WEEKLY STRATEGY

Perspectives

BMO Private Wealth

WEEK ENDED MARCH 27, 2026

Carol Schleif, CFA, SASB-FSA, Chief Market Strategist

Global Policy Pivot – What Game Are We Playing?

"Yesterday's home runs don't win today's games."
– Babe Ruth

The Through Line: From the day Donald Trump took the presidential oath of office for his second term (invoking former President McKinley in his inaugural address and signing a slew of executive orders soon after stepping away from the podium) substantial changes impacting the global order were set in motion. Markets and policy makers wondered what type of game the U.S. was playing as it redefined its stance on the world stage. Many of these issues have come to a head over the last four weeks against a backdrop of conflict in the Middle East. We highlight some of the most potent and game out how they could evolve in the days ahead.

The ~~times~~ politics they are a changin'

Capital markets typically only pay attention to geopolitical machinations (e.g., election outcomes, changes in laws or even military action) if they have a lasting impact on economic fundamentals. In this context, President Donald Trump is a transformative force of nature, unleashing a torrent of changes across the many tentacles of U.S. trade and foreign policy within days of assuming office.

Channeling William McKinley (the tariff-wielding, empire-building 25th President), the administration quickly set new directions for U.S. global affairs. Tariffs were levied on friend and foe alike. We saw large cuts to soft power aid organizations (USAID), the ranks of government employees (DOGE), and the diplomatic and senior military corps. Key global bodies like the International Monetary Fund, World Bank and NATO were put on notice that the U.S. expected them to step up their financial commitments – and refocus their activities back to core objectives. Expansionist rhetoric was aimed at Canada, Greenland, Venezuela and Cuba. The sheer quantity and speed of the onslaught left world leaders and business titans reeling as they attempted to understand which game the U.S. was playing. Was it Monopoly®-style economic superiority or Risk©-like military domination?

Investors initially responded by pushing stocks and bonds down, fearing that the breadth and depth of policy changes would instigate a recession and/or higher inflation. Markets were able to quickly right themselves thanks to a combination of factors (e.g., delay and reduction in key tariffs, reset earnings expectations that companies in aggregate easily beat). By year's end, stocks were at/near new highs, bond yields were down and central banks were cutting rates or holding steady after they had already reduced rates to stimulative levels. A new raft of initiatives laid a solid foundation for a continued upward growth trajectory: business/consumer tax benefits from the One Big Beautiful Bill Act; aggressive regulatory and permitting rollbacks; new frameworks for important growth industries (AI, crypto); more tolerance for large Merger & Acquisition activity; and a variety of new methods of industrial investment introduced by the government to encourage domestic infrastructure and resource development.

Lesson learned: stay focused on fundamentals while the implications of pivots sort themselves out.

Strait talk

Fast-forward to 2026. Markets again hit fresh new highs in early February – similar to what they achieved before last year's Liberation Day – only to be caught a bit off guard when the U.S. and Israel attacked the Iranian regime on February 28 (WSP - After the (Epic) Storm). Stock and bond markets ground lower while energy and dollar prices rose in reaction to a number of factors:

- the vociferousness of the Iranian response (especially restricting the flow of goods and 20% of the world's energy production through the vital Strait of Hormuz)
- the duration so far (weeks, not hours/days)
- increasing damage to key infrastructure

After a U.S. ultimatum posted on social media last Saturday imposed a 48-hour timeline, futures trading on Sunday evening pointed to a rocky open when cash trading began the next day. But another social media post less than two hours before the open of trading sparked a rapid reversal: negatives of up to 2%

declines turned into 2% increases in under a minute. Oil prices fell sharply, while stocks pushed higher. All this despite the fact that Hormuz is still not technically open and Iran is denying talks are underway. Additional positive headlines on Tuesday evening created time and space for negotiation. This further cheered markets (despite the fact that thousands of U.S. troops are on their way to the area and travel through the Strait is still largely halted). Capital markets continued to gyrate with every headline and social media post as the week wore on.

Lesson learned: *for the moment, investors' focus is near term (a time horizon measured in minutes/hours not months/years) and narrow (watching for the next social media post or headline).* It's also clear that participants *really* want to move past the war and get back to focusing on something (almost anything) else. This mirrors the intent to move on from the tariff issue last year. Markets reverted to fundamental focus even though ultimate tariff rates and structures *still* remain unresolved. **"Escalate to de-escalate" is a core Trump theme, but investors seem to have collective amnesia between bouts.**

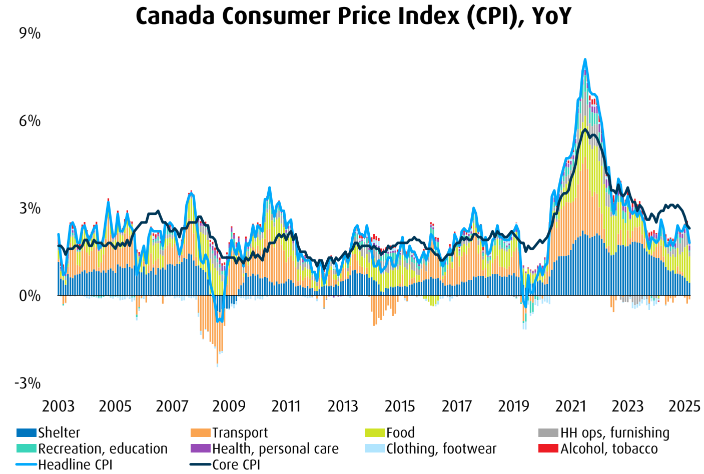
Higher for longer – energy prices AND inflation?

Every day that passes without a resolution to the conflict increases the potential for more lasting global economic damage. Dozens of energy production facilities in the Middle East have been damaged; some will take months if not years to come back online.[i] S&P Global Purchasing Manger surveys were released for most of the world on Tuesday. They hinted at higher input prices and expectations of slower growth – a combination that has pundits whispering the dreaded "stagflation" word. Many of the world's key central banks met last week; most at least discussed the possibility of rate hikes at some point if energy flow is not restored quickly.

It's notable that **North America – a net energy exporter – is less exposed than Southeast Asia and the eurozone**. It also helps the outlook that the North American economy was in solid shape before this shock, boasting double-digit earnings growth, low single-digit inflation (albeit higher than the Federal Reserve would prefer) and ample fiscal and monetary stimulus teed up to form an encouraging base. Note, too, that the energy intensity of the economy is substantially less now than it was during prior oil shocks. **In a recent piece, our BMO Economics team stated that if oil stayed above $90 for two months it would likely only reduce GDP growth in both the U.S. and Canada by 0.30%.**[ii]

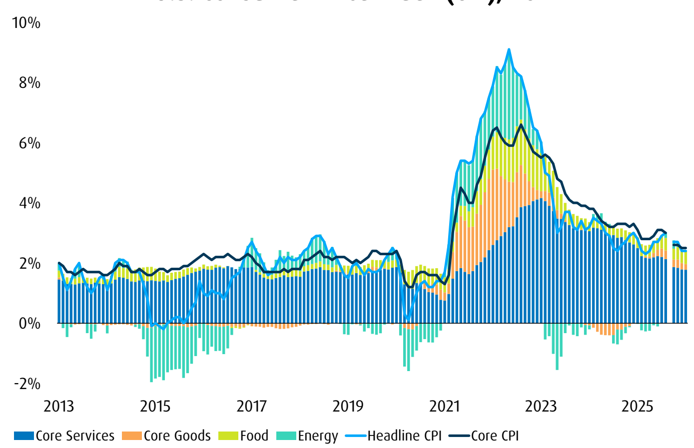
The accompanying charts show that energy and production-related activities are a smaller portion of overall expenditures than they once were. For example, in the U.S., services are a much larger (and stickier) portion of overall prices.

Canada Consumer Price Index (CPI), YoY



Source: Bloomberg L.P. (2026), as of 2/28/2026

U.S. Consumer Price Index (CPI), YoY



Source: Bloomberg L.P. (2026), as of 2/28/2026

The way we were: no turning back

Widening the aperture a bit, let's look at the long-term implications of the zigs and zags of global policy over the past year:

- It's getting harder for markets to move beyond geopolitics – though they keep trying (and historically always have). It will be important for investors to at least incorporate the economic implications of shifting alliances and trade relationships into their analysis.
- A great deal of infrastructure spending is already in the pipeline. The need to rebuild areas damaged in the war will only add to backlogs, benefiting a variety of manufacturers in multiple countries.
- It's time for a serious rethink of Europe and Southeast Asia's dependency on energy goods from a concentrated region. For example, redundancies, backup plans and security are likely to be high on C-suite lists.
- Supply chains in general are in the midst of being reworked, dating back to the first trade wars initiated in 2018. China and many businesses based in North America are well along the path to redirecting. Logistics companies and shippers get better and better at accommodating; AI can further enhance the process. Rewrites of logistics for Hormuz, the Red Sea and other trade routes could accelerate. This may also speed up

construction of robotics-filled manufacturing sites that are less dependent upon human capital and can be situated closer to end markets.

- Threats from Iran leveled at desalination and data centers where both military and civilian traffic is flowing may force a rethink of concentrated locales, redundancy plans and physical/cyber security.
- Wars can illustrate and hasten the need for new technologies. In fact, much of what we enjoy today (GPS, geolocation, satellite communication, fission, internet mobility) resulted from government and wartime development. The use of drones for autonomous delivery, enhanced remote communication and AI assistance in a broader variety of logistics tasks may well accelerate in the wake of this conflict. Precision surveillance (e.g., to demine the Strait) and satellite usage could also become more pivotal.

Implications for Investors

It will be tricky territory for the global economy over the next few weeks and months. The sooner the Strait of Hormuz can be reliably pried open and energy production restored, the better the odds that central bankers around the world look through sticky inflation and resist rate hikes. **The range of potential outcomes (in industry parlance, the "tail risk" meaning the best/worst case scenarios) are wide apart and tough (if not impossible) to predict.**

On the plus side, the U.S. earnings season kicks off in earnest in just a few weeks and shortly thereafter in Canada. Similar to last year's Q1 report season (which delivered many insights into how companies were handling the early days of the tariffs shock), we would expect frank discussion re where companies are seeing increased pricing/growth pressures, where they are finding opportunity and how they are responding.

Given how fast events are unfolding (and the multi-channels information is flowing through), it makes sense to remain careful observers before making any major readjustments. We were moderately overweight a growth orientation coming into the year. We still believe that is the most likely scenario, particularly if a successful Iran off-ramp is navigated in days versus weeks. At the margin, though, careful rebalancing makes sense.

As yields approach 4.5% or higher, U.S. government 10-year Treasurys would become more interesting. Granted yields could go higher – and prices lower – especially if something unexpected happens such as further destruction of energy production capabilities or a significant surge in military personnel on the ground.

In assessing which geopolitical games are afoot, we might conclude that the scenario is neither Monopoly nor Risk. Instead, we're in a game of 3D Tetris – a situation where multiple variables are interacting on multiple levels simultaneously.

In focus in North America

Jon Borchardt, Sr. Analyst
George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. Fed-speak update – The federal funds futures market implies bond traders no longer anticipate additional policy rate cuts in 2026, but perhaps this reflects a middle ground between two divergent narratives. Chicago Fed President Austan Goolsbee noted in several recent interviews that monetary policy could take very different paths depending on inflation's impact on the U.S. economy. San Francisco Fed President Mary Daly posted similar sentiments on social media: "Today, there are at least two possible paths for the economy. And when uncertainty is elevated, it is important to consider scenarios rather than providing forward guidance which might portray certainty." Ms. Daly added that if the Middle East conflict becomes more protracted, "disruptions in energy supply and associated cost pressures could persist, with increased risk for higher inflation, slower growth, and a weaker labor market." Last week, Fed Governor Chris Waller, who had previously advocated for rate cuts, reversed course, saying, "This is looking like it's going to be a much more protracted conflict, and oil prices are going to stay high for a longer time. So that suggested inflation was more of a concern." In the recent past, both Mr. Waller and Ms. Daly have been a bit more attentive to risks on the labor side of the Fed's dual mandate, but rising energy and supply chain pressures from the conflict in the Middle East have shifted the balance.

Canadian retail sales – In January, retail sales rose 1.1%, a bit softer than the flash estimate and extending the seesaw pattern that's been in place for a year. Most sectors were higher, led by general merchandise (+3.0%) and sporting goods (+2.6%). Autos (+2.0%) also rebounded from a weak December. On the softer side were clothing and accessories (-1.1%, showing a particular weakness in shoes). Sales ex-autos rose a smaller 0.8%, while spending ex-autos and gas was up 0.9%. The advance reading for February indicates a 0.9% increase in retail sales, which would mark the first two-month "streak" of higher sales since March-April 2025. Goods prices were little changed in the month, meaning volumes could also rise. Decent retail sales figures for January, and a positive early read for February, highlight consumer resilience in the face of mounting headwinds for the Canadian economy. Since higher energy costs are expected to take up a larger share of household budgets in the coming months, we'll be watching to see how other spending components hold up.

Canada's housing market remains muted – February saw weak demand and a low-volume period of the year working together to keep activity suppressed. Looking at the bigger picture, the market continues its long and slow downturn; conditions are still varying by region and market segment. Existing home sales fell 1.3% in seasonally adjusted terms in February and were down 8.1% from year-ago levels. Tough winter weather has probably played a role to start the year, but that shouldn't distract from soft underlying demand. The national benchmark price slipped again and was down 4.8% year over year in February. From the February 2022 high, that now leaves prices down 20% nationally (almost 30% in inflation-adjusted terms). The biggest price declines year over year were in Toronto (-7.1%) and Ottawa (-2.1%) while prices in Montreal were up 5.1%.

Gold has lost some luster (at least temporarily) – When fear is high, gold has a tendency to shine. However, that has not been the case since the start of the Middle East conflict. It is hard to pin down a definitive reason for the sharp decline in gold and silver prices over the last four weeks, but there are multiple candidates. After running hard for several years, investors looked to lock in profits. An initial catalyst for the recent precious metals bull cycle was central bank gold purchases as governments sought to diversify reserve holdings. The World Gold Council reported January gold purchases by central banks did slow significantly relative to 2025 monthly averages. This led to some speculation that this foundational pillar of the gold story may be starting to weaken. While narratives are always shifting, gold prices have historically shown a fairly high inverse correlation to real interest rates. War in the Middle East has heightened inflation concerns, especially in Europe and Asia. Investors now anticipate multiple rate hikes from the European Central Bank, Bank of England and Reserve Bank of India, which could drive real rates higher. Jewelry purchases represent approximately 30% of gold demand, led by India. Higher energy costs reduce household purchasing power for gold jewelry. Silver's status as an industrial metal at a time when global GDP growth expectations are fading has likely provided an additional catalyst for sellers of the metal. While it is tough to pin down the precise reason for recent volatility, the pull back does not negate the metal's role as potential portfolio diversifier for those so inclined.

Oil price volatility accelerated – Oil prices remain hypersensitive to each new headline or social media post. Narratives that suggest an off-ramp or de-escalation of any sort typically produce quick pullbacks while those indicating direct hits (and implying lasting damage) to energy infrastructure have pushed prices back up. A key linchpin in action relates to the Strait of Hormuz and whether ships are allowed through safely. On Tuesday, soon after equity markets opened, President Trump told reporters at the White House, "We've won this war" and Iran "wants to reach a deal very badly." The President said negotiations were ongoing and that Iran "gave us a present" which had tremendous monetary value and was related to oil and gas. Reporting later tied the "gift" to a letter from Iran's Ministry of Foreign Affairs that portrayed Iran as a responsible actor seeking to uphold "freedom of navigation and the safety and security of maritime activities." The letter went on to say, "Iran has repeatedly emphasized the Strait of Hormuz remains open." That statement was qualified by excluding assets belonging to the U.S., Israel and other participants in aggression. Any country or group that does not fall under this definition can coordinate safe passage with the Islamic Republic of Iran. Around midday, Pakistan's prime minister said his country was prepared to host meaningful negotiations between the sides, while Israel's Channel 12 reported a summit could indeed be arranged in Islamabad. Channel 12 next reported that a

15-point peace proposal had been delivered to Iran and that there could potentially be a month-long ceasefire to allow time for negotiations to advance. The culmination of these events finally led to a late afternoon sell-off in oil markets. The ball now appears to be in Iran's court. However, Iran's current list of demands does not align with the administration's 15-point plan. U.S. Marines and the 82nd Airborne remain en route to the region, leaving the door open for further escalation should diplomatic efforts fail.

Next week

Employment week in the U.S. On Friday morning, ADP, Job Openings and Labor Survey and the biggie – non-farm payrolls – hit. Key reads on business and services sentiment (gathered after the Middle East war started) arrive on Wednesday and Friday.

Monday 3/30 – None Scheduled

Tuesday 3/31 – U.S. Consumer Confidence, JOLTs | Canada GDP

Wednesday 4/1 – U.S. ADP Employment Survey, Retail Sales, S&P Global Manufacturing PMI, ISM Manufacturing survey, Business Inventories

Thursday 4/2 – U.S. Initial jobless claims | Canada Trade balances

Friday 4/3 – U.S. Non-farm payrolls, S&P Global Services PMI, ISM Services survey

Data scorecard as of March 25, 2026

Equity Market Total Returns						
	3/25/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,592	1.3%	-3.4%	17.9%	25.0%	14.4%
NASDAQ	21,930	1.3%	-5.5%	21.2%	29.6%	13.4%
DOW	46,429	1.9%	-3.0%	14.9%	15.0%	11.6%
Russell 2500	4,453	3.8%	3.5%	11.9%	12.0%	7.3%
S&P/TSX	32,383	3.4%	2.6%	31.7%	21.7%	16.1%
MSCI EAFE	10,660	2.0%	0.5%	31.2%	3.8%	8.9%
MSCI EM	806	0.7%	5.2%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.5%	-0.2%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.4%	-0.2%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.7%	-0.5%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.4%	-0.4%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		-0.5%	-0.3%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.7%	0.1%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.6%	0.2%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.6%	0.0%	4.4%	6.9%	1.5%
Government Bond Yields						
	3/25/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.33%	3.94%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.48%	3.13%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.84%	4.23%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.96%	2.64%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.25%	2.11%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	3/25/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	99.60	0.0%	1.3%	-9.4%	7.1%	1.8%
CAD:USD	$0.72	-0.6%	-0.6%	4.8%	-7.9%	-1.5%
Bitcoin	$70,982.79	1.3%	-19.0%	-6.5%	120.5%	24.8%
Gold	$4,506.00	0.3%	4.3%	64.6%	27.2%	17.9%
Oil (WTI)	$90.32	-8.1%	57.3%	-19.9%	0.1%	3.4%

**Annualized*
5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

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.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate 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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[i] Over 40 Middle East energy assets 'severely damaged,' IEA says

[ii] Iran Conflict: Q/A Session