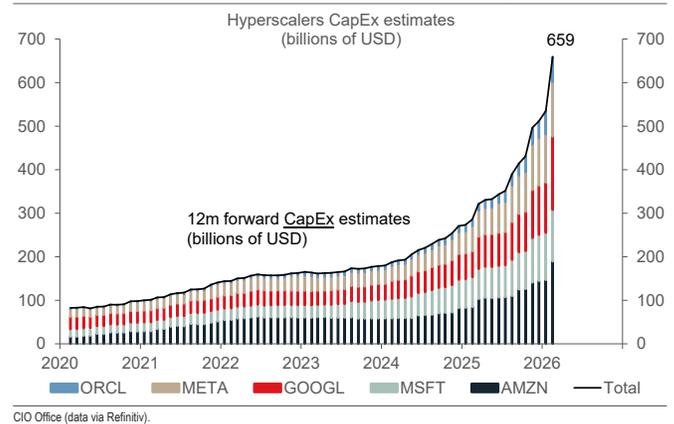
### 11 | Earnings estimates continue to climb...



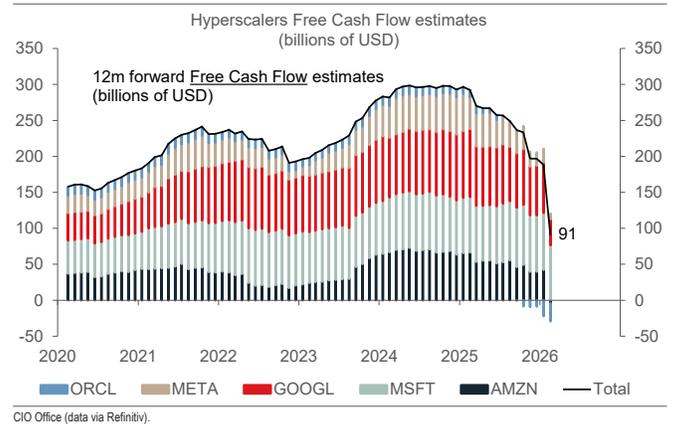
That said, it is primarily the scale of projected capital expenditures by technology giants along with the long-term disruptive potential of AI for the software sector that have captured investors' attention in recent weeks.

Indeed, despite warning signals from markets at the end of 2025, hyperscalers once again surprised investors with the magnitude of their planned capital spending over the next 12 months – now estimated at USD 659 billion (**Chart 12**). As a result, free cash flow expectations for this select group of companies have effectively been cut in half in just one month (**Chart 13**).

### 12 | ... but so do capital expenditure projections



### 13 | The erosion of cash flow is raising questions

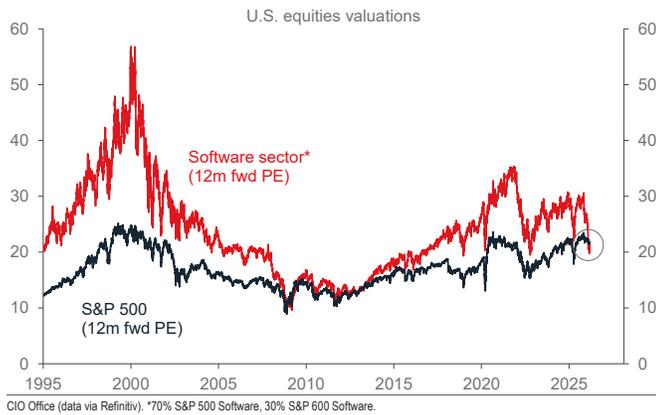


At the same time, impressive advances in coding and software development enabled by simple AI tools have called into question the premium that equity markets have almost always assigned to software behemoths. Long viewed as nearly untouchable, their status is now being challenged (**Chart 14**, next page).

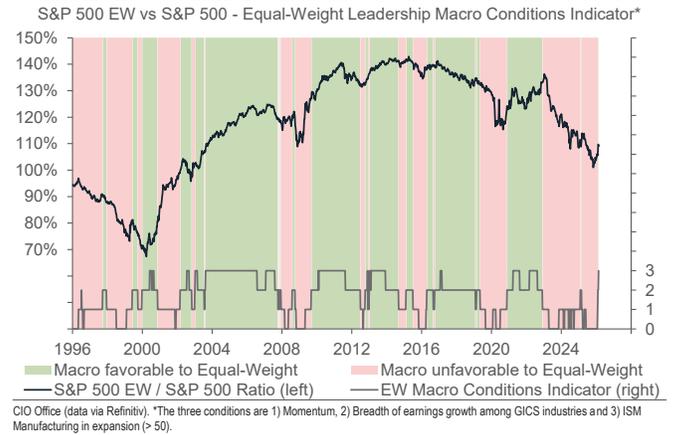
Looking ahead, technology giants will need to reassure markets by demonstrating how they intend to monetize these hundreds of billions of dollars in capital expenditures, failing which they may be forced to scale those back. As for the sharp correction observed in the software sector, markets may be overstating the threat to companies which



**14 | Investors hit the “reset” button on software**



**15 | Conditions align for the S&P 500 Equal Weight**



continue to benefit from recurring revenues, high switching costs, and proprietary data.

That said, we urge investors to exercise caution before drawing hasty conclusions based on past experience. The world is changing rapidly, and while debate over the implications of technological advances is legitimate, no one can claim to fully grasp all their consequences with certainty.

In our view, success in portfolio management – at a time when any company’s business model can be disrupted overnight by technological progress – will inevitably hinge on diversification. This represents a clear break from the past decade during which a handful of companies, protected by significant barriers to entry, largely dominated equity markets.

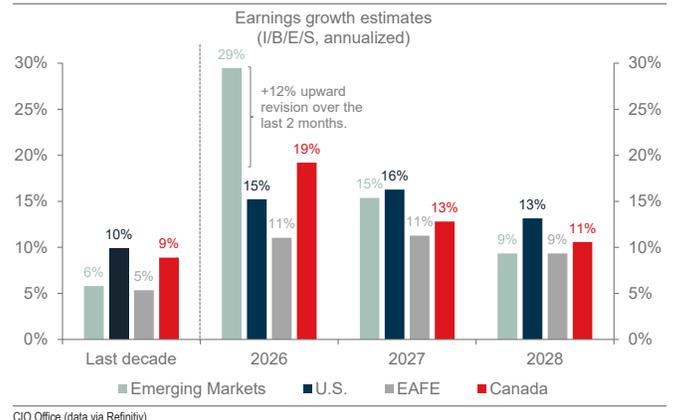
Specifically, this backdrop continues to argue in favour of the S&P 500 Equal Weight, as opposed to the traditional market-cap-weighted index. In addition to offering balance-sheet quality well above that of small-cap stocks, conditions for Equal Weight success have recently aligned, with positive momentum, broad-based earnings growth, and a recovering manufacturing sector (**Chart 15**).

**The bottom line for investors**

Overall, while geopolitical risks may generate short-term volatility, our base-case scenario of a continuing bull market supported by earnings growth remains unchanged.

Within equities, we have adjusted our geographic positioning by realizing the gains on our overweight in Canadian equities – held since November 2024 – in favour of a further increase in exposure to Emerging Markets (EM). In recent months, earnings growth expectations have been revised sharply higher in EM – mostly due to their exposure to the semiconductor ecosystem (**Chart 16**).

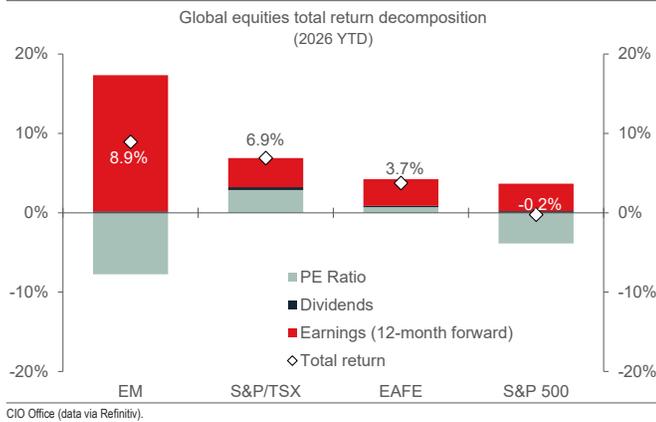
**16 | Profit expectations soar in Emerging Markets...**





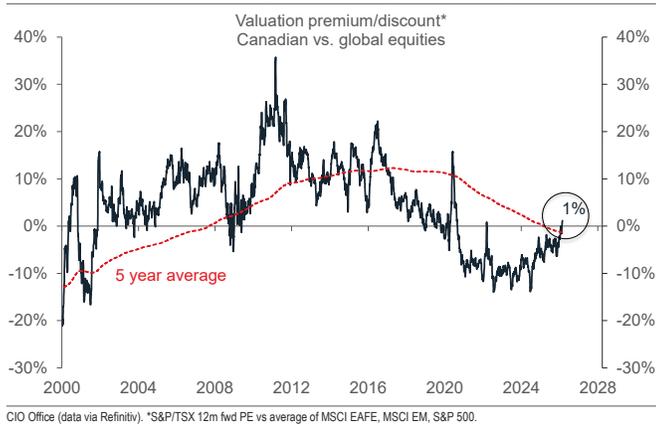
As a result, even though the region has delivered the best performance year-to-date, its price-to-earnings ratio has contracted, as the rise in EM equity prices has not kept pace with the increase in expected profits (**Chart 17**).

**17 | ... explaining their strong YTD returns**



Meanwhile, although positive momentum and cyclical exposure remain supportive for Canadian equities, the valuation argument has weakened recently, with the S&P/TSX now trading at a price-to-earnings ratio comparable to that of the rest of the world – for the first time since 2020 (**Chart 18**).

**18 | Canada is no longer trading at a deep discount**



To be sure, a sustained rise in gold prices could continue to push the Canadian equity market to new highs. However, the growing weight of gold miners

in the index – having increased from 8% to 16% over the past year – means that the relative performance of the S&P/TSX increasingly resembles a directional bet on gold prices (**Chart 19**). This underscores that concentration risk is not unique to the U.S. stock market.

**19 | The S&P/TSX's shine is increasingly golden**





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