

## The Resilience Paradox

### Highlights

- After a more challenging month of March, equity markets rebounded strongly in April, despite a situation in Iran that remains far from resolved.
- It is tempting to conclude that markets are simply displaying complacency. However, it is also possible that we are, once again, facing the resilience paradox: a concept which, in both psychology and investing, suggests that the resilience observed does not stem from denial, but rather from an ability to adapt — and, above all, from a forward-looking perspective.
- In any case, economic activity is still showing few signs of slowing, while earnings growth prospects remain solid across most sectors. To be sure, inflation bears close watching — and it is quite possible that the Fed may not cut interest rates at all in 2026 — but with the labour market broadly in balance, the risk of an inflationary spiral appears limited.
- While the past six years have been marked by a succession of exceptional events, one conclusion stands out from a market perspective: equities have never waited for a return to normalcy to rebound. A simple signal pointing to a future that is not necessarily favourable, but merely less bleak — and, above all, not fatal for the economy — has generally been sufficient. Accordingly, although the outlook remains highly uncertain, we began to return to a slight overweight stance in equities at the end of April.
- From a geographic standpoint, we increased our exposure to U.S. Equities, where stronger earnings growth — supported, in particular, by the technology sector — could help restore some momentum to markets in the near term.

### Global Asset Allocation Views

Asset Classes	-		N		+
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alternatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Fixed Income</b>					
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"/>
<b>Equities</b>					
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 checked="" type="checkbox"/>	<input type="checkbox"/>
EAFE	<input checked="" 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"/>
<b>Alternatives &amp; FX</b>					
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"/>

CIO Office

**Bottom line:** While a measured approach to risk-taking remains appropriate, the resilience shown by the economy so far, combined with the recent decline in the likelihood of the most adverse geopolitical scenarios, led us to initiate, at the end of April, a first shift back toward an overweight in equities at the expense of bonds.

In the coming months, our intention is to continue this adjustment gradually, as the economic outlook becomes clearer.



## Market review

### Fixed income

- The Canadian bond market was essentially flat in April, as investors continued to wait for greater clarity on the outlook for energy prices and inflation.

### Equities

- Global equity markets rebounded sharply in April, benefiting from the ceasefire in the Middle East and the renewed enthusiasm for artificial intelligence. From a regional perspective, Emerging Markets and the United States were the main beneficiaries of this market environment, while Canada underperformed the rest of the world.
- Within the S&P 500, sectors tied to large technology companies and artificial intelligence – namely Information Technology, Communication Services, and Consumer Discretionary – posted strong outperformance, while Energy and Health Care registered slight monthly losses.

### FX & Commodities

- Oil prices were extremely volatile in April, reflecting the sensitivity of energy markets to developments in the Middle East conflict. Ultimately, oil prices and several other commodities ended the month with gains.
- On the currency front, the U.S. dollar depreciated following the announcement of a ceasefire between the United States and Iran early in the month, as easing geopolitical anxiety weighed on demand for safe-haven assets.

## Market Total Returns

Asset Classes	April	YTD	12M
<b>Cash (S&amp;P Canada T-bill)</b>	<b>0.2%</b>	<b>0.7%</b>	<b>2.5%</b>
<b>Bonds (ICE Canada Universe)</b>	<b>0.1%</b>	<b>0.4%</b>	<b>1.6%</b>
Short Term	0.0%	0.3%	2.4%
Mid Term	-0.2%	0.3%	1.9%
Long Term	0.3%	0.5%	0.0%
Federal Government	-0.3%	0.1%	0.5%
Corporate	0.4%	0.7%	3.8%
U.S. Treasuries (US\$)	-0.1%	0.0%	2.5%
U.S. Corporate (US\$)	0.6%	0.1%	5.5%
U.S. High Yield (US\$)	1.7%	1.1%	8.7%
<b>Canadian Equities (S&amp;P/TSX)</b>	<b>3.8%</b>	<b>7.9%</b>	<b>40.1%</b>
Communication Services	-6.5%	-1.1%	10.1%
Consumer Discretionary	6.2%	2.0%	31.5%
Consumer Staples	-0.8%	2.3%	9.8%
Energy	2.0%	32.6%	64.3%
Financials	10.6%	8.5%	46.3%
Health Care	13.2%	8.2%	27.9%
Industrials	6.3%	6.0%	12.6%
Information Technology	5.4%	-18.3%	7.7%
Materials	-5.3%	4.9%	71.9%
Real Estate	4.6%	0.1%	7.0%
Utilities	0.1%	11.3%	23.8%
S&P/TSX Small Caps	6.7%	18.9%	80.2%
<b>U.S. Equities (S&amp;P 500 US\$)</b>	<b>10.5%</b>	<b>5.7%</b>	<b>31.1%</b>
Communication Services	18.5%	10.3%	55.9%
Consumer Discretionary	11.7%	1.5%	25.2%
Consumer Staples	3.1%	11.0%	8.3%
Energy	-3.5%	33.5%	52.4%
Financials	5.6%	-4.3%	8.6%
Health Care	-0.4%	-5.3%	5.8%
Industrials	7.9%	12.9%	34.8%
Information Technology	17.5%	6.7%	49.2%
Materials	2.7%	12.7%	23.8%
Real Estate	8.8%	11.8%	12.7%
Utilities	2.1%	10.5%	22.1%
Russell 2000 (US\$)	12.2%	13.2%	44.4%
<b>World Equities (MSCI ACWI US\$)</b>	<b>10.2%</b>	<b>6.8%</b>	<b>31.5%</b>
MSCI EAFE (US\$)	7.6%	6.4%	25.2%
MSCI Emerging Markets (US\$)	14.7%	14.6%	47.5%
<b>Commodities (GSCI US\$)</b>	<b>6.4%</b>	<b>49.0%</b>	<b>66.2%</b>
WTI Oil (US\$/barrel)	5.6%	89.7%	82.4%
Gold (US\$/oz)	-0.1%	6.8%	39.6%
Copper (US\$/tonne)	5.3%	3.7%	41.6%
<b>Forex (US\$ Index DXY)</b>	<b>-1.9%</b>	<b>-0.3%</b>	<b>-1.4%</b>
USD per EUR	1.8%	-0.1%	3.2%
CAD per USD	-2.4%	-1.0%	-1.6%

CIO Office (data via Refinitiv, as of 2026-04-30)



## The Resilience Paradox

After a more difficult month of March, equity markets rebounded sharply in April, once again demonstrating the extent of their resilience in what remains a highly uncertain environment (**Chart 1**).

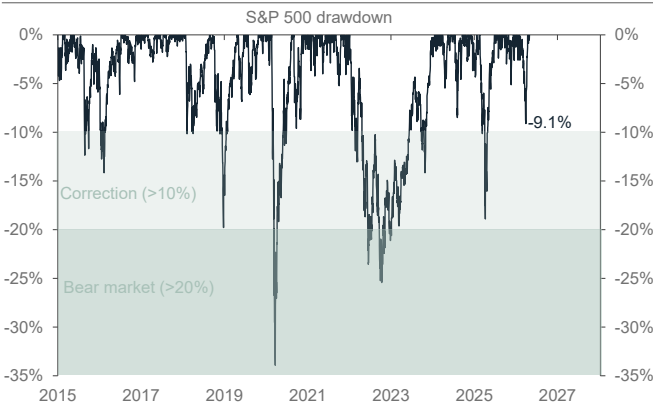
### 1 | Another sharp rebound for equities...



CIO Office (data via Refinitiv). \*40% S&P 500, 30% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM (all in C\$)

Thus, the S&P 500's pullback from its previous peak ultimately reached only 9.1%, with the Index then taking just 11 days to hit a new high in April (**Chart 2**).

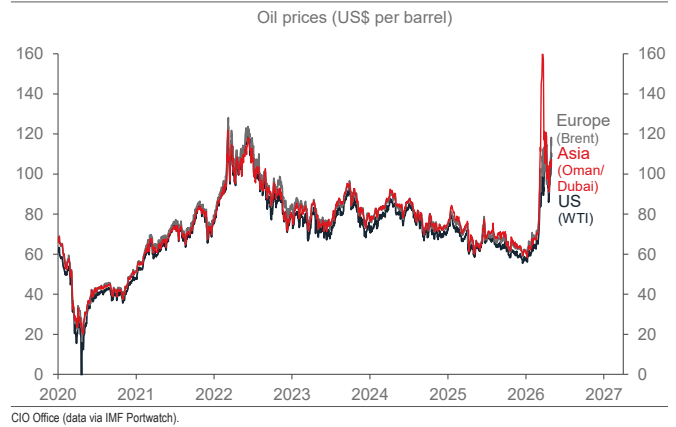
### 2 | ... after a rather limited pullback this time



CIO Office (data via Refinitiv).

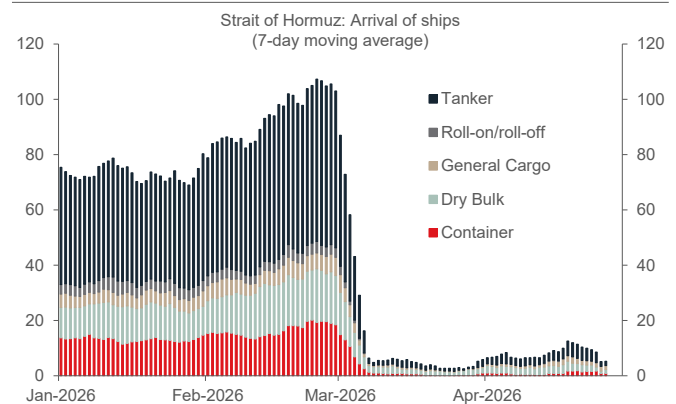
And yet, the situation in Iran remains far from resolved: oil prices are still trading around \$100 per barrel (**Chart 3**), while maritime transit through the Strait of Hormuz continues to represent only a small fraction of its normal level (**Chart 4**).

### 3 | Oil prices remain significantly higher...



CIO Office (data via IMF Portwatch).

### 4 | ... while the opening of Hormuz is still pending



CIO Office (data via IMF Portwatch).

It is tempting to conclude that markets are simply displaying complacency. However, it is also possible that we are, once again, facing the resilience paradox: a concept which, in both psychology and investing, suggests that the resilience observed does not stem from denial, but rather from an ability to adapt — and, above all, from a forward-looking perspective.

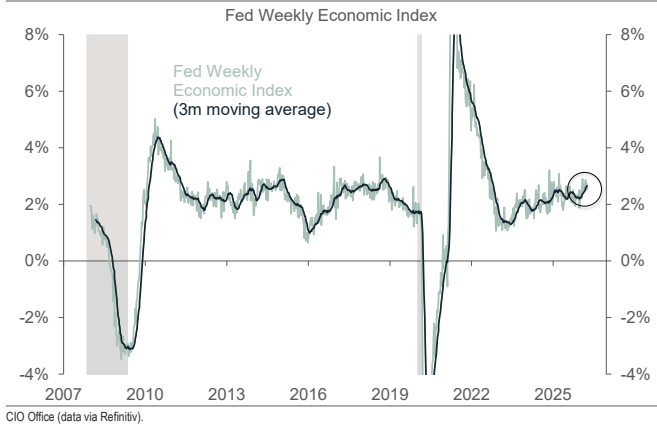
Let's take stock.



## The economy is holding up...

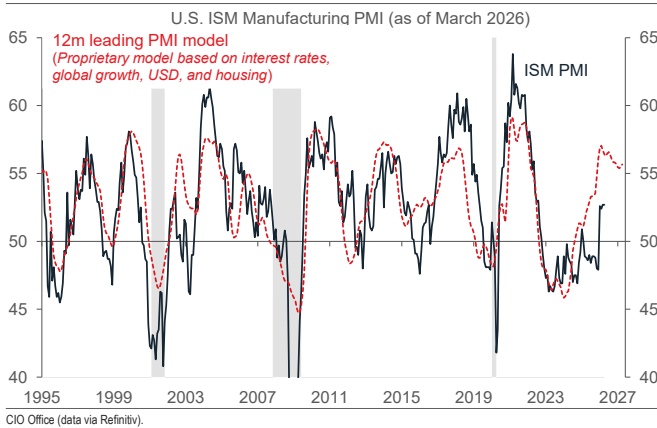
If we rely on the Fed's Weekly Economic Index — designed to measure the state of the U.S. economy in near real time<sup>1</sup> — the negative impact on activity remains limited, two months after the onset of the open conflict of the U.S. and Israel against Iran (Chart 5).

### 5 | There are little signs of a slowdown for now



In the same vein, the ISM Manufacturing Index remains close to its highest level since 2022, and our projection model suggests that this strength could persist over the coming year (Chart 6).

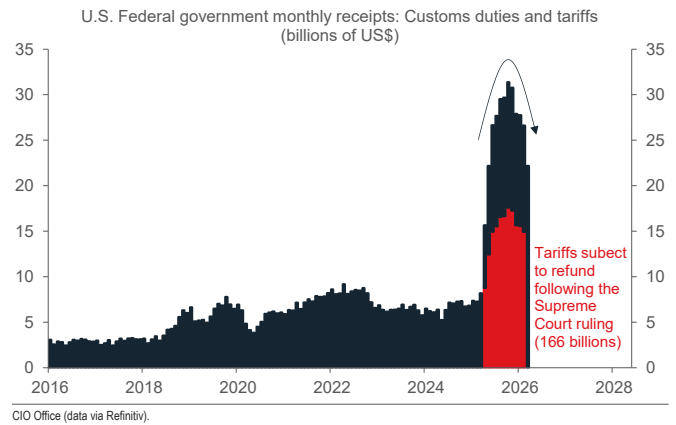
### 6 | The manufacturing sector recovering...



Moreover, the manufacturing sector — the primary importer of goods in the United States — stands to

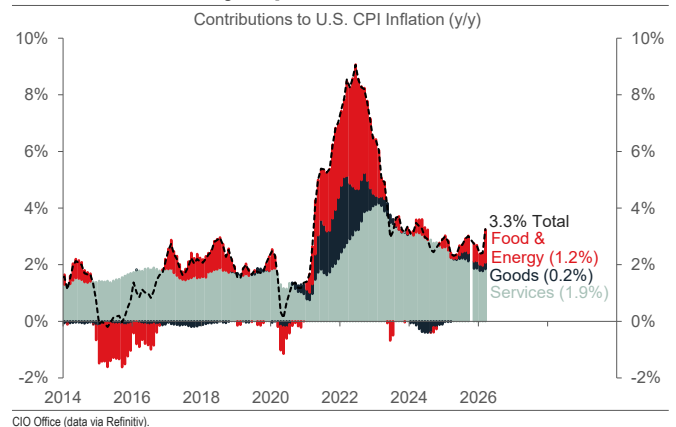
be among the main beneficiaries of the recent decision allowing roughly half of the tariffs collected prior to the Supreme Court ruling of February 20 to be eligible for reimbursement claims (Chart 7).

### 7 | ... while tariffs are coming down



Although, in theory, this could represent a fiscal stimulus of roughly 0.5% of GDP relative to the status quo in 2026, the pace at which these payments will be disbursed remains uncertain. One thing is clear, however: if growth concerns remain in the background, inflation will need to be monitored closely, as it has just moved above 3% following the recent rise in energy prices (Chart 8).

### 8 | U.S. inflation jumps above 3%...



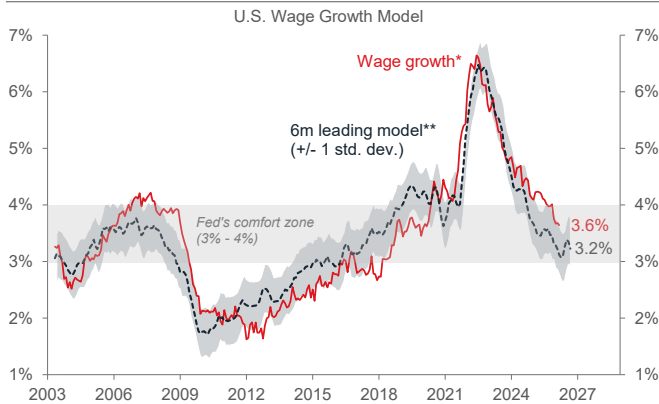
For now, we are not overly concerned, for the simple reason that with a labour market essentially

<sup>1</sup> For more information on this indicator and its components, please consult its information page on the Dallas Fed's website.



in balance — that is, where wage growth is neither too strong nor too weak (**Chart 9**) — it is difficult to envision an inflation spiral at this time.

**9 | ... but wage pressures remain modest**



CIO Office (data via Refinitiv). \*Average between the Atlanta Fed measure and average hourly earnings (adjusted for extreme movements due to sector composition early in the pandemic). \*\*Linear regression based on (1) job openings (indeed and JOLTS) vs unemployed, (2) NFIB "hard to fill jobs", (3) NFIB "plan to increase wages", (4) consumer sentiment "jobs plentiful", (5) JOLTS quits rate.

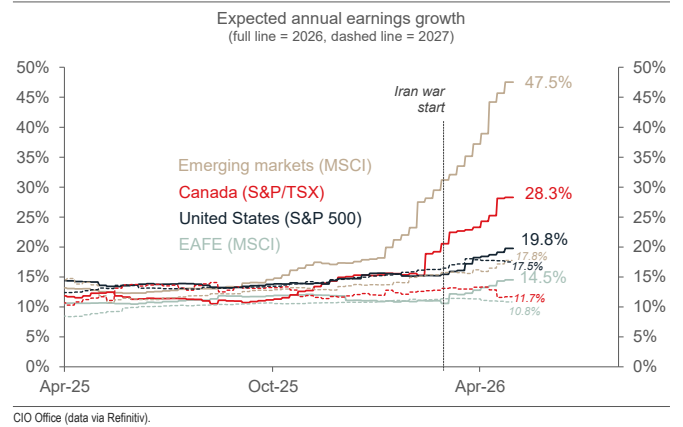
Nevertheless, the case for rate cuts that the new Federal Reserve Chair, Kevin Warsh (whose term begins in May) is likely to put forward is far from assured — especially in an environment of strong corporate profit growth.

**... profits are rising**

Last month, we highlighted — not without surprise — the resilience of profit growth expectations across major equity regions, particularly in Emerging Markets, despite the sharp rise in energy prices. One month later, this trend has not only persisted but has actually strengthened (**Chart 10**).

A closer look shows that the upward revisions observed since late February have been driven primarily by two sectors: Energy, for obvious reasons, and Technology, amid sustained investment in artificial intelligence which is significantly benefitting semiconductor producers (**Chart 11**).

**10 | Earnings estimates continue to rise...**



**11 | ... partly thanks to Energy and Technology...**

Global equities earnings growth expectations in 2026

	U.S. (S&P 500)		Canada (S&P/TSX)		EAFE (MSCI)		EM (MSCI)	
	Expected growth	Revisions (2m)	Expected growth	Revisions (2m)	Expected growth	Revisions (2m)	Expected growth	Revisions (2m)
<b>Headline index</b>	<b>19.9%</b>	<b>▲ 2.9%</b>	<b>28.3%</b>	<b>▲ 5.1%</b>	<b>14.5%</b>	<b>▲ 2.1%</b>	<b>47.5%</b>	<b>▲ 9.0%</b>
Technology	42.1%	▲ 4.9%	27.6%	▲ 1.2%	25.0%	▲ 3.6%	148.9%	▲ 27.1%
Energy	43.8%	▲ 46.6%	28.3%	▲ 35.7%	49.3%	▲ 50.9%	26.7%	▲ 26.4%
Materials	32.0%	▲ 5.8%	77.5%	▲ 3.8%	32.3%	▲ 2.3%	98.4%	▲ 5.8%
Financials	9.7%	▲ 0.6%	17.6%	▲ 1.5%	8.5%	▲ 0.6%	6.9%	▼ -0.7%
Health Care	5.2%	▼ -0.7%	26.6%	▲ 0.2%	4.2%	▼ -1.9%	12.7%	▼ -1.8%
Telecom. Services	-0.8%	▼ -1.2%	-3.1%	▼ -0.2%	-14.7%	▼ -2.8%	11.5%	▼ -3.1%
Discretionary	9.1%	▼ -0.2%	13.2%	▼ -2.0%	70.3%	▼ -5.4%	24.0%	▼ -8.2%
Industrials	12.9%	▼ -2.2%	9.5%	▼ -2.6%	11.0%	▼ -0.8%	34.5%	▲ 6.2%
Staples	6.1%	▼ -0.6%	11.0%	▼ -0.9%	4.6%	▼ -0.7%	13.4%	▼ -4.0%
Utilities	10.8%	▼ -0.1%	28.2%	▼ -5.2%	3.5%	▲ 0.6%	13.7%	▼ -4.0%
Real Estate	11.0%	▼ -1.1%	136.9%	▼ -2.6%	6.6%	▼ -0.3%	0.5%	▼ -2.8%

CIO Office (data via Refinitiv).

That said, beyond the strong performance of these two sectors, profit growth remains broad based. Indeed, 90% of sectors across Canadian, U.S., emerging, and EAFE equity markets are posting positive growth, with 75% growing at a pace above their five-year average (**Chart 12**, next page).

If this trend persists, it is good news for equity investors, as profit growth remains a key anchor for market returns (**Chart 13**, next page).

Case in point, we tested a simple investment strategy conditioned on real-time earnings growth. The result: returns are generally positive when profits are rising, and negative when they are not. That said, earnings growth in the range of 15% to



**12 | ... but growth is broad-based...**

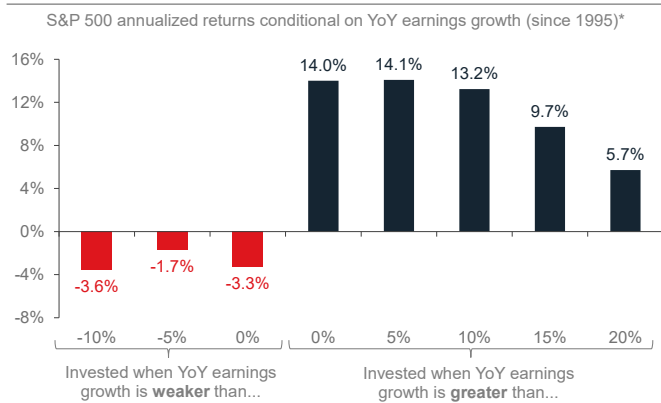


**13 | ... and that bodes well for equity returns...**



20%, as is currently the case, tends to be associated with more modest returns — another paradox, perhaps<sup>2</sup> (Chart 14).

**14 | ... if the past 30 years are any guide**



<sup>2</sup> This observation likely reflects the tendency of earnings growth to revert to the mean after periods of strong expansion, as well as the forward-looking nature of equity markets.

**The bottom line for investors**

The past six years have been marked by a succession of exceptional events: the worst global pandemic since the 1930s, the highest inflation followed by the fastest interest rate hiking cycle since the 1980s, the highest U.S. tariffs since the 1930s... and, more recently, one of the most severe disruptions to global energy flows since the 1970s.

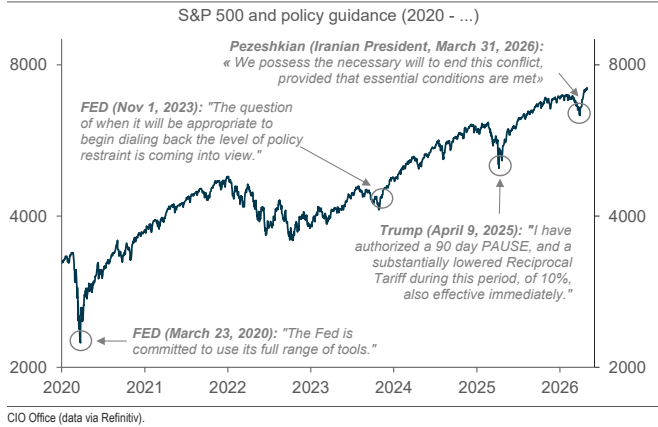
From an equity market perspective, however, these historic episodes share one common feature: markets did not wait for a return to normal before rebounding. All it took was a signal suggesting a future that was not necessarily positive, but simply less adverse and, above all, not fatal for the economy.

In 2020, that signal came, paradoxically, on the very day Canada imposed its first strict lockdown, March 23, following the announcement of unlimited support measures by central banks. At the end of 2023, all it took was for the Federal Reserve to hint at the possibility of future rate cuts to trigger a powerful bull market. In April 2025, the announcement of a 90-day pause in U.S. reciprocal tariffs allowed markets to rebound strongly, despite ongoing uncertainty surrounding trade policy in the months that followed. And now, today, the market trough appears to have preceded not an announcement by the U.S. president, but rather one by the Iranian president, signaling a willingness to negotiate (Chart 15, next page).

To be clear: the current situation remains highly uncertain, all the more so, as — unlike in the previous examples — the identity of the true



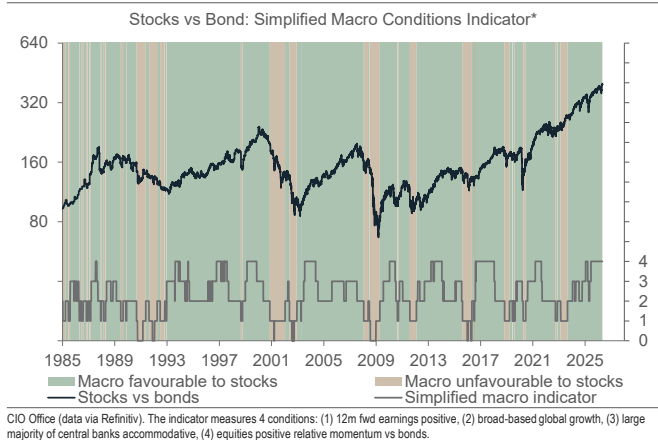
**15 | Markets are forward-looking**



decision-maker in Iran, whether an individual or a group, remains difficult to determine.

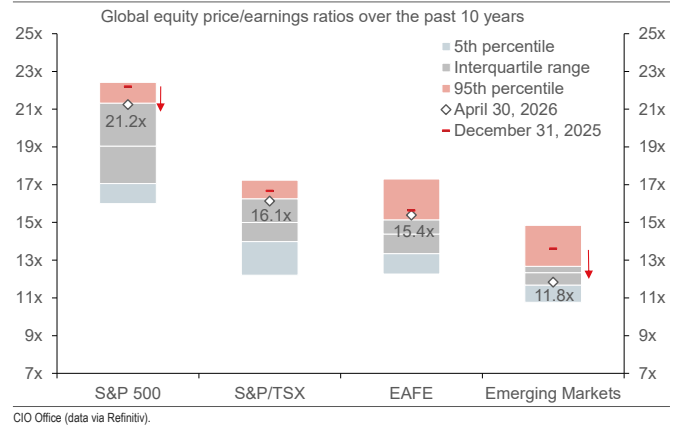
Nevertheless, the resilience demonstrated by the economy thus far (Chart 16), along with the reduced probability of the most adverse geopolitical scenarios in recent weeks, led us to begin a first shift back toward an overweight in equities at the expense of bonds at the end of April.

**16 | Behind the fog, key indicators are flashing green**



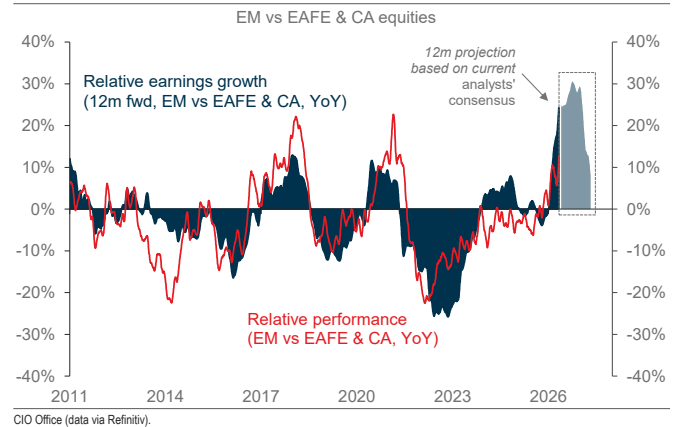
Geographically, we remain overweight in Emerging Markets. Despite sharp outperformance since the start of the year, the region continues to display the lowest valuations, both in absolute terms and relative to its own historical range (Chart 17).

**17 | Equities are cheaper than at the start of the year**



This reflects sustained earnings growth which is expected to continue outpacing that of other regions (Chart 18).

**18 | Earnings growth differentials are favouring EM...**



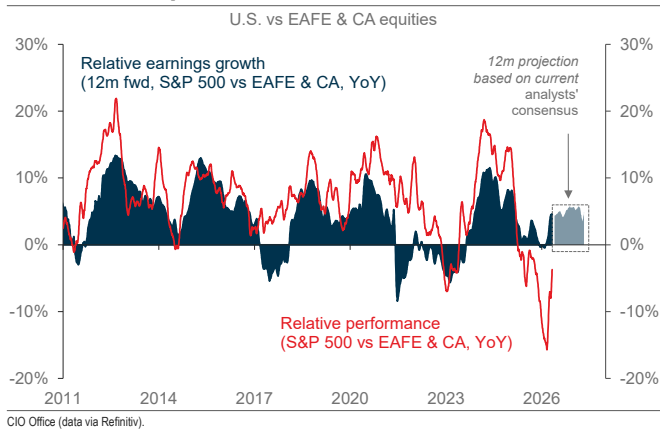
This observation is even more pronounced in the case of the EAFE region where we have increased our underweight. Its heightened sensitivity to energy prices combined with a structural underexposure to technology themes makes it, in our view, a market doubly vulnerable to persistent underperformance in the current environment.

By contrast, we have increased our exposure to U.S. Equities, where stronger profit growth — supported, in particular, by the technology sector — could help restore market momentum in the short



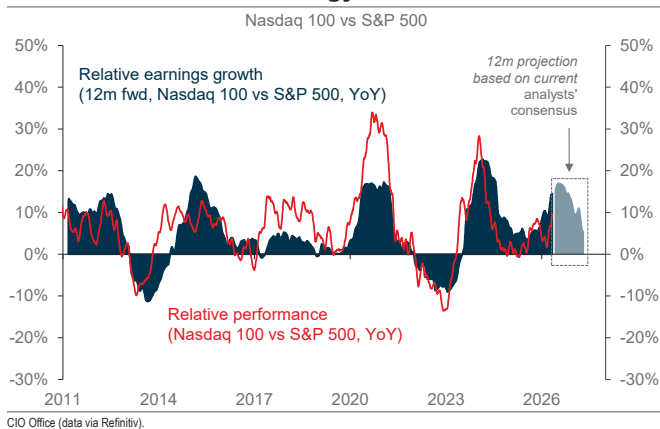
term following a period of significant underperformance (**Chart 19**).

**19 | ... U.S. equities...**



By extension, the technology-heavy Nasdaq 100 Index could not only maintain but may even strengthen its leadership within the U.S. equities market. Much like the spreads observed across geographic regions, differences in earnings growth typically explain a large share of performance differentials across market segments. At present, these dynamics appear to favour the Nasdaq 100 universe (**Chart 20**).

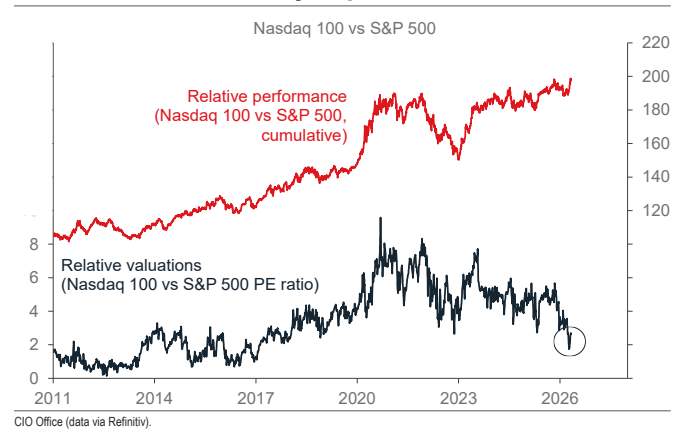
**20 | ... and even technology stocks...**



In the past, the high valuation level of the U.S. technology sector has often tempered investor enthusiasm — including our own — and the example of 2022 showed that this was not always

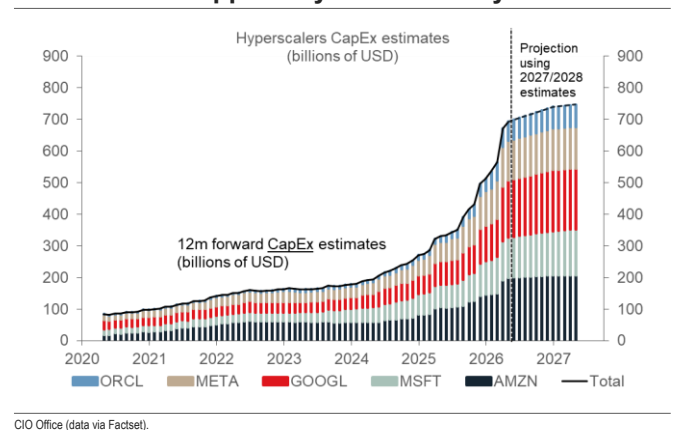
an unwarranted reflex. That said, the current environment is markedly different: the risk of a significant rise in interest rates is no longer the same. Most notably, relative to the S&P 500, the Nasdaq 100 is currently trading at its lowest price-to-earnings ratio since 2017 (**Chart 21**).

**21 | ... which aren't very expensive in relative terms**



Naturally, the massive capital expenditures planned by hyperscalers remain a risk to monitor. That said, it is important to bear in mind that beyond the sharp increase in investment expected over the next 12 months, some stabilization is anticipated (**Chart 22**) — a pattern typical of the emergence of a new technology.

**22 | What will happen beyond the next year?**

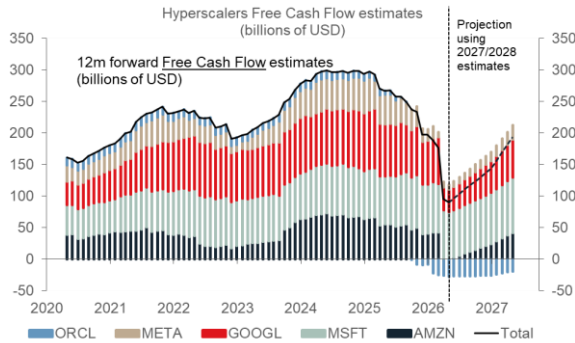


Moreover, these investments remain largely funded by positive cash flows, which are expected to



recover beyond this horizon according to analysts' projections — an assumption that will nevertheless need to be closely verified (**Chart 23**).

**23 | Let's keep an eye on free cash flow**



CIO Office (data via Factset).

Ultimately, it is worth emphasizing that our investment strategy remains measured in its overall risk-taking. In the coming months, the objective is to continue to gradually adjust positioning as the economic environment becomes clearer.



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