

Strait to the point

Highlights

- Volatility rose sharply across financial markets in March, as the escalation between Washington and Tehran led to a near-complete closure of the Strait of Hormuz through which roughly 20% of global oil consumption normally transits.
- Over the past five decades, five major conflicts have triggered sharp increases in oil prices. While no perfect parallel exists, the experience of the Gulf War nonetheless suggests that the situation could deteriorate further before improving.
- Fortunately, current oil price levels and the global economy's reduced sensitivity to oil shocks suggest that a recession remains largely avoidable. That said, the longer maritime traffic in the Strait of Hormuz fails to resume, the greater the risk economic consequences will intensify in a non-linear fashion.
- Moreover, beyond the United States' energy resilience, more serious challenges are emerging in Europe and Asia, compounded by supply-chain disruptions that extend well beyond the energy sector alone.
- In this context, we reduced our equity allocation to a neutral level and increased our exposure to bonds on March 19. Still-solid earnings expectations suggest that equities could rebound quickly should geopolitical conditions improve more favourably in early April. Failing that, the absence of excessive pessimism and still-elevated valuations point to downside risk.
- Finally, the risk of higher bond yields now appears more limited, while developments in gold prices continue to leave us perplexed, despite the pullback observed in March.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Alternatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Fixed Income					
Government	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Duration	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equities					
Canada	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
United States	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EAFE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Emerging Markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Alternatives & FX					
Gold	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uncorrelated Strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Canadian Dollar	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Bottom line: While our baseline scenario continues to assume ongoing economic growth — provided that a gradual recovery in maritime traffic in the Persian Gulf begins over a relatively near horizon — the risk of a stagflationary shock, with more severe consequences for global growth, remains meaningful. From a tactical standpoint, this environment of heightened uncertainty calls for tighter risk management until (1) visibility improves or (2) investor pessimism becomes excessive.



Market review

Fixed income

- Bond markets came under pressure in March, as rising energy prices led investors to reassess interest-rate expectations.
- Against this backdrop, the Canadian bond universe ended Q1-2026 marginally positive, with most early-year gains erased in March. Corporate bonds nevertheless slightly outperformed last month, benefitting from shorter duration and a limited impact on credit spreads.

Equities

- Higher energy prices also weighed on equity markets in March, with major benchmarks posting declines ranging from -4.3% for the S&P/TSX to -13.0% for the MSCI Emerging Markets Index (USD).
- Despite this, the Canadian equity market posted a gain for the quarter, supported in part by a 30% advance in the Energy sector. Emerging markets follow in second place, supported by significantly stronger earnings growth over the 3-month period.

FX & Commodities

- Commodity markets saw the most pronounced moves in March, with WTI crude oil prices rising 54%, in contrast to a 12% decline in gold prices.
- At the same time, the U.S. dollar appreciated against the vast majority of currencies, reaffirming its safe-haven role. This move also weighed on the Canadian dollar in Q1-2026, albeit to a lesser extent than elsewhere.

Market Total Returns

Asset Classes	March	Q1	12M
Cash (S&P Canada T-bill)	0.2%	0.5%	2.5%
Bonds (ICE Canada Universe)	-2.0%	0.3%	0.7%
Short Term	-0.9%	0.3%	2.4%
Mid Term	-2.0%	0.5%	1.7%
Long Term	-3.6%	0.1%	-2.6%
Federal Government	-1.7%	0.4%	0.2%
Corporate	-1.8%	0.3%	2.8%
U.S. Treasuries (US\$)	-1.8%	0.1%	3.2%
U.S. Corporate (US\$)	-2.0%	-0.4%	4.8%
U.S. High Yield (US\$)	-1.1%	-0.5%	6.9%
Canadian Equities (S&P/TSX)	-4.3%	3.9%	34.8%
Communication Services	-0.7%	5.8%	14.9%
Consumer Discretionary	-8.2%	-3.9%	26.0%
Consumer Staples	-2.5%	3.1%	16.9%
Energy	8.2%	30.1%	51.0%
Financials	-3.0%	-1.9%	34.4%
Health Care	-8.2%	-4.5%	5.3%
Industrials	-6.5%	-0.2%	4.9%
Information Technology	0.4%	-22.5%	3.1%
Materials	-16.4%	10.7%	84.6%
Real Estate	-5.6%	-4.3%	1.4%
Utilities	0.4%	11.2%	26.9%
S&P/TSX Small Caps	-9.0%	11.4%	65.8%
U.S. Equities (S&P 500 US\$)	-5.0%	-4.3%	17.8%
Communication Services	-7.3%	-6.9%	32.5%
Consumer Discretionary	-5.6%	-9.2%	11.7%
Consumer Staples	-7.4%	7.7%	6.3%
Energy	10.4%	38.2%	36.3%
Financials	-3.5%	-9.3%	0.7%
Health Care	-8.1%	-4.9%	2.3%
Industrials	-8.4%	4.6%	25.2%
Information Technology	-3.8%	-9.1%	29.0%
Materials	-6.9%	9.7%	18.0%
Real Estate	-6.0%	2.8%	2.3%
Utilities	-3.2%	8.3%	19.7%
Russell 2000 (US\$)	-5.0%	0.9%	25.7%
World Equities (MSCI ACWI US\$)	-7.1%	-3.1%	20.5%
MSCI EAFE (US\$)	-10.2%	-1.1%	21.9%
MSCI Emerging Markets (US\$)	-13.0%	-0.1%	30.3%
Commodities (GSCI US\$)	24.5%	40.0%	43.0%
WTI Oil (US\$/barrel)	53.6%	79.6%	43.1%
Gold (US\$/oz)	-12.0%	6.9%	47.9%
Copper (US\$/tonne)	-7.8%	-1.6%	26.9%
Forex (US\$ Index DXY)	2.4%	1.7%	-4.1%
USD per EUR	-2.4%	-1.9%	6.7%
CAD per USD	2.0%	1.4%	-3.3%

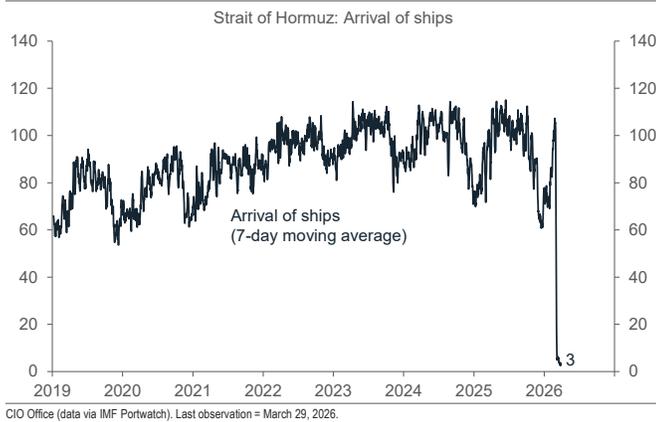
CIO Office (data via Refinitiv, as of 2026-03-31)



Strait to the point

Following the Israeli-U.S. military intervention in Iran, volatility increased markedly across global financial markets in March. By opting for a forceful approach, the U.S. administration was swiftly met with a near-complete a near-complete closure of the Strait of Hormuz, through which roughly 20% of global oil consumption normally transits (**Chart 1**).

1 | The near-closure of the Strait of Hormuz...



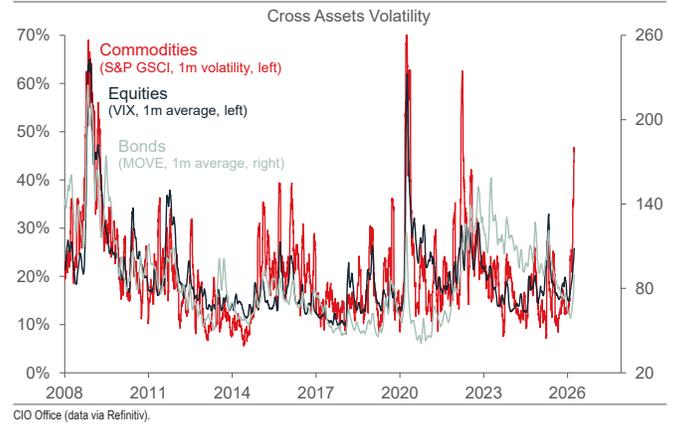
This led to more pronounced movements in commodity markets, with fluctuations comparable to those observed during Russia's invasion of Ukraine in 2022, the pandemic in 2020, and the global financial crisis in 2008 (**Chart 2**).

Nevertheless, equity market losses have, at this stage, remained relatively limited when set against the strong gains recorded in 2025 (**Chart 3**).

In fact, despite the declines seen in March, several equity indices — including the S&P/TSX — remained in positive territory over the first quarter of 2026, while gold — despite its safe-haven status — ranked among the assets posting the largest losses last month (**Chart 4**).

Clearly, we are navigating waters filled with surprises, both on the geopolitical front and in terms

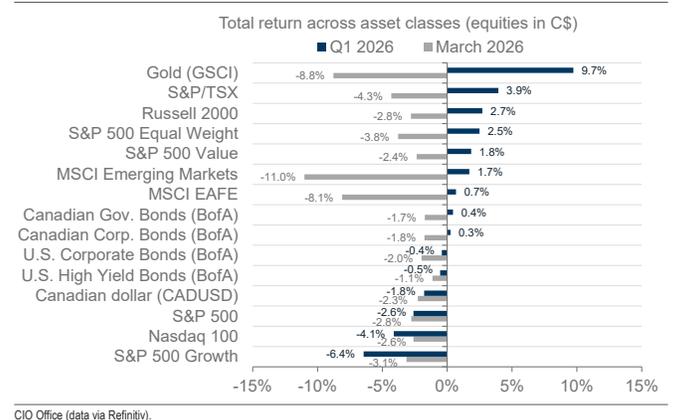
2 | ... has shaken financial markets...



3 | ... although the damage remains limited



4 | What a quarter!



of market reactions. Let's try to shed light on the situation, in a straightforward manner, before drawing out the most likely implications for investors.

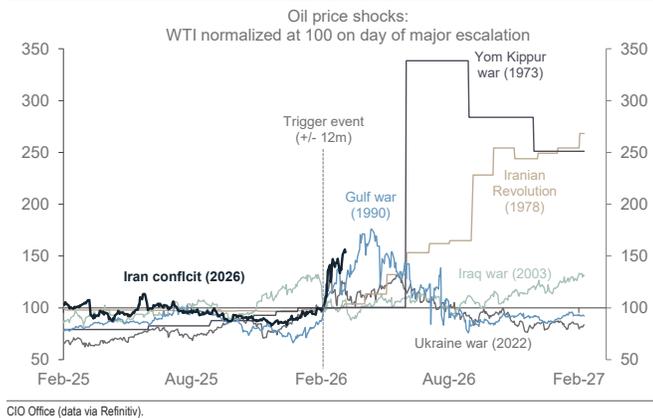


Past tense

Over the past five decades, the global economy has experienced five major conflicts that triggered sharp increases in oil prices. From the 1970s — a period when prices were administered by producing countries and companies — to the 2003 Iraq war, marked by a classic “buy the rumour, sell the news” dynamic, the impact of these episodes on the oil market has varied widely.

Nonetheless, certain similarities can be observed with the Gulf War of the early 1990s, when Iraq’s invasion of Kuwait, followed by U.S. intervention, led to a disruption in global oil flows of a magnitude comparable to the current shock¹ (Chart 5).

5 | Gulf War: the “least bad” comparable?

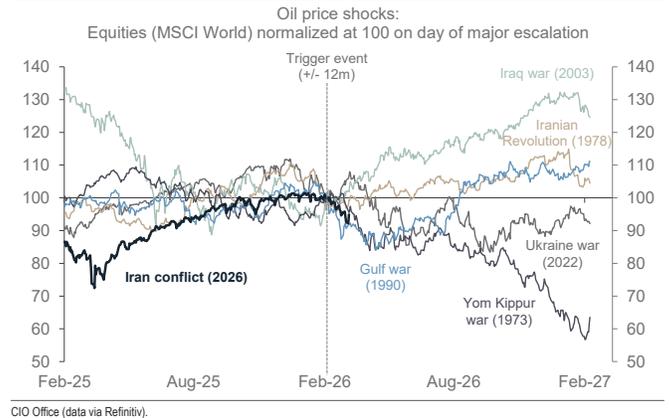


Clearly, the reaction of equity and bond markets depends largely on the context in which the shock occurs. For instance, the 2003 Iraq war unfolded amid a recovery from the bursting of the technology bubble, whereas the severe equity market correction of 1973–1974 occurred in the wake of one of the deepest post-war recessions.

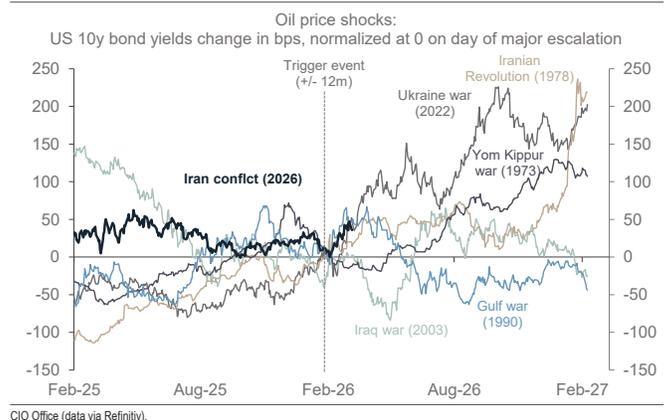
¹ While roughly 20% of global oil consumption normally transits through the Strait of Hormuz, the current effective disruption is estimated at close to 5%, once strategic reserves, logistical rerouting, and certain exemptions are taken into account. By comparison, the Gulf War affected approximately 6% of global consumption. That said, should no resolution be reached within the next few weeks, the current disruption could rise to around 9% of global consumption, which would make the ongoing shock the largest ever observed.

That said, drawing on the experience of the Gulf War, downside risks for equities remain present over a horizon of several months (Chart 6), while the upward move in bond yields may be nearing its end (Chart 7).

6 | Downside risks remain for equities...



7 | ... and seem more limited for bonds



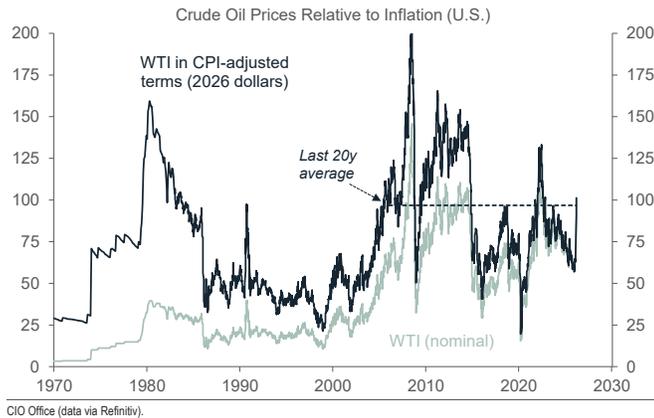
In any case, it would be risky to draw definitive conclusions based solely on historical parallels, given the many specific features that characterize the current environment.



Precarious present

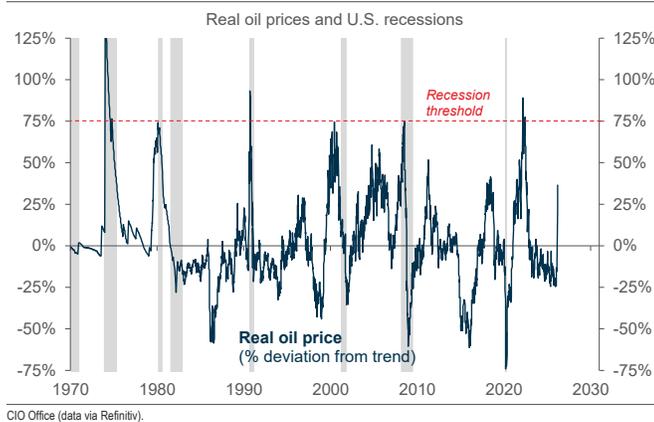
At this stage, the level of WTI crude oil prices — adjusted for inflation — remains manageable, standing not far from its 20-year average (Chart 8).

8 | For now, price increases remain manageable...



Moreover, in terms of magnitude, the increase observed so far represents roughly half of the rise that has historically preceded several recessions over the past five decades, which would correspond to a WTI price of around \$130 per barrel (Chart 9).

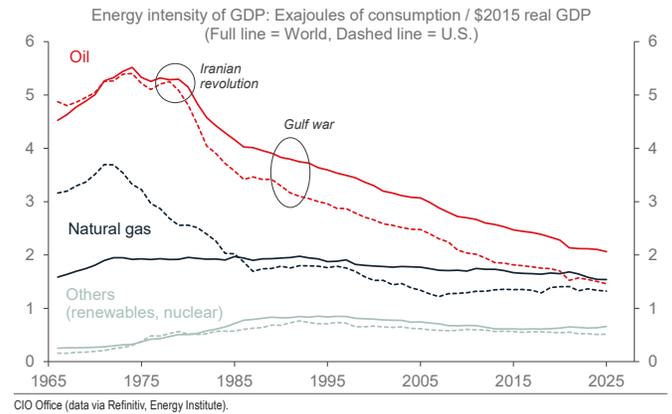
9 | ... with a magnitude below recessionary thresholds



Even then, a WTI price above \$130 per barrel — sustained for several months — would likely be required to conclude that a recession scenario is unfolding. The reasons: the sharp decline in the oil intensity of the global economy since the 1970s

which now stands at roughly half the level observed at the time of the 1990 Gulf War (Chart 10), the result of efficiency gains, and increased use of renewable energy.

10 | The economy is less sensitive to oil prices...



In short, current price levels, the magnitude of the increase, and the economy's now-reduced sensitivity to oil shocks have so far acted as mitigating factors. That said, the numerous risks inherent in the current situation should not be underestimated.

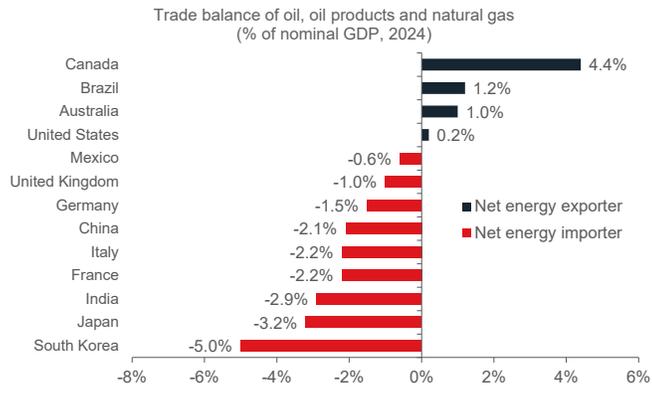
Asymmetric future

While the preceding points focus primarily on West Texas Intermediate (WTI) oil and on the U.S. economy — a net energy exporter since 2019 — the situation is materially different in Europe and Asia (Chart 11, next page).

Naturally, the ease with which oil can be transported and stored makes it a commodity with largely globalized pricing. This explains why U.S. WTI prices — despite being produced thousands of kilometres from the Persian Gulf — have risen so sharply, albeit to a lesser extent than their European and Asian counterparts (Chart 12, next page).

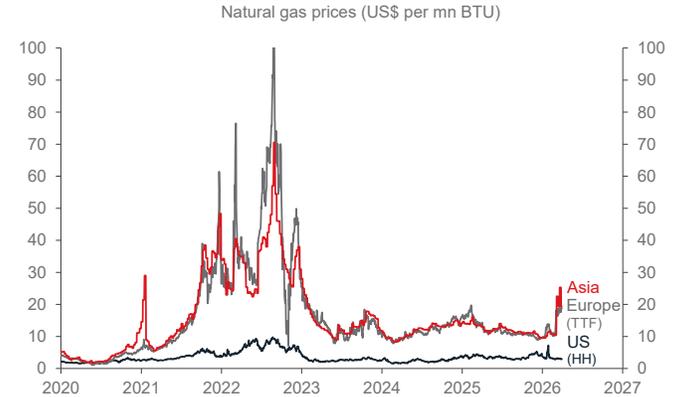


11 | ... but some countries are more so than others



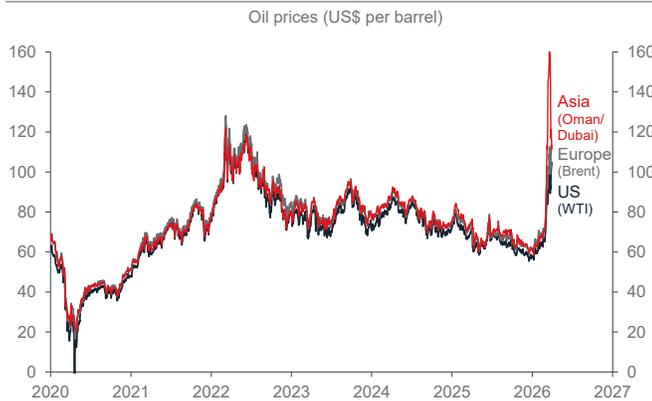
CIO Office (data via Refinitiv).

13 | ... while natural gas prices are mainly local



CIO Office (data via Refinitiv). European prices converted to U.S. dollars at a rate of 1.15 EURUSD.

12 | Oil prices are mostly set on global markets...



CIO Office (data via Refinitiv).

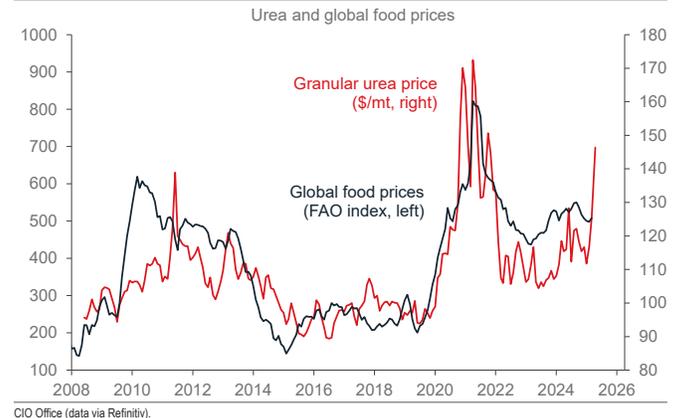
Moreover, another aspect that should not be overlooked is that the Strait of Hormuz is not merely an energy bottleneck: it is a critical node in global value chains linking fertilizers, metals, plastics, food, and advanced technologies².

By way of example, urea — a nitrogen fertilizer of which roughly one-third of global production originates from countries bordering the Persian Gulf — has seen prices rise sharply in recent weeks. Should this situation persist, spillovers to food prices would be expected (**Chart 14**).

By contrast, logistical constraints associated with natural gas transportation make it a commodity whose prices are largely determined locally. This accounts for the absence of a material impact in the United States unlike in Europe and Asia, even though prices remain well below the levels observed following Russia’s invasion of Ukraine in 2022 (**Chart 13**).

In other words, behind the United States’ energy resilience lie more serious challenges elsewhere in the world, which could ultimately weigh on the global economy as a whole.

14 | The impact on prices extends beyond energy



CIO Office (data via Refinitiv).

For the time being, markets are treating the closure of the Strait of Hormuz as a temporary shock, a

² Iran Conflict and the Strait of Hormuz: Impacts on Oil, Gas, and Other Commodities, U.S. Congress, March 11, 2026.



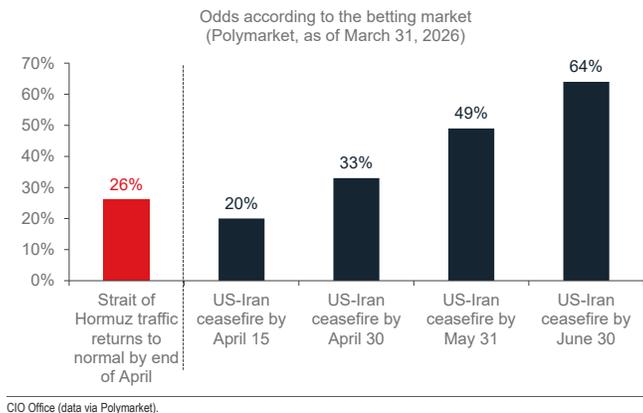
logical interpretation given the difficulty of sustaining such a situation for all parties involved. As a result, while short-term inflation expectations have risen by approximately 75 bps, medium- and long-term expectations have changed little (**Chart 15**).

15 | A significant but temporary impact on inflation?



That said, the only certainty is that the longer the lack of resolution persists, the greater the risk economic consequences will intensify in a non-linear fashion. According to prediction markets, the probability of a ceasefire and of a return to normal maritime traffic by the end of April stands at 33% and 26%, respectively (**Chart 16**), arguing for a prudent stance in the interim.

16 | These probabilities aren't very optimistic

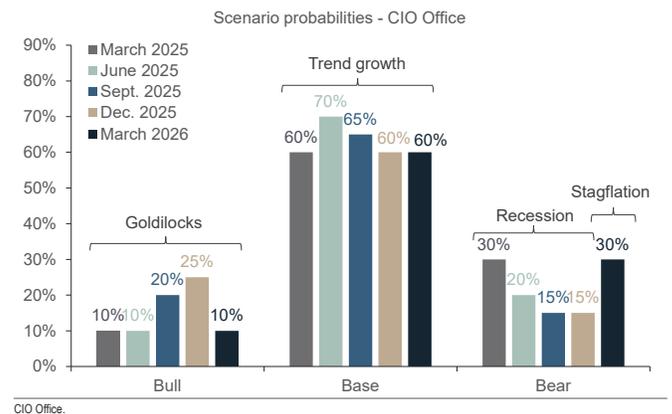


CIO Office (data via Polymarket).

The bottom line for investors

While our baseline scenario continues to assume ongoing economic growth — provided that a gradual recovery in maritime traffic in the Persian Gulf begins over a relatively near horizon — the risk of a stagflationary shock, with more severe consequences for global growth, remains meaningful (**Chart 17**).

17 | The balance of risks has changed



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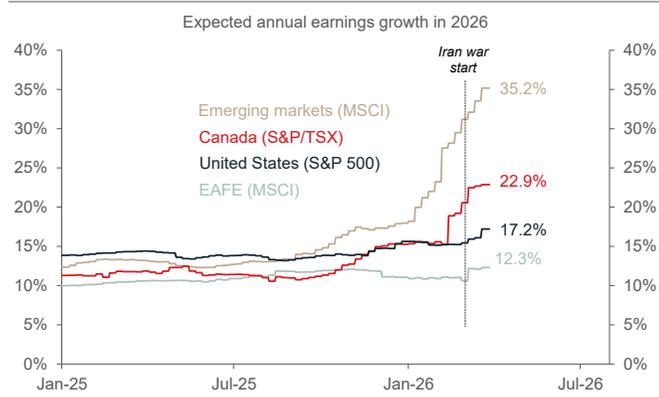
From a tactical standpoint, this environment of heightened uncertainty calls for tighter risk management. It is with this in mind that we reduced our equity allocation to a neutral level while increasing our exposure to bonds on March 19.

For the time being, consensus earnings expectations remain very solid — particularly in Emerging Markets — suggesting that equities could rebound quickly should geopolitical conditions improve more favourably early in April (**Chart 18**, next page). Failing that, downward revisions to expectations are likely to begin imminently.

As we have argued repeatedly in the past, energy prices represent a macroeconomic force that is often underestimated: they act as tailwinds when low — as was the case over the past year — and as headwinds when high, particularly when driven by a



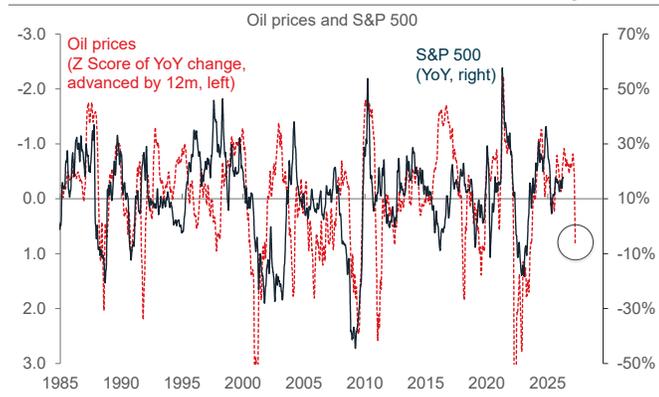
18 | Strong profit prospects are under threat



CIO Office (data via Refinitiv).

supply shock, as is currently the case. This dynamic helps explain the leading relationship observed with equity markets, which is now sending a signal of caution (**Chart 19**).

19 | Oil shifts from tailwind to headwind for equities

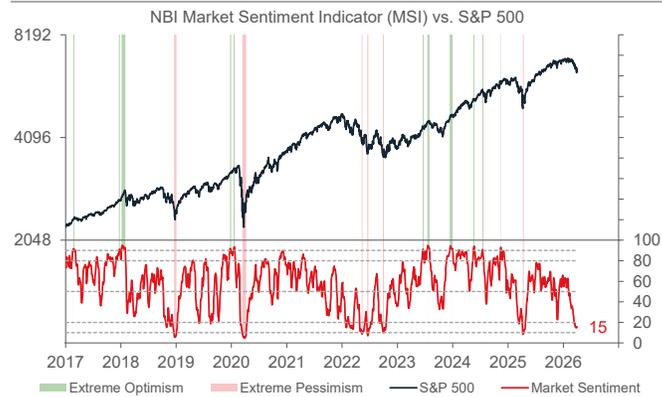


CIO Office (data via Refinitiv).

In this context, we will continue to closely monitor our Market Sentiment Indicator which has proven relatively effective in identifying periods of excessive pessimism that preceded rebounds since its first publication in 2018 (**Chart 20**).

We are not there yet. But, the emergence of such a signal could lead us to once again adopt a more risk-friendly stance, provided that a global recession scenario remains avoidable.

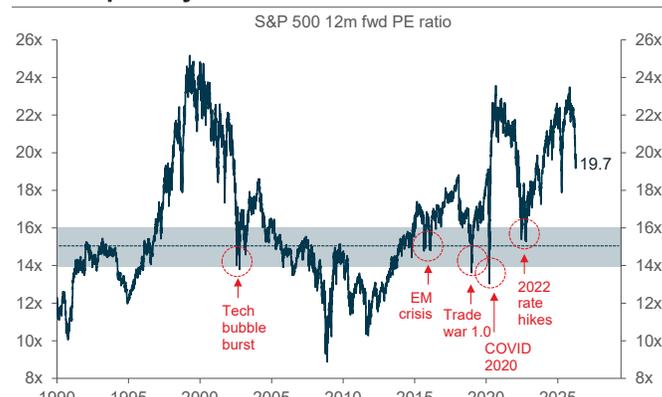
20 | Market sentiment is low, but not excessive



CIO Office (data via Refinitiv, Bloomberg).

Failing that, another reference point that has often coincided with the end of more pronounced equity market corrections is a price-to-earnings ratio of around 15x for the S&P 500, which is just over 20% lower than current levels (**Chart 21**).

21 | Keep an eye on PEs in a more adverse scenario



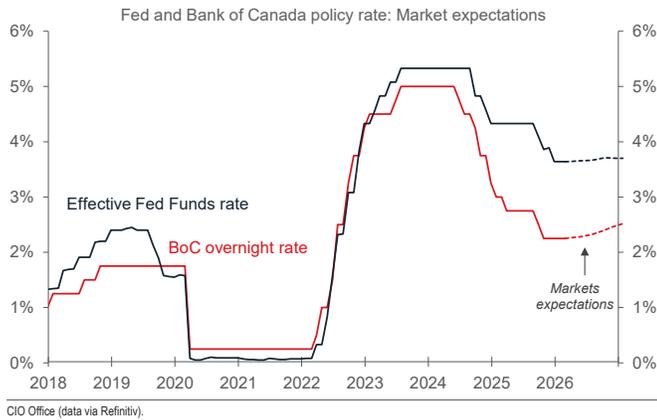
CIO Office (data via Refinitiv).

On the bond side, recent weeks have also been more challenging, as markets are no longer pricing in rate cuts in the United States in 2026 and are instead pricing in nearly three rate hikes in Canada (**Chart 22**, next page).

This reaction seems premature. Granted, the oil shocks of the 1970s led the Fed to tighten monetary policy. However, the most relevant parallel likely remains the 1990–1991 Gulf War.

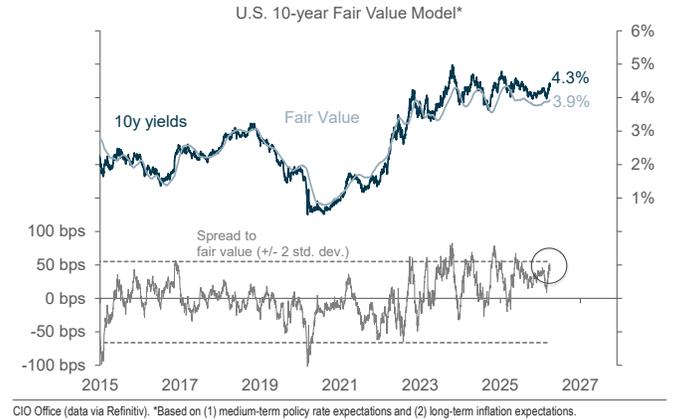


22 | What will central banks do?



CIO Office (data via Refinitiv).

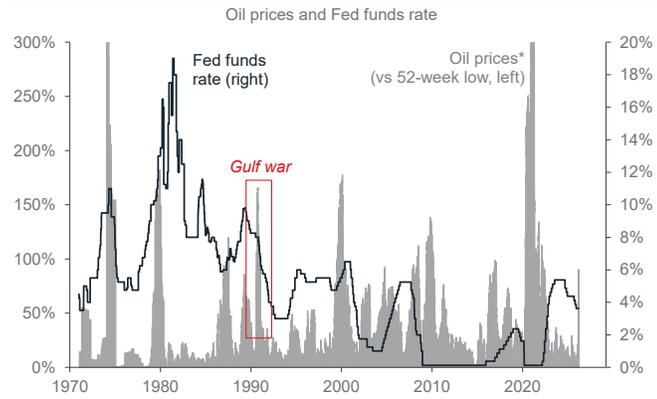
24 | Bonds offer value at these levels



CIO Office (data via Refinitiv). *Based on (1) medium-term policy rate expectations and (2) long-term inflation expectations.

At that time, after a brief pause in its easing cycle during the early months of the crisis (August to October 1990), the Fed quickly resumed rate cuts despite a conflict that was still ongoing — illustrating a clear priority placed on financial stability rather than on an inflationary supply shock (**Chart 23**).

23 | During the Gulf War, the Fed cut interest rates

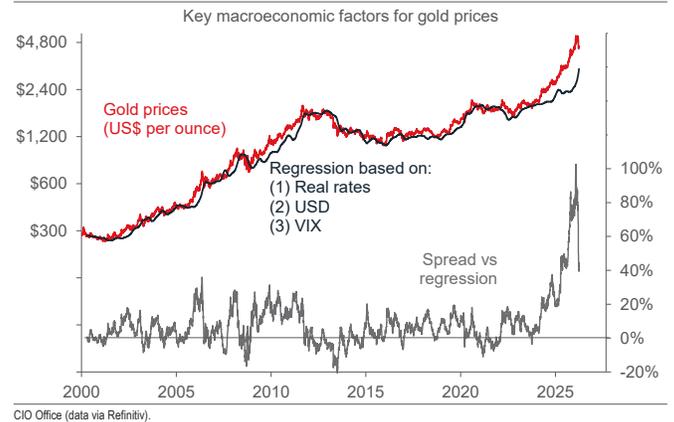


CIO Office (data via Refinitiv). *Average of Brent and WTI.

Today, the balance of risks is unquestionably a delicate exercise for a Federal Reserve grappling with inflation that has remained above target for five years. Nevertheless, at current levels, our fair-value model suggests that risks for bond markets are relatively limited (**Chart 24**).

Finally, while the sharp decline in gold prices surprised many in March, it served to confirm a concern raised in recent months, namely, that

25 | Lower gold prices doesn't mean it's a bargain



CIO Office (data via Refinitiv).

speculative activity appeared to have overtaken the precious metal (**Chart 25**).

Following such a correction, downside risk naturally appears more limited over the near term.

Nevertheless, we continue to recommend avoiding any over-concentration in an asset whose volatility rivals that of equities.



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