



2026 FIRST QUARTER MARKET REVIEW

Market fundamentals
remained resilient,
despite energy shock

IG Investment Strategy Team



Oil shock drives turbulence as commodities dominate the narrative

The first quarter of 2026 ended on a very different footing than it began. What started as a market driven by economic momentum, earnings growth and a combination of fiscal and monetary stimulus, became a market dominated by the war in Iran and energy prices. The war and the disruption around the Strait of Hormuz turned oil into the key macro variable, with the West Texas Intermediate price for crude moving above US\$100 and posting a monthly surge of more than 50%, while Brent crude oil briefly traded near US\$120. The real problem was not just higher oil and gasoline prices. It was the risk that an oil shock would weaken economic conditions and revive inflation fears, just as the global economy was showing signs of renewed growth.

That shock did not hit every market equally. Canada, with its heavier energy and materials exposure, proved more resilient than many peers, with the S&P/TSX Composite holding up better than the S&P 500 during the March drawdown. Europe faced a tougher mix, as higher energy costs landed on a region reliant on energy imports. Gold also reminded investors that oft-sought safe havens and inflation hedges sometimes disappoint. Despite a rebound late in the month, bullion declined more than 13% from its peak earlier in the quarter, as overbought conditions, firmer interest rate expectations and a stronger U.S. dollar overwhelmed the usual flight-to-safety impulse.

For their part, central banks largely chose to hold firm. The Bank of Canada held its policy rate at 2.25% and explicitly acknowledged that the Middle East war had increased volatility in energy prices and financial markets. The U.S. Federal Reserve (the Fed) also stayed on hold with a range of 3.50% to 3.75% for the benchmark federal funds rate, with Fed Chair Jerome Powell signalling a wait-and-see stance, as officials assess whether the oil shock proves temporary or begins to affect broader inflation expectations. In other words, the quarter did not produce a clean new trend in policy. It produced a pause, with central banks forced to weigh inflation risk against a potentially weaker growth outlook.

The broader lesson from the first quarter of 2026 is that diversification still matters. It was a reminder that macro shocks tend to reprice markets unevenly, not uniformly. Commodity producers and value stocks offered some insulation, while long-duration assets and oil-importing regions faced a much more difficult outcome. No single theme lasts forever, but in quarters like this one, portfolios built with broad diversification are better positioned to absorb the shock.

The quarter started chasing growth and ended chasing headlines, as war, oil and uncertainty rewrote every forecast in real time.

– Philip Petursson



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Index returns

2026 equity price returns and fixed income total returns

Table 1 - 2026 equity price returns

	Currency	Q1	YTD	1-year
S&P/TSX Composite Index	CAD	3.3%	3.3%	31.5%
S&P 500 Index	USD	-4.6%	-4.6%	16.3%
	CAD	-3.1%	-3.1%	12.8%
MSCI EAFE Index	USD	-1.9%	-1.9%	18.2%
	CAD	-0.3%	-0.3%	14.6%
MSCI Europe Index	EUR	-1.5%	-1.5%	8.8%
	CAD	-1.6%	-1.6%	12.6%
MSCI Emerging Markets Index	USD	-0.5%	-0.5%	26.9%
	CAD	1.0%	1.0%	23.0%

Table 2 - 2026 fixed income total returns

	Currency	Q1	YTD	1-year
FTSE Canadian All Government Bond	CAD	0.3%	0.3%	0.2%
FTSE Canada Universe Bond	CAD	0.2%	0.2%	0.8%
ICE BofA U.S. Corporate Bond	USD	-0.4%	-0.4%	4.8%
	CAD	1.4%	1.4%	1.7%
ICE BofA U.S. High Yield Composite	USD	-0.5%	-0.5%	6.9%
	CAD	1.3%	1.3%	3.7%
Bloomberg Global Aggregate Bond	USD	-1.1%	-1.1%	4.3%

Source: IG Wealth Management; Bloomberg; 1-year, March 31, 2025-March 31, 2026.
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to March 31, 2026.

Drivers of market performance

Canadian equities

The S&P/TSX Composite Index rose in the first quarter, amid elevated global volatility driven by a sharp repricing of energy markets.

The energy sector dominated performance, surging 29%, as West Texas Intermediate crude ended the quarter at US\$101 per barrel. A rapid tightening of the global oil supply reinforced investor focus on energy security and real assets, positioning Canada as a relative beneficiary, given its sector composition.

Defensive sectors also contributed, with utilities advancing 10%, also a beneficiary of higher oil and gas prices. Materials rose 10.4%.

Financials declined modestly, as uncertainty around credit conditions and housing activity offset resilient earnings. The information technology sector fell 22.5%, largely mirroring U.S. technology weakness.

Overall, the TSX outperformed U.S. equities, due to heavier exposure to energy, dividends and real assets. Canadian equities benefited more from what they represent than from improving domestic growth expectations.

U.S. equities

U.S. equities entered the quarter with solid economic momentum and strong earnings trends, but market leadership shifted abruptly amid escalating geopolitical tensions in the Middle East involving Iran.

The S&P 500 declined 4.6% in U.S. dollar terms and 3.1% in Canadian dollar terms, reflecting weakening investor sentiment rather than a deterioration in fundamentals.

The energy sector surged 37.2%, supported by higher oil prices, while growth-oriented sectors retrenched. Information technology, communication services, consumer discretionary and financials weakened, as investors reduced exposure to rate-sensitive assets amid rising inflation expectations.

The oft-quoted Magnificent Seven stocks of the S&P 500 Index fell sharply during the quarter, down 12.1% as a group. The recent drop is perhaps more a statement on valuation of these leaders as opposed to questions about AI as a technology itself.

U.S. equity performance reflected a valuation and leadership reset rather than an earnings collapse, reinforcing the importance of diversification beyond narrow growth leaders.

International equities

International equities delivered mixed results, influenced by regional fundamentals and a shift in leadership late in the period.

Emerging markets outperformed developed peers, with the MSCI Emerging Markets Index down modestly 0.5% in U.S. dollar terms (+1% in Canadian dollar terms), extending strong one-year gains. Returns were supported by commodity-exporting countries and regions benefiting from more resilient domestic demand, particularly across parts of Asia.

The MSCI EAFE index declined 1.9% in U.S. dollar terms (-0.3% in Canadian dollar terms), while the MCSI Europe index underperformed further, being down 1.9% in euros (-0.3% in Canadian dollar terms).

European equities peaked in February before weakening, as higher energy and input costs resurfaced as a headwind, weighing on growth expectations.

Europe's greater reliance on imported energy and its cyclical industrial base left the region more exposed, as commodity prices moved higher.

Fixed income

Fixed income markets saw higher yields, as the Iran war triggered an energy supply shock that reignited inflation concerns. Despite central banks holding policy steady, the Bank of Canada's overnight rate of 2.25% and the U.S. Federal Reserve's upper bound of 3.75%, government bond yields surged across the term structure.

Yields across the curve rose in Canada, the U.S. and Europe, as higher energy prices revived inflation concerns and shifted policy rate expectations.

This repricing weighed on returns, with the FTSE Canada Universe Bond Index up a modest 0.2%. U.S. corporate bonds fell 0.4% in U.S. dollar terms, while high-yield bonds declined 0.5%, as yields rose and spreads widened out.

Credit spreads saw a widening from their historical tightness earlier in the quarter, particularly in energy-sensitive sectors, as geopolitical risk premiums expanded. The quarter underscored the critical importance of active duration management, quality positioning and carry optimization when navigating supply-driven inflation shocks.

Canadian equities

Chart 1 - S&P/TSX Composite Index performance

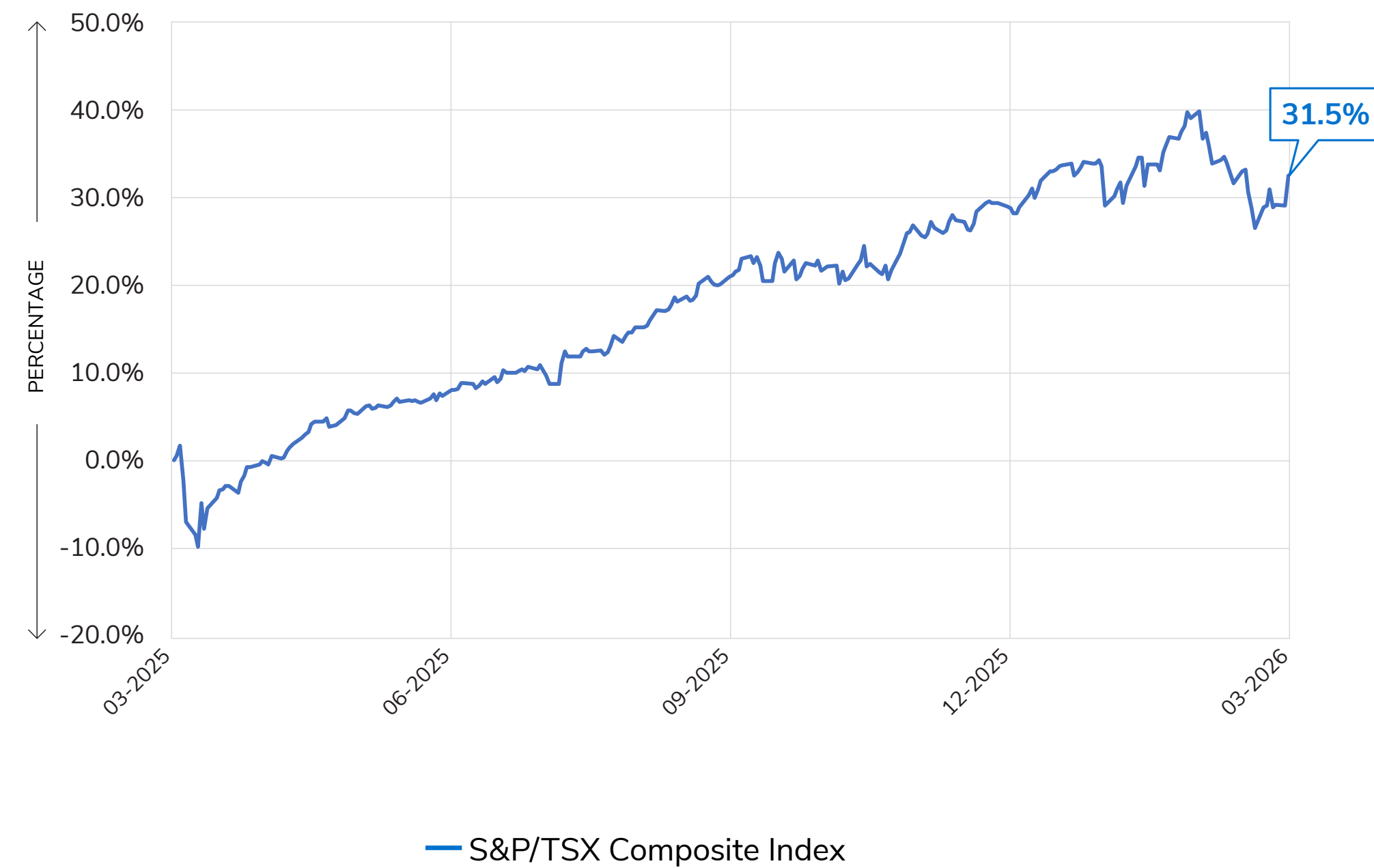
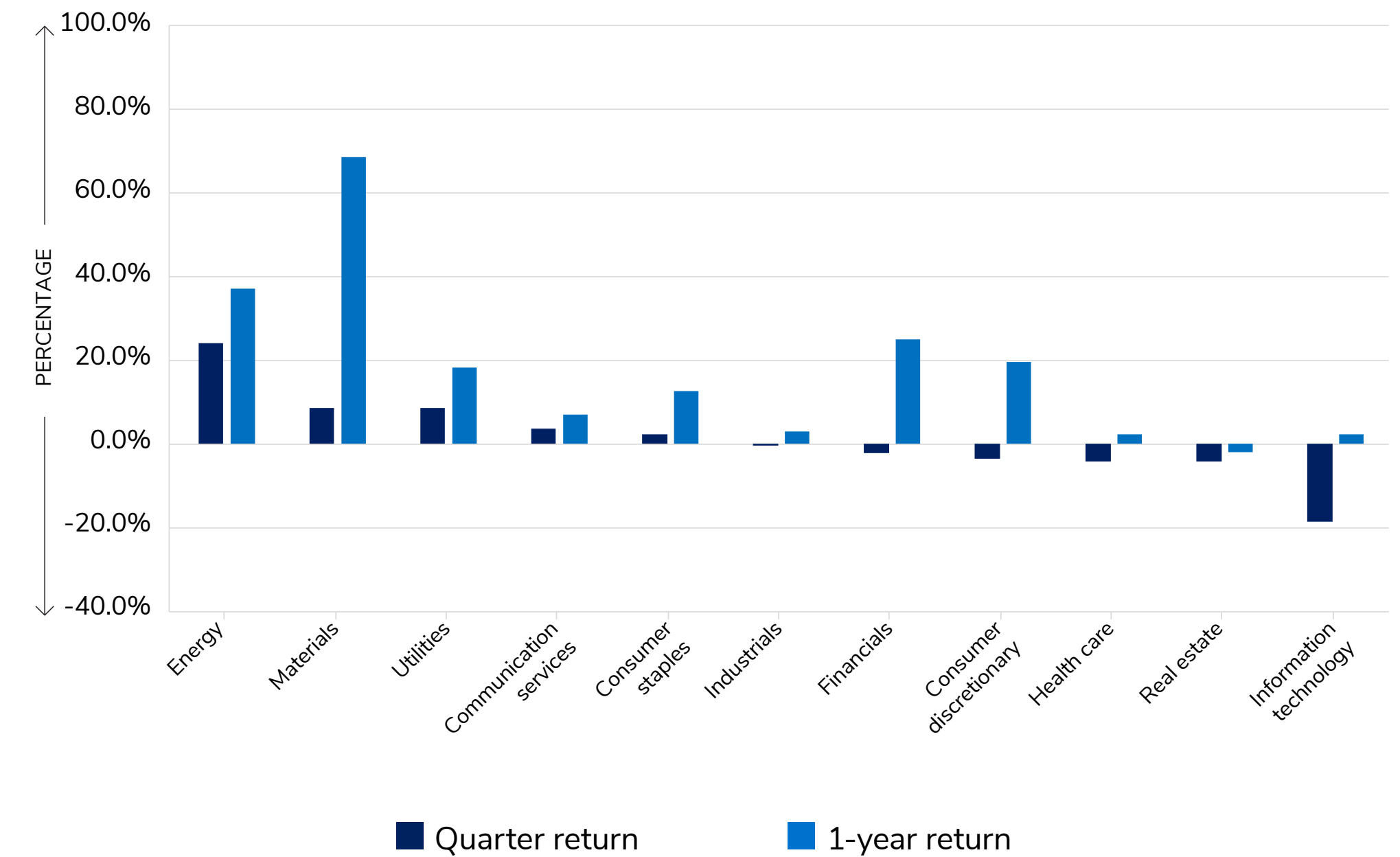


Chart 2 - S&P/TSX Composite sector level returns



Source: IG Wealth Management, Bloomberg, as of March 31, 2026.

U.S. equities

Chart 3 - S&P 500 Index performance (USD)

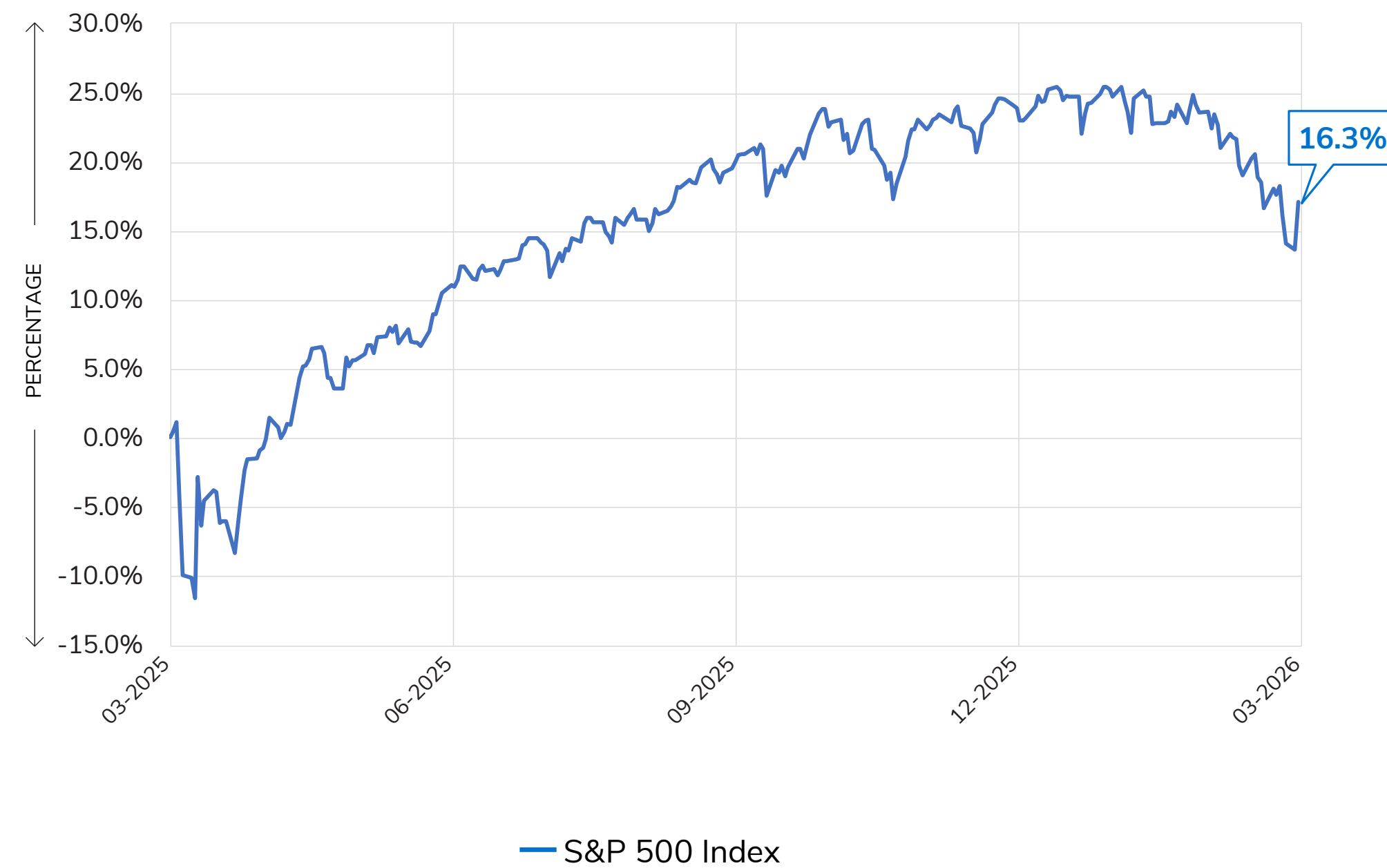
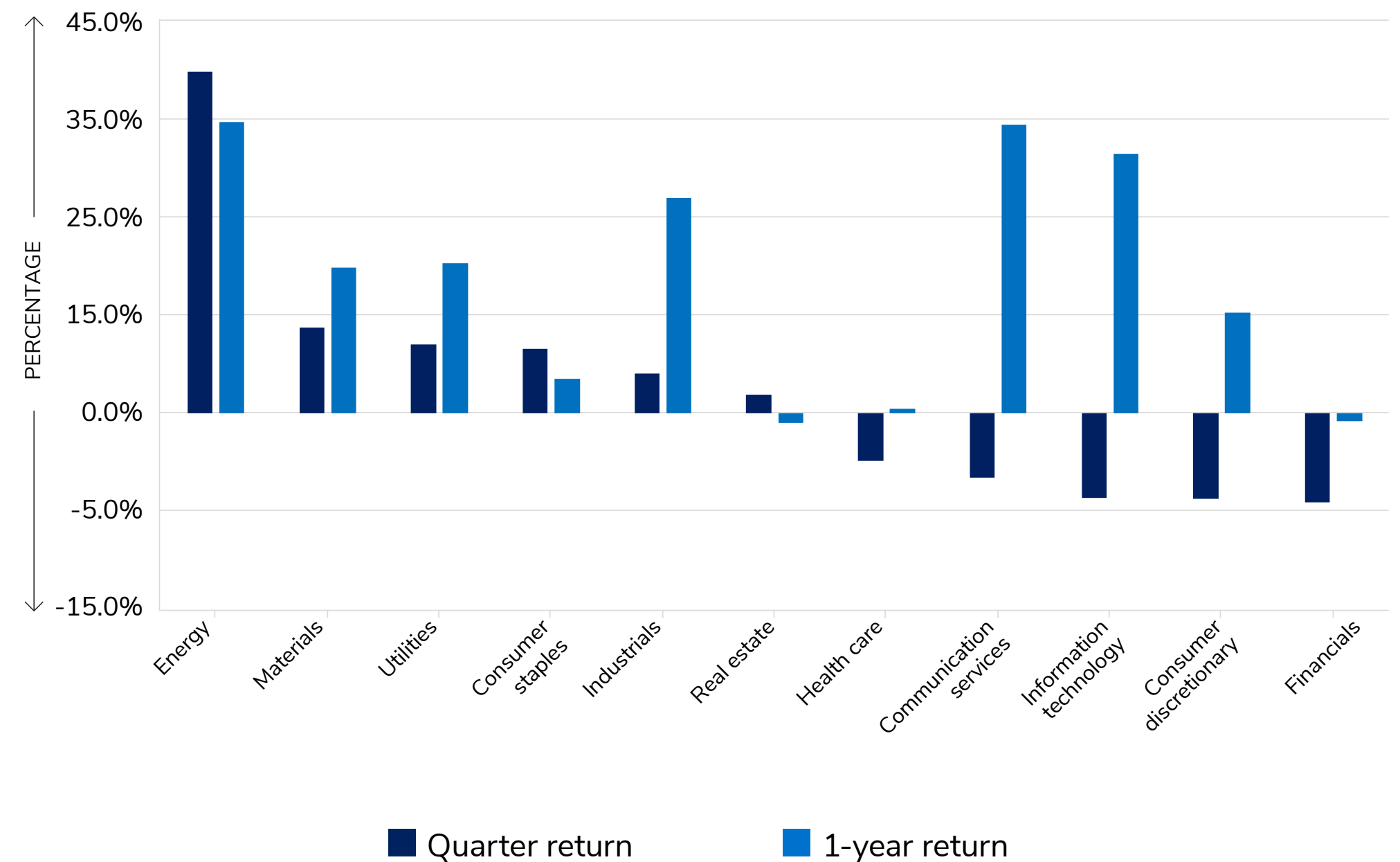


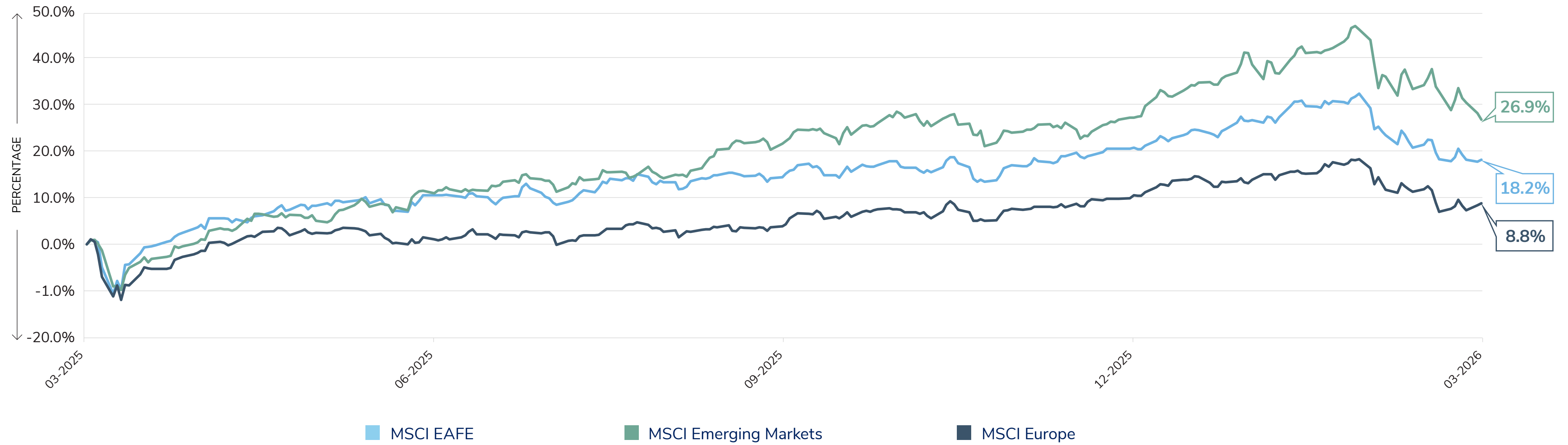
Chart 4 - S&P 500 Composite sector level returns



Source: IG Wealth Management, Bloomberg, as of March 31, 2026.

International equities

Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg, as of March 31, 2026.

Fixed income

Chart 6 - Global central bank policy rates

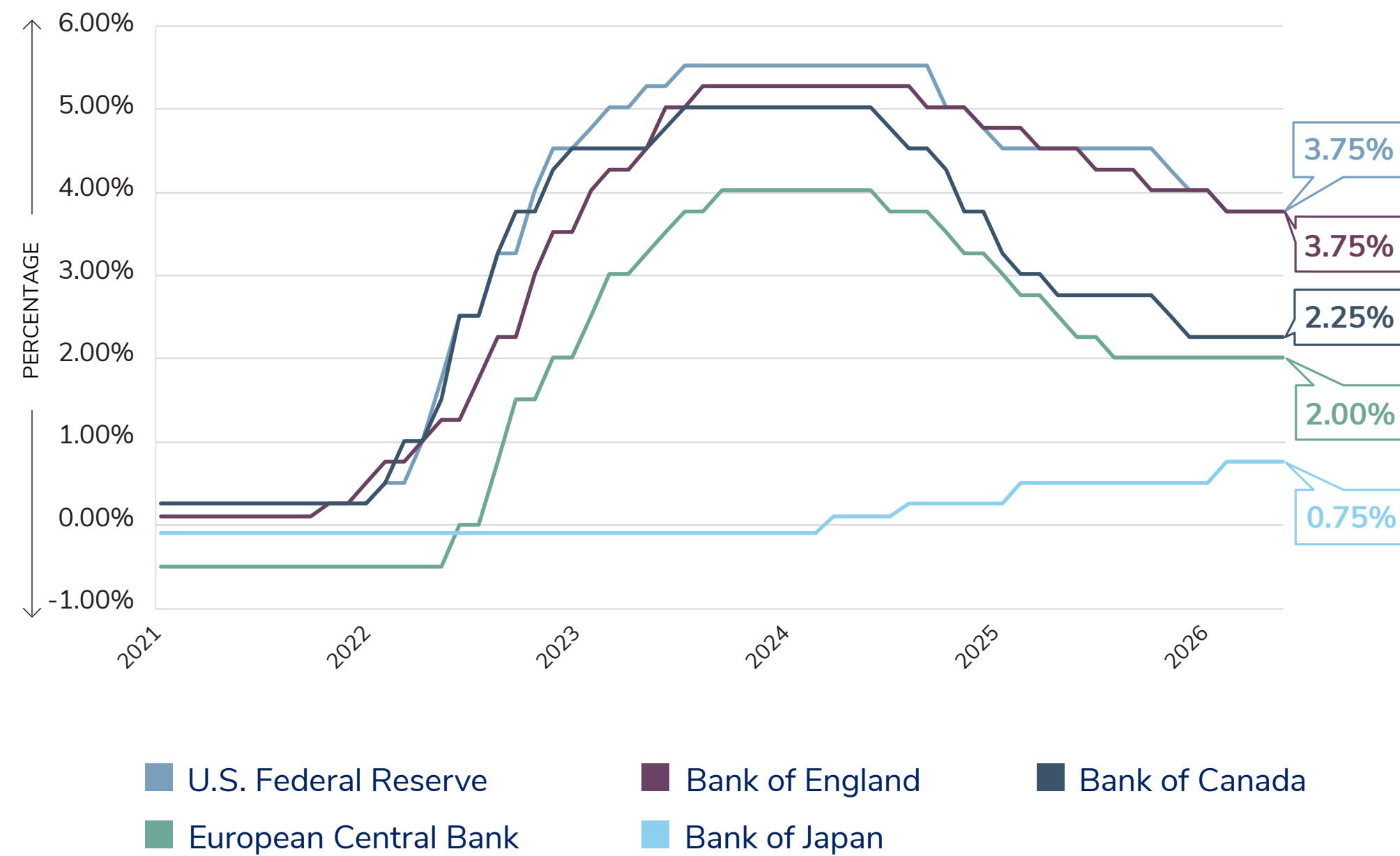
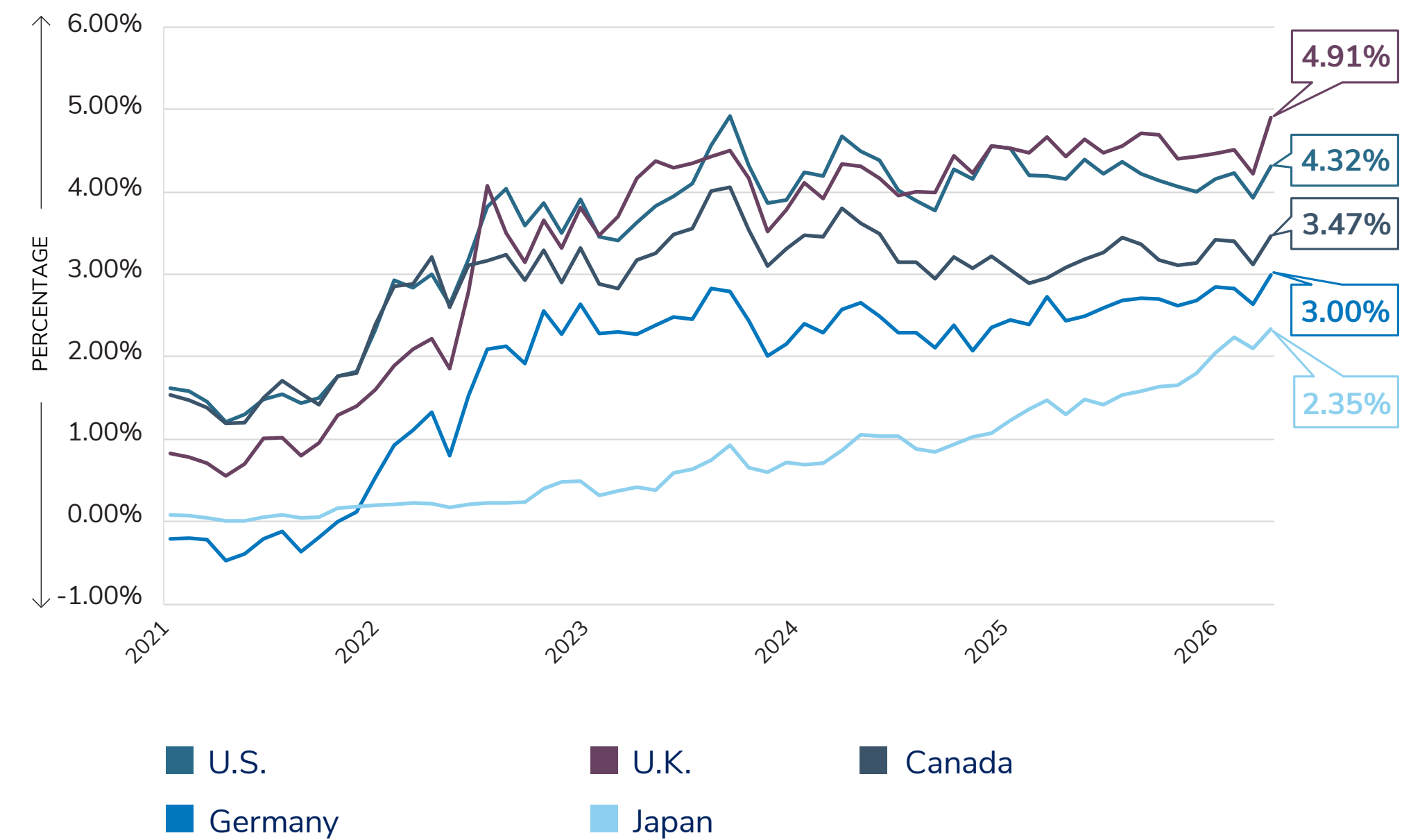


Chart 7 - Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg, as of March 31, 2026. Previous five years.

Key benchmark performance

Chart 8 - Canadian dollar/U.S. dollar cross

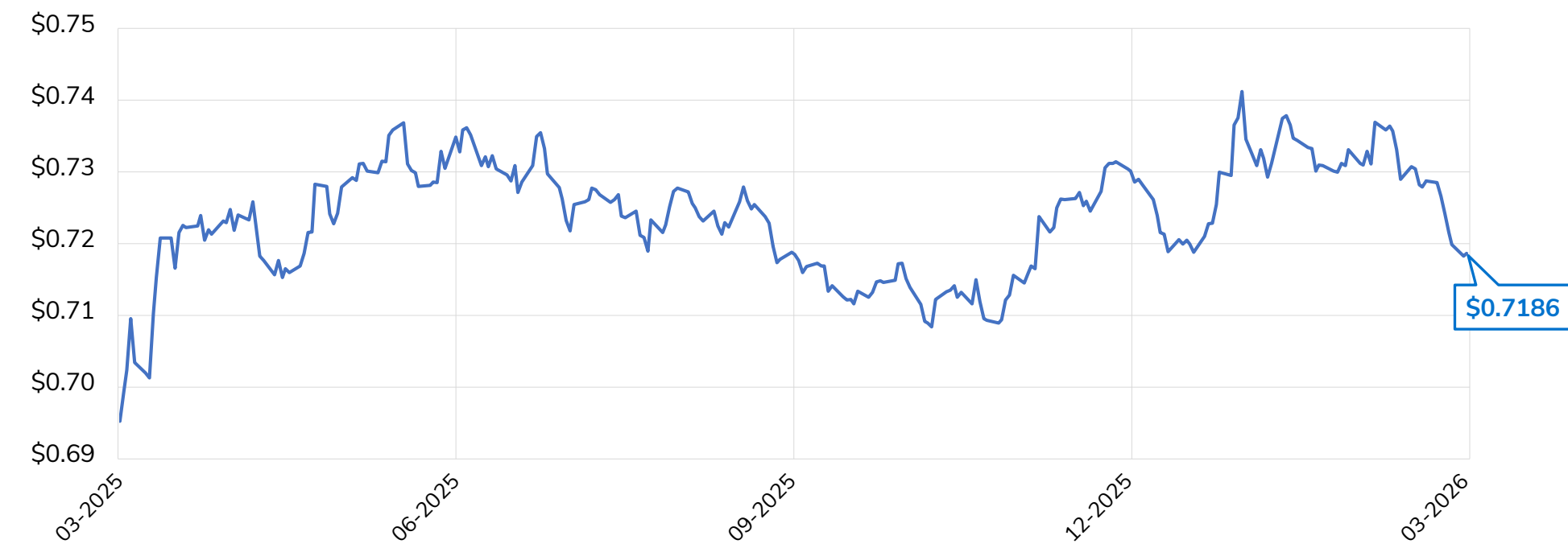


Chart 9 - Crude oil (WTI) US\$/bbl



Chart 10 - Gold US\$/oz.

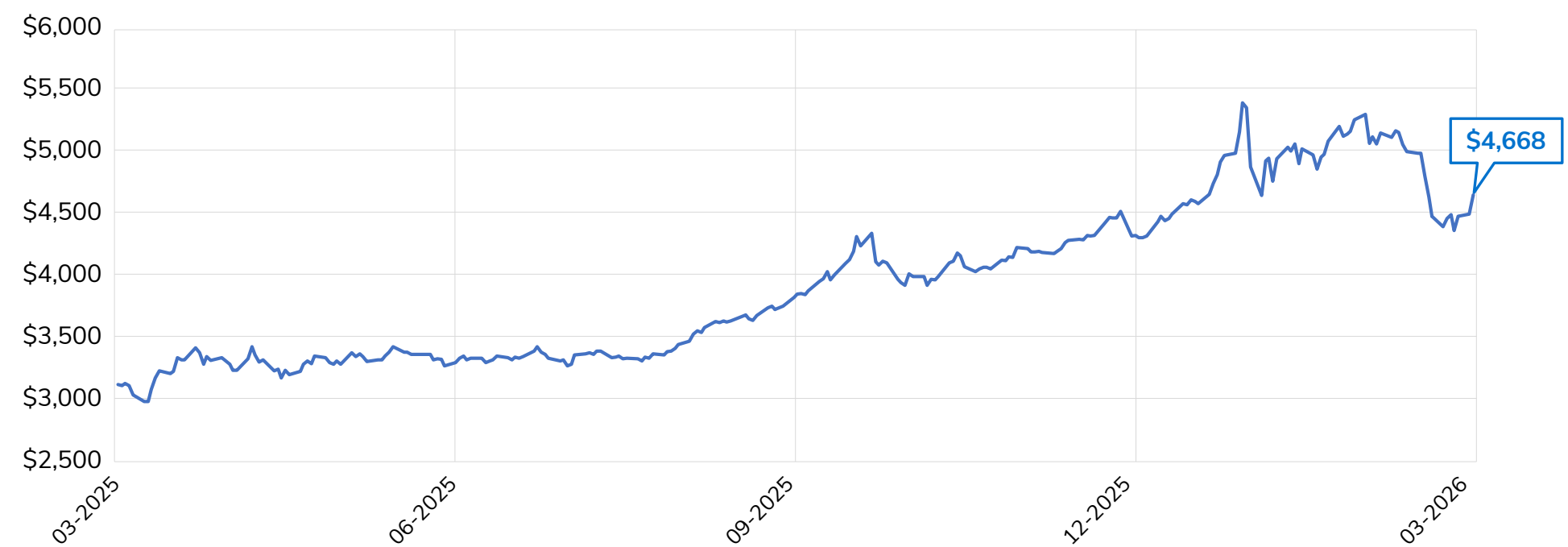


Chart 11 - Natural gas US\$/mmbtu



Source: IG Wealth Management, Bloomberg, as of March 31, 2026.



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Market outlook

Despite the geopolitical risks, the positive momentum of the global economic cycle remains intact, for now. This is supported by higher global export growth, manufacturing and corporate earnings that continue to exceed expectations. Through much of the period, markets reflected steady growth and moderating inflation. Aside from oil prices, the economic data has yet to show any stress from the uncertainty surrounding the U.S.-Israel-led Iran war.

Higher energy prices have moved higher, and inflation expectations have increased with them. However, recent comments out of the U.S. administration suggest that the war may soon come to an end. This doesn't guarantee a return to pre-war oil prices, but it would remove some of the uncertainty. We would view this as a positive for a continuation of the economic momentum that prevailed pre-war. History shows that such episodes often introduce volatility without necessarily ending economic cycles.

Looking ahead, key risks include persistently elevated oil prices, supply chain disruptions and the lagged effects of higher yields on credit-sensitive sectors. At the same time, these conditions are creating greater dispersion across regions and asset classes, presenting an opportunity for active investors.

Portfolio positioning should emphasize diversification and flexibility. Canadian equities provide exposure to energy and materials supported by global supply constraints. International developed and emerging markets offer valuation-driven opportunities and diversification away from U.S. technology concentration. Within fixed income, short-to-intermediate duration strategies help balance yield and interest-rate risk, while high-quality corporate bonds offer income with measured credit exposure.

Volatility challenges conviction, but it also creates opportunity. Staying disciplined, diversified and responsive remains essential as this cycle evolves.

History shows that such episodes often introduce volatility without necessarily ending economic cycles.

– Philip Petursson



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