



Bessette Wealth Management of RBC Dominion Securities

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Head On a Swivel After a Chaotic and Historic Start to 2026

Global market moving news was so plentiful and frequent over the past four months that we open this letter by suggesting the very real risk of it feeling stale by the time you read it. Following the kidnapping of Venezuela's President at the start of the year, the U.S. and Israel began military operations against the previous Iranian regime to end February. Markets do not react well to surprises, let alone ones with a wide range of possible outcomes and timelines, most of which are negative to varying extents.

Not surprisingly, global stocks as represented by the MSCI World index fell 3.9% during the first quarter, less than the U.S. market where the S&P 500 declined 4.6%. During the month of March alone, global stock markets were down mid-single digits to low double digits across most regions. The Canadian stock market was the standout for Q1, given heavy representation by the energy and material sectors. Crude oil was up 77% while gold posted an 8% gain during the quarter.

With the risk of a prolonged conflict increasing the probabilities of continuing elevated crude and gas prices, bond markets provided little offset to equity losses for fear of imminent inflation. In Canada, the bond market was down 0.8% in price while global bonds were down 1.1%. After interest payments, both Canada and global bond markets delivered modest positive total returns. The bond market's volatility is hard to exaggerate. The U.S. Federal Reserve was expected to cut by 100 basis points (four cuts) coming into 2026, whereas today no cuts are expected until 2027. Considering global asset price declines, overall, we were very pleased with our client performance in Q1 as we saw fairly muted price action in our results.

A Louder Version of 2022

With the closure of the Strait of Hormuz between Iran, Saudi Arabia, the UAE and Oman, roughly 20% of global crude oil and 25% of LNG trade halted. It is not only energy markets that were materially impacted by the conflict, but other commodities including one third of global seaborne trade in fertilizers for use in agriculture. The supply shock led crude oil to double in price versus its year-end 2025 value. It was remarkable at how similarly commodity and financial markets (including equity sector leadership) reacted to the Iranian conflict when compared to the first quarter of 2022 with Russia's invasion of Ukraine.

The market's abrupt price changes led to a significant rotation in winners versus losers. Prior to Iran, the global investment community saw an oversupplied crude oil market and an expanding global economic boom with profit growth accelerating across much of the world. Overnight that outlook flipped. Today, expectations are for a materially short crude oil and LNG supply environment after significant damage was caused in the region to important infrastructure. For example, Qatar estimates that close to 20% of its LNG production that has been lost will take up to five years to bring back online. Meanwhile high energy prices could and should lead to rising inflation in Europe, Asia and other oil and LNG importing nations. Roughly 90% of crude demand out of the region is sent to Asia, with China receiving close to 40% alone. The U.S. was not insulated from the outlook deterioration globally, with the S&P 500 index posting its worst quarter in nearly four years.

While the geopolitical event was far from ideal from our perspective, we believe history may not be a great indication of where we go from here. Context on oil's place in the global economy is vitally important for investors. Over the past fifty years, oil intensity has fallen steadily as technology improved, policy shifted and much of the developed world's economies tilted towards services. Oil consumption per unit of U.S. real GDP is down roughly two thirds since the 1970s. If we practically look at how oil is impacting U.S. consumers and businesses, we see a significantly less sensitive equation. Based on the analysis of a major U.S. partner to BMW,

for the average U.S. household to feel the same as in 1980, current crude oil price would need to hit US\$754/bbl. We are instead hovering below US\$100/bbl (at least at the time of this writing). If we look at how sensitive U.S. corporations are today versus the same time period, the math suggests prices would need to move towards something close to US\$1,000/bbl to generate the same impact on corporate profitability. Furthermore, the U.S. economy up until 2019 was a net importer of oil and gas versus today where it is a net exporter, further diminishing the risk of an oil induced recession for the world's largest and most important economy. Here in Canada the equation is clearly a positive given supply of oil and gas across B.C., Alberta and Saskatchewan.

Trump Tariff Tantrum and Subsequent Pause 2.0

U.S. stock market pricing action to begin 2026 was also remarkably similar to 2025 through the latter innings of March. Instead of tariffs we have Iran. Instead of a 90-day pause we have a temporary ceasefire. If the Trump Administration is looking to create uncertainty and confusion, it's running the same playbook back-to-back. Here is hoping 2027 is not a threeppeat although we, and presumably most, are certainly ready if it is.

The strong April rebound had mostly caught the investment community off guard, with technology and AI-related themes re-emerging as market leaders after a hiatus since last November. The Iran war could persist, but the U.S. is in a unique position given its limited regional exposure, its net exporting position, and tailwinds from tariffs rolling off and tax relief to consumers hitting at the same time. One of our partners estimates that the negative cost to consumers at the gas pump is almost exactly offset by stimulus from the One Big Beautiful Bill passed last year.

Which brings us to the opposite of the headline market concerns of March, that we may be facing deflation rather than inflation. AI has rapidly evolved in 2025 and into 2026, so much so that there is growing concern that white collar job risk is much sooner than previously feared. So far, labor market weakness is slow at best, with no significant red flags that we are seeing. But the markets are forward looking, and they are anticipating challenges. Two areas that have made headlines are software and private credit markets. According to J.P. Morgan, software just had its largest non-recessionary one-year decline in over 30 years. More than US\$2 trillion in corporate equity value was erased for publicly listed companies. In private credit, several higher risk managers have halted client redemptions predominantly from fear of the software exposure they may hold is now at risk of default. Again, we have been pleased with our positioning as we maintain a significant underweight in software and our private credit manager exposure is to the most conservative underwriter in this space.

Closing Thoughts

The phrase "may you live in interesting times" certainly comes to mind these days. The world has fractured power. Those powers are exerting influence where they see current advantages. As the AI, space and energy races accelerate we are likely to continue to see volatility in financial markets.

Our approach to portfolio construction is not to shy away from challenges, but to opportunistically take advantage of market pricing dislocations. We do not know what tomorrow will bring, although we spend an incredible amount of time, technological and partnership resources on this prognostication. We approach our client outcomes requiring resilience independent of the future path, which has paid off in our client's first quarter results.

While we move through the Iran conflict, the upcoming U.S. midterm elections, and whatever else is thrown at asset prices in between, we look forward to keeping you abreast of our thoughts, our portfolio changes, and the opportunities or risks that lay ahead.

Bessette Wealth Management

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