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Q1 2026 Market Commentary

Benchmark performance as of March 31, 2025

Index	March	2026 YTD Return
S&P/TSX Composite TR	-4.9%	3.9%
S&P 500 TR	-5.0%	-4.3%
Nasdaq Composite	-5.0%	-7.0%
WTI Oil	51.0%	76.6%
Natural Gas	-3.2%	-27.7%
Copper	-9.5%	-2.8%
Gold	-11.8%	5.5%
10-Year US Treasury Bond	-1.9%	-0.2%
USD/CAD FX	2.2%	1.7%

Source: FactSet

In a period marked by Middle East conflict and surging oil prices, it may come as no surprise that energy stocks were among the biggest winners in an otherwise forgettable first quarter.

The quarter began with one jolt to the oil market—the capture of Venezuelan leader Nicolás Maduro—only to end with one far more serious, a conflict with Iran that shut down a key global maritime chokepoint known as the Strait of Hormuz.

Instead of seeking to fight the U.S. and Israel head-on, Iran has adopted an asymmetric military strategy, targeting Arab Gulf states, knocking out radars and other facilities critical to air defenses and shutting down most tanker traffic through the Strait of Hormuz. It is a tactic that the Islamic Revolutionary Guard Corps (IRGC), the powerful Iranian military organization running the war effort, also used to kill hundreds of American troops in Iraq by arming proxy militias with improvised-explosive devices.

In between these US military actions, a pivotal Supreme Court ruling against President Trump's tariffs, and a broadening fear over artificial

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intelligence’s disruption to key sectors, left few corners of the market untouched.

The S&P 500 index and the Nasdaq declined during the first three months of 2026, the benchmark’s worst quarter since 2022. The S&P TSX experienced a similar decline in March as gains in the energy and materials sectors were offset by weakness in the industrial and information technology sectors.

A sharp rally on the last day of the quarter in reaction to Trump’s ongoing narrative around a swift resolution to the Iran conflict spared the S&P 500 from entering a technical correction (a drawdown of 10% from it’s peak).

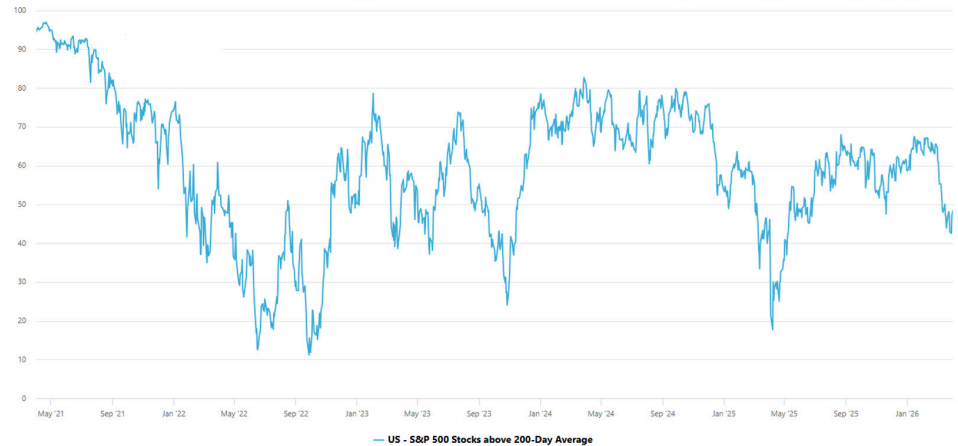
The Volatility Index (VIX) remains elevated at around twenty-five (25), a level that implies the S&P 500 index will move 1.6%, up or down, each day over the next 30 days. The VIX’s long-term average is about nineteen (19), so the current level is far from telegraphing an all clear signal for a sustained equity rally. Volatility is the price of admission that equity investors must endure to earn higher rates of return after tax and inflation.

Notably, the major indices’ year to date performance masks the technical weakness of many individual stocks.

Only 40% of stocks trade above their 200-day moving average compared to 80% during the 2024 bull market (see Chart 1).

The S&P 500 forward price to earnings (PE) ratio has shown signs of modest compression, hovering around 19x, down from 24x earlier in the year. Despite strong S&P 500 forward earnings growth

Chart 1: S&P 500 Stocks Trading Above their two hundred day Moving Average (%)



Source: Macrotrends

Chart 2: Top 10 S&P 500 Companies represent 38% of S&P 500 Market Capitalization

Weight of the top 10 companies in the S&P 500
% of market capitalization, % of last 12 months’ earnings



Source: JPMorgan

projections of 17% (Source: Factset), high valuations have persisted due to AI-driven, tech-heavy sector concentration.

The S&P 500 remains highly concentrated with the top ten (10) companies by market capitalization comprising 38% of the index (See Chart 2).

The magnificent 7 (MAG 7) represents one-third of the S&P 500 market capitalization and declined by 12% YTD 2026 significantly underperforming both the S&P 500 and the Nasdaq. Investor concern about massive AI related capital expenditures by technology companies and the negative impact

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on free cash flow is weighing on the sector.

Microsoft (a MAG 7 constituent) has been particularly weak, down 23.5% YTD 2026, as the software sector has re-rated lower due to the impact of Artificial Intelligence (AI).

By comparison, the S&P 500 equal weight index (RSP) is flat YTD 2026. The relative out performance of the equal weight versus the market cap weighted index confirms that there is material sector rotation away from the MAG 7 and into more traditional value sectors such as energy, materials and industrials (defense).

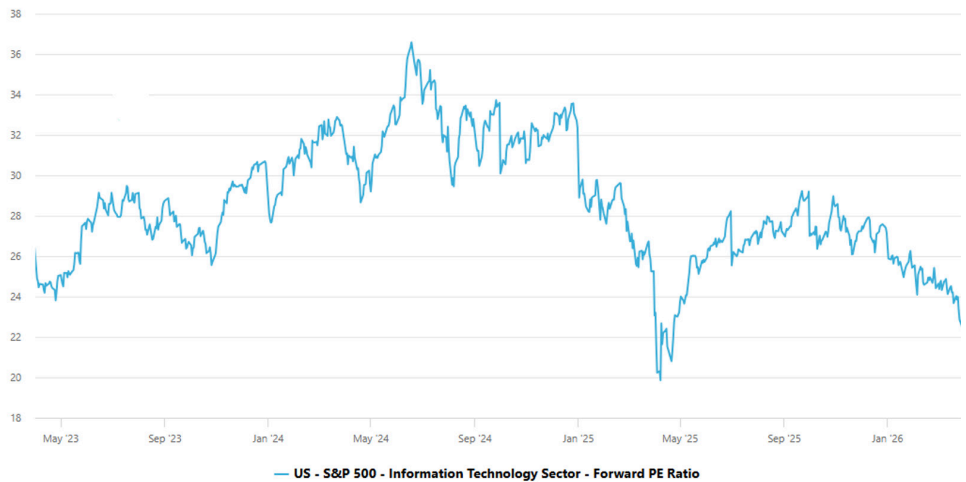
The S&P 500 Information Technology Sector has lost 12x PE multiple points since the peak in August 2024. The largest decline in valuation occurred from January 2025 coincident with the launch of China's Deep Seek and only bottoming on Liberation Day (See chart 3). The modest recovery in valuation can be attributed to the semi-conductor sub sector while software remains very weak.

The U.S. Dollar Index (DXY) gained 2.4% in March while gold prices retreated by 11.8% (an equivalent decline experienced by the MAG 7) after an epic run to \$5,400 per ounce.

The U.S. Dollar Index has now extended its winning streak to three consecutive quarters. The USD is helped by its position as a net oil exporter, and it could rise further due to the energy price shock. US Dollar appreciation in the First Persian Gulf War in 1990-91 was followed by ten years of real dollar appreciation.

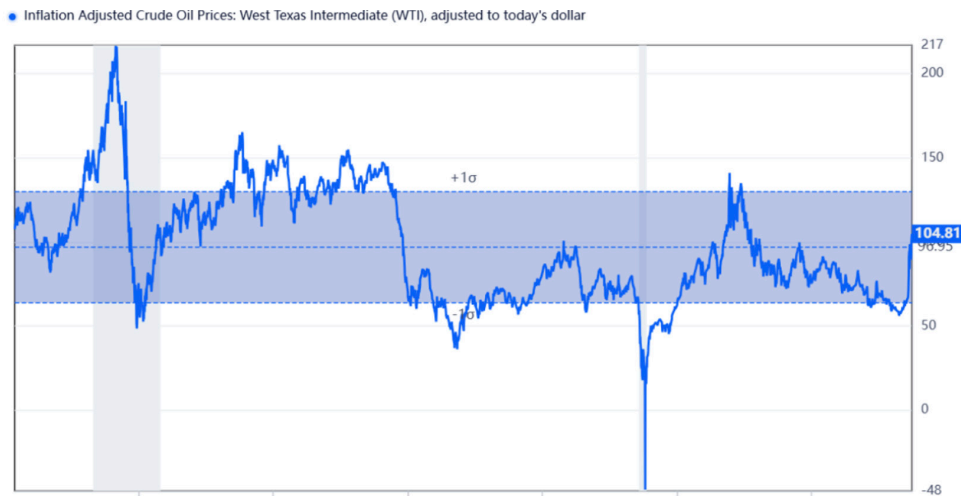
The WTI oil price remains elevated after a 50% plus rally last month but nowhere near the top end of the inflation adjusted price band (see Chart 4). The prolonged closing of

Chart 3: S&P 500 Information Technology Sector PE Compression



Source: Macrotrends

Chart 4: Inflation Adjusted Crude Oil (WTI) Prices as at 03/31/2026.



Source: Macrotrends

the Strait of Hormuz could push oil prices significantly higher, and this occurs, it will start to have a negative impact on global GDP growth and inflation. The oil market remains in backwardation with the December 2026 future WTI oil price in the \$72 per barrel area. This suggests that the oil prices will decline in the coming months as non-US tankers start to exit the Strait based on tolls of an estimated \$2 million per tanker.

Past oil crises were more impactful on the US economy when the

country's dependence on foreign oil and the energy intensity of the nation was greater. Still, global energy markets remain highly integrated. Elevated oil prices serve to disrupt key industrial inputs, including plastics, helium, potash, and other petrochemical feedstocks and refined products, and constrain global economic growth. US and Canadian consumers are already feeling the economic pain of higher gas prices.

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The US Federal Reserve (Fed) is unlikely to respond to a shock that they cannot control. Rising oil prices and interest rates remain the major challenge to the central bank easing cycle that equities began discounting in late 2022 with both the US 30-year (5.00%) and 10-year (4.30%) treasury yields challenging important upside technical levels into the end of the quarter.

The markets still expect looser monetary policy later in 2026, as growth moderates and inflation gradually cools. The central bank is projected to deliver two 25-basis-point cuts, bringing the policy rate down toward a 3.0%–3.25% range.

In the absence of a near term Fed interest rate cut the S&P 500 PE multiple will remain constrained and this leaves the equity markets reliant on earnings growth to reach consensus S&P 500 analyst target in the 7,500 range by year end.

Bearish sentiment, as measured by the AAII Sentiment surveys, has now moved to the upper end of a range at 52% that often supports equity rebounds while short-term momentum indicators are at deeply

oversold levels. Bullish sentiment is only 32% and offers some hope of a counter trend rally on any positive news flow.

We have seen days in March when the narrative related to a shorter duration war are played up by the White House that allows oil prices to decline and the equity markets to rally.

The best outcome for the equity markets would be for Trump to declare victory and withdraw in April - that would trigger a violent upside rally in the S&P 500 possibly back to technical resistance level of 6,805. Great for investors in the near term, but this approach would leave the Strait of Hormuz under Iranian control and embolden a more radicalized regime to continue attacking Israel and the Gulf states. It would allow for proxy wars and terrorism to rise with no strategic improvement in global security.

We could see a temporary cease fire in exchange for reopening the Strait, allowing the US military to reset and reload its personnel and munitions. A cease fire is unlikely to hold because the IRGC will not give

up their greatest bargaining chip – a chokehold on 20% of the global energy supply.

Trump could decide to escalate by attacking Iranian power plants and bridges to force the regime to reopen the shipping lanes while extending the conflict and thus hurting the global economy.

Finally, Trump could decide to continue bombing infrastructure and occupy southern Iran with ground troops and try to force open the Strait. This would increase the US military casualties, prolong the conflict and would be political suicide. This scenario would have unintended consequences that are impossible to predict.

This is a very fluid situation that is difficult to game.

As investors, we can only focus on the things we can control. We can exercise patience knowing the economy and the fundamentals of the investments you own are solid until the conflict subsides and market sentiment improves.

Hopefully there are better days ahead. - R.K.



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