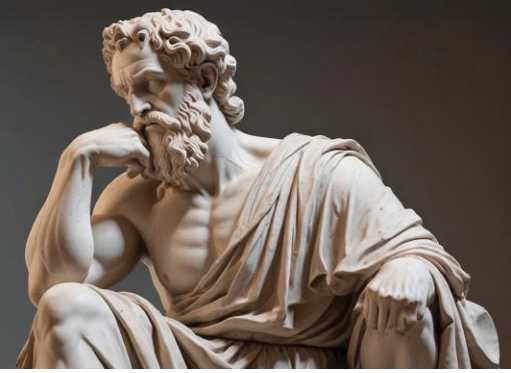


# Macro Musings



April 2026

## Escalation, Inflation and Stagnation

(Performance data as of March 31, 2026)

### The Quick-Hits

- President Trump ramps up rhetoric and spooks global markets
- Very uncertain path forward with regards to the war in Iran
- Nowhere to hide across asset classes, equities and bonds both declined in tandem
- Inflation fears and economic growth concerns have increased significantly
- Quote of the month:

*“A whole civilization will die tonight, never to be brought back again”*  
- President Trump

### Macro Musings

This time last month, in the opening days of March, much was being made about the nature of the military strikes on Iran. Adjectives like “limited”, “targeted” and “short-term” were being used most frequently. How quaint that all seems now, amid President Trump’s social media firestorm claiming “A whole civilization will die tonight, never to be brought back again”. From jockeying to win a Nobel Peace Prize to openly threatening to wipe out an entire country. Stunning.

So yes, six weeks removed from the onset of hostilities and the rhetoric remains hostile, despite the barrage of head fakes to the contrary, including the most recent fragile 2-week ceasefire. March not only marked a regime shift for global markets, but also a geopolitical one with implications that could very well be felt for quite some time.

Let’s start with oil. The price of the headline-making commodity, that always seems to take center stage amidst conflict in the Persian Gulf, has climbed significantly in recent weeks. Brent Crude, the benchmark for oil on the other side of the Atlantic, spent much of the last year trading in a relatively narrow band between US\$60-70 per barrel. At the time of writing, it now sits at US\$110, marking about a 70% increase. The casual observer might more narrowly believe the pain will be felt at the gas pump. And, while that’s certainly one area where there might be acute pain, the implications of an oil supply shock are much broader.

As discussed last month, with the effective closure of the Strait of Hormuz, oil shipments through this critical thoroughfare have all but ground to a halt with approximately 10% or less of pre-conflict volume making its way out. The unfortunate reality for much of the world outside North America, and particularly Asian countries, is that oil is sourced in some cases almost singularly from the Middle East. For countries like the Philippines, Egypt, India, Australia and even China, this shock is moving beyond simply getting expensive...it’s now leading to physical shortages, regardless of the price.



Not to make light of the very real plight of some of these countries, the impact for global investors is that international markets have been hit hardest. At least for the near-term, this conflict has taken the wind out of the sails of a segment of the equity market that very much felt primed for a sustained rebound and relative outperformance vs. the U.S. The paradox here is that, while the U.S., in this case, is the source of the instability, it's also where investors turn to for stability in their portfolios, meaning U.S. assets have been spared from the worst of the declines.

Alas, back to oil and the knock-on effects of a supply shock. Yes, the price to fill your tank will increase, but oil and gas are literally the lubricants of our entire society. Beyond driving your car, fuel accounts for 25-35% of total trucking operating costs and, since almost everything in the physical world moves by truck at some point, it has a direct connection to higher prices virtually across the board.

Second, food prices. The Federal Reserve Bank of St. Louis has found that roughly 20-30% of food price inflation during commodity shocks (like a spike in oil) can be traced back to energy and transportation inputs, as oil affects food prices through farm machinery and irrigation, fertilizer production and refrigerated trucking and storage.

Third, airfare. Jet fuel typically represents about 25% of airline operating costs, making airfares one of the most oil-sensitive consumer services; meaning not only is your vacation going to cost more, but your business travel will be impacted, as well as the price of freight moving by air.

Fourth, plastics. With oil being a primary input into plastics production, you can bet that manufacturers of a vast array of everyday items are feeling the pinch and will ultimately pass price increases along to consumers if this is more than just a very short-term blip – we're talking about just about everything here: packaging for food, household items, healthcare supplies, furniture, electronics...you name it.

The long and short of this boils down to inflation. How high it might go and how long it may persist will depend heavily on how soon hostilities end, and how soon the Strait reopens without threat or levies on transiting ships.

One of the scarier words bandied around in recent weeks, though, is stagflation – a painful period in which economic growth stagnates or declines alongside a general rise in prices. And, while that's a genuine concern to think about – one that central banks like the U.S. Federal Reserve (Fed) will need to try to grapple with – it might also be informative to put the current environment into context.

The term “stagflation”, at least for most of us in North America, tends to conjure up memories of the 1970s – a period of high inflation and recessions. While the situation seems eerily similar today – an oil shock leading to higher prices and a weaker economy – the magnitude pales in comparison to what was experienced during the period when Nixon, Ford and Carter were in the White House. Between 1973-1974, the price of oil went from \$3 to \$12 per barrel – a 300% increase, compared to the ~70% increase we've seen of late — while the Iranian Revolution in the late 1970s and the Iran-Iraq war in 1980 pushed prices all the way to ~\$40 per barrel. As bad as the situation and rhetoric seem today, it seems unfathomable for the magnitude to come anywhere close to what was experienced 50 years ago.

The prospect of stagflation, even if not of the nightmarish variety, has now changed how markets are viewing the calculus for central banks. We came into the year with the expectation for rates cuts 2–3 times in 2026, but futures markets are now showing greater likelihood of a rate hike, despite the Fed saying they still expect to make a 25 bps cut later this year. Analysts at Goldman Sachs bumped up the probability of a U.S. recession in the coming 12 months to 30%, stressing that they, too, still expect two rate cuts because they see unemployment moving higher than the Fed's own projections.



Here at home, the Bank of Canada (BoC) is now also expected to be on a similar trajectory. Having entered the year with no changes to rates expected, the market now anticipates two 25 bps hikes before year end. The BoC recently stated that they “stand ready” to respond, as needed, as the economy evolves, and that since they put out their forecasts in January, economic risks have come down but inflation risks have increased. Their expectation is that oil prices will push up inflation over the coming months.

In an era marked by uncertainty and growing instability, the flurry and fluidity of headlines is enough to make your head spin. While it's increasingly difficult to keep pace with the news cycle, we are encouraged to stay abreast of developments as best we can, but to resist the temptation to trade around headlines. Oftentimes in situations like this, the best move might be to make no move at all – a strategy that has seemed particularly effective under the current U.S. administration.

Finally, in keeping with our overarching emphasis on energy, perhaps I'll close out the macro section with some thoughts on the state of the energy transition. Under President Trump, the “drill baby drill” mentality has become more prevalent and, perhaps unfortunately, “ESG” now seems to be a seldomly used acronym on the lips of a select few.

What I think the last several weeks should have shown all of us is just how vulnerable certain countries and regions are to oil supply shocks. The move to alternative energy sources should be seen as a strategic priority for virtually all nations to better secure their energy independence. In what might end up being a poetic twist, I do wonder whether the catalyst that ends up moving us away from fossil fuels, is a crisis that shows us just how much we need them.

## Equities

As a result of heightened Middle East tensions, there was nowhere to hide in March. Virtually all major indices we track were firmly negative. Hardest hit, as mentioned previously, were foreign equity markets with emerging markets down over 10%. The MSCI World Index, down over 5% (in U.S. dollar (USD) terms), experienced its worst month in almost four years. Even the S&P/TSX Composite Index, with its relatively high Energy exposure, was down more than 4% (CAD), but that was enough to rank it among the best from an equity market standpoint and it continues to lead the way from a YTD return perspective.

In Canada, the Materials sector was the biggest detractor, breaking from its spectacular recent run of performance to decline over 16% as the price of precious metals fell. New Gold Inc. (-34%), First Majestic Silver Corp. (-32%) and Endeavour Silver Corp. (-31%) were the hardest hit. On the positive side, the Energy sector capitalized on the tailwinds of rising oil prices and extended its strong gains, now up 30% YTD after more than an 8% return in March. Within Energy, the best performing names were Strathcona Resources Ltd. (+42%), Vermilion Energy Inc. (+32%) and Parex Resources Inc. (+30%).

In the U.S., it was the Industrials sector that declined the most, down over 8%, with the worst performers being Southwest Airlines Co. (-23%), Axon Enterprises Inc. (-22%) and Builders FirstSource Inc. (-21%). Just as in Canada, Energy led the way south of the border, up over 10%, with the top three names being APA Corp. (+40%), Marathon Petroleum Corp. (+23%) and Occidental Petroleum Corp. (+23%). Interestingly, both large caps (S&P 500 Index) and small caps (Russell 2000 Index) performed virtually identically, down 5%.

International equities, as measured by the MSCI EAFE Index, were inordinately impacted by the oil supply shock sending foreign equity markets further into the red relative to their North American counterparts. Among the 21 countries included in the index, Japan (-11% in local currency terms (LCL))



and Germany (-10% LCL) experienced the largest declines, while Norway and Portugal bucked the trend, being the only two markets in the green.

From an equity factor standpoint, it was Dividends at the top yet again while the quick reversal in markets prompted Momentum to decline the most.

Gold has been much discussed in recent quarters based on its dramatic ascent, but perhaps more interestingly in March, it was the fact that gold declined despite risk-off sentiment. Normally, it would be the asset class in favour during crises, but with the oil supply shock leading to widespread concerns of inflation, expectations for rate cuts were considerably reduced, which in turn hammered investors' appetite for gold. Why? Because if interest rates are expected to remain higher for longer, the relative attractiveness of gold diminishes (an asset class that doesn't provide any income) vs. yield-bearing U.S. Treasuries. Gold ended the month at US\$4,649/oz, down over US\$600/oz for a 12% decline.

On the currency side, wild moves in oil prices certainly impacted foreign exchange markets. Rising oil prices did help prop up the Canadian dollar (CAD) somewhat, but it ultimately declined vs. U.S. dollars for two main reasons. First, with the U.S. being a net energy exporter, the increase in oil prices also boosted the value of USD. Second, generally increased demand for USD as a result of its "safe-haven" perception amongst global investors drove it higher still. CAD declined by 2% vs. USD in March, while USD vs. a basket of global currencies rose 2.5%.

## Fixed Income

Outside of cash and Treasury bills, there was nowhere to hide in fixed income either. The unfortunate reality in March was that aggregate bond exposure both in Canada and the U.S. was negative to the tune of about 2%. This is supposed to be the sort of positioning that provides ballast to a portfolio, holding up (generally with positive returns) when equity markets experience drawdowns. So, why did bonds decline alongside equities? And should we expect this sort of behaviour to continue? The short answer to the second part is no.

The reason government bonds declined in March was based on the rapid change in sentiment surrounding inflation. As mentioned, we started the year in Canada expecting no changes to interest rates in 2026. The Fed was expected to cut several times. Now, markets are expecting the BoC to hike, and rate cuts have all been priced out in the U.S. The result was that we saw government bonds repriced accordingly to align with new expectations. Particularly here in Canada, general expectations have become a bit stretched and economic growth concerns are going to likely keep the Bank of Canada from entering into a near-term hiking cycle. Unless we see inflation expectations heat up in earnest and even greater rate hikes being priced in, fixed income should be set up to benefit from a resumption of the diversification benefits of bonds in portfolios.

Canadian and U.S. bond yields increased over virtually all tenors, reflecting increased inflation expectations and the anticipation of a policy response. General expectation of a re-steepening of the yield curve with short term rate set to come down, further reflecting the view that we could see economic growth as a bigger challenge than inflation, putting the BoC in more of a "wait and see" mindset relative to what the market is currently expecting.

High yield credit spreads increased by just 4 bps in March, ending at 3.16%. A casual observer might then naively conclude that it was an uneventful month, but that would miss significant underlying context at play, glossing over the intra-month trough-to-peak climb of 50 bps. In fact, looking at a daily chart of credit spreads shows a gradual increase over the month before a more sizable jump late in the month as it looked like escalation was likely in Iran. In what now appears to be yet another in a steady stream



of head fakes on the state of military hostilities in the region, spreads came down just as swiftly on the last day of March as headlines seemed to indicate diplomatic de-escalation was imminent.

Beyond the oil-driven supply shock leading to inflation concerns, there were several other undercurrents impacting the move higher in spreads. These included expectations for U.S. rate cuts essentially evaporating, rising treasury yields weighing on risk assets, spillover concerns associated with private credit and potentially disruptive (apocalyptic?) implications for certain segments of the market, most notably within software.

This month on [Buy the Way](#), David Onyett-Jeffries and I further discuss implications of the war in Iran, while later in the month, I'll be sitting down with Micha Choi, Vice President and Client Portfolio Manager with our affiliate, Guardian Capital Advisors, for a special episode focused on Women and Wealth.



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