

# SPECIAL MARKET Update



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## Iran Update

*“Markets don’t fear war. They fear uncertainty”*

– widely held investment aphorism

**The Through Line:** Capital markets have a long history of looking past geopolitical events. An initial (and often sharp) risk-off reaction is typically followed by recovery as investors return to focusing on fundamentals. Sorting the intermediate- and longer-term implications of the current Middle East conflict will take time and nuance as investors process the implication for energy markets, inflation/interest rates and investor sentiment. We remind investors that global economies were in very solid shape heading into this event, and markets (both risk and defensive assets) had arguably been positioning themselves for weeks.

### Escalating conflict in the Middle East

The military engagement between the U.S., Israel and Iran has intensified in recent days as other countries have become embroiled in the conflict. Attacks on military bases, embassies and energy infrastructure across the region have escalated – despite the disablement of substantial portions of Iran’s military capability. Threats to shipping continuity through the Strait of Hormuz have also been top of mind. After initially absorbing the news of the conflict with steady trading on Monday, markets subsequently shifted to more intense concern. Investors hate unknowns – and the duration and potential off ramps to events seem murkier than they did over the weekend when a quick resolution was the hope.

### Investors focused on oil

For the Middle East, the obvious transmission mechanism is through oil prices. Back in December they were at their lowest level in five years but have been rising in 2026 on expectations of stronger global growth as well as in the wake of the breakout of Iranian hostilities. Investors are focused on the Strait of Hormuz, an important choke point through which ~20% of global seaborne oil and liquified natural gas passes. Iran has announced the Strait is closed and has threatened any ships that attempt to pass through, though details have been changing as the situation is very fluid. Insurers have significantly increased pricing – or entirely dropped coverage – and invoked war time clauses for vessels contemplating passage through the Strait,

causing many to drop anchor. If oil can’t get out of surrounding countries, a “shut in” process starts whereby production activities are stopped due to lack of additional storage.

The world has navigated oil shocks in the past, most recently with the war in Ukraine and last year’s 12 day Iran war. It’s important to remember that prior oil shocks happened when the U.S. was a net *importer* of oil and gas versus the current position as a *net exporter*. Canada’s position as a net oil exporter also helps mitigate direct economic implications – though both countries are obviously troubled by the overall increase in prices.

The reaction in the oil markets is to be expected and the magnitude of the move is manageable (for now). Then too, the world was actually estimated to have entered this conflict with a surplus of oil, with some estimates placing it at over 1 billion barrels. The issue, of course, is getting it where it needs to go without significantly raising prices/extending timelines. Notably, there are strategic reserves in many countries including the US, Japan, Europe and China. **Oil will continue to be volatile, but a short-term spike doesn’t threaten the fundamentals markets care about most – which is the solid trajectory of global growth and in turn, corporate earnings.**

### Potential economic impacts

**Inflation** – higher energy prices, if sustained, could impact prices at the pump and theoretically pass through headline inflation until resolved. We would expect the Fed to look

through such an outcome given the supply/demand dynamics of U.S. sourcing. There are plenty of deflationary tailwinds (softer hiring/wage growth and deflationary impact of technological advances) that are keeping a lid on rates. The flight to sovereign yields as haven assets is putting downward pressure on interest rates. The U.S. navy has substantial assets in the area. The Administration could deploy them at any time to help accompany shipments through the straights to keep the shipping and supply chains functioning.

**Impact on China** – The threat to energy markets (first via Venezuela, now Iran) is a not-so-subtle message to China that the U.S. holds sway over key sources of China's energy. China imports huge amounts of cheap fuel to sustain its low-cost manufacturing infrastructure from those partners (as does India). Recent developments could have a notable near-term impact on China's economy given its manufacturing infrastructure's dependence upon cheap oil imports. Iran and Venezuela were not only two of China's key allies/proxies - but were also providing ~20% of their oil supplies (much at discounted prices). Meanwhile, Russia is currently providing an additional ~20% of China's oil supplies (also at discounted prices) - oil that could potentially return to the open markets as part of any peace deal. China would still be able to access necessary supplies, but would lose the discounts they have enjoyed.

## Market impact

Equity markets came into this period within just a few percent of all-time highs, though significant internal rotation had been occurring as the hand off of current tech-focused/narrow leadership to a broader cast of participants took place. While a potential for conflict had been expected (as naval assets were shifted into the area) this churning beneath the surface that

otherwise represents a healthy rotation can leave markets on edge and with an uneasiness that can exacerbate reactions.

**Haven assets** – Gold, treasuries and most significantly the U.S. dollar – have rallied in recent weeks and are currently holding steady. **This is constructive and reinforces a key fact we've stressed all year: markets are functioning exceedingly well – as are the underlying economic fundamentals.**

Markets (especially stocks) tend to look through wars relatively quickly, returning focus to fundamentals. And the fundamentals remain sound - for the U.S. and global economies and for companies. For example, in the nearly finished 4Q 2025 reporting season with 99% of company results in, aggregate S&P 500 revenue growth was 10% with 15% earnings growth.

## Implications for Investors

Once past the near-term volatility, we believe the economic expansion and associated equity-bull market should remain intact. There is the possibility that the weakening of the Iranian regime brings less instability to the region - a positive outcome for global growth and oil prices – and hopefully for the people of the Middle East as well.

We reiterate our view that global economies are teed up for solid growth in the year ahead. Pro-fiscal stimulus politicians have been voted into power in key countries and infrastructure and defense spending plans are increasing accordingly. Markets have absorbed well the many challenges thrown at them in the past 18 months and we expect the current situation to be similar. Exposure across a variety of global equity markets and sectors, with bonds playing an important cushioning role continues to show diversification works.

## Index Definitions

### Equity indices

**S&P 500® Index** is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**NASDAQ Composite Index** is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

**Dow Jones Industrial Average (“DOW”)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

**S&P/TSX Index** is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

**MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index)** is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

### Fixed income indices

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

**Bloomberg U.S. Treasury Index** is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Corporate High Yield Index** is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

**Bloomberg 1-10 Year Blend Municipal Bond Index** is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

**Bloomberg Canada Aggregate Bond Index** measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

**Bloomberg Canada Aggregate Bond Index - Treasury** is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

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