RESEARCH CAPITAL CORPORATION

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Dear Client,

The first quarter of 2026 began on a positive note for investors, particularly in Canada, with the S&P/TSX Composite Index closing at a record high on January 28th. However, a sharp reversal of gold and silver prices during the last two trading days of January knocked over 1,200 points off the index and erased most of its month-to-date gains. U.S. equities did not fall nearly as much as the Materials-heavy Canadian market. In February the upward trend for stocks resumed, and the S&P/TSX Composite Index significantly outperformed the S&P 500 and Nasdaq. U.S. stocks also lagged European and Japanese markets in February as fresh concerns about the potential for AI to trigger broader economic disruptions undercut software stocks.

Then, on the last day of the month, Saturday, February 28th, the U.S. and Israel attacked Iran. Global stocks and bonds then suffered the biggest sell-off in March since 2022, as the war triggered an energy shock that left few asset classes unscathed. Brent crude, the global oil benchmark, closed March with the largest one-month price increase on record, up almost 60%, as the war choked off tanker traffic through the Strait of Hormuz and damaged energy infrastructure in the region. The strait normally carries a fifth of the world’s oil and liquefied natural gas. Gasoline, jet fuel, and diesel prices surged worldwide.

Bonds also retreated in March on the possibility that central banks may lift interest rates in 2026 to contain inflationary pressures stoked by the conflict. The yield on the benchmark U.S. 10-year note climbed higher in March (yields rise as prices fall), reversing a gradual decline from May 2025. Gold, often perceived as a safe haven, also slumped. The S&P/TSX Composite Index, a strong performer in the first two months of Q1, gave up almost all of those gains in March, yet still outperformed the S&P 500, Dow, Nasdaq and MSCI World Index for the quarter and on a 1-,3- and 5-year basis as of March 31. Stocks rallied on the last day of the quarter on news reports suggesting the U.S. and Iran were both seeking to de-escalate.

For the quarter, the S&P/TSX Composite Index rose 3.94%, the S&P 500 Index fell -4.42%, the Nasdaq Index slumped -6.96%, the MSCI World Index was down -3.15%, and the MSCI EAFE Index rose 0.15%. In the U.K., the FTSE 100 Index gained 3.42%, but Germany's DAX Index dropped -7.39%. In Asia, Japan's Nikkei 225 rose 1.65%, and the MSCI China Index dropped -8.53%. The FTSE Canada Universe Bond Index ended the quarter up 0.23%. Gold rose 6.87%, and Brent crude soared 76.56%.

March data releases and developments

After a slight contraction at the end of 2025 Canada's GDP edged up 0.1% in January, helped by strength in goods-producing industries, which expanded by 0.2%, according to Statistics Canada. Gains in January were led by mining, quarrying, and oil and gas extraction, up 1.2%, with oil and gas extraction up 1.6%. However, manufacturing contracted 1.4%. The agency's preliminary estimate for February indicates growth of 0.2%.

Statistics Canada also reported that the economy lost 84,000 jobs in February, pushing the unemployment rate up to 6.7%. The rise in unemployment was driven by a significant drop of 108,000 full-time jobs, while part-time employment held steady. Wholesale and retail trade lost 18,000 jobs in February, and manufacturing and construction shed a combined 21,200 jobs. The services economy contracted for a fourth straight month in February, according to S&P Global's Canada services PMI data.

Tepid growth has helped restrain inflation, which was 1.8% in February, below the Bank of Canada's 2% target. However, higher energy prices increase the likelihood that companies will pass along rising transportation and production costs to customers, pushing up the prices of other goods and services. In this environment, the Bank of Canada (BoC) held its policy rate at 2.25% on March 18th, while noting that energy price volatility was increasing the risks of higher inflation. Yet the energy price spike is boosting revenue for Canadian oil producers and will make a meaningful contribution to trimming Alberta's budget deficit. The federal government should also benefit from rising corporate tax receipts from the oil patch.

In the U.S., the second estimate of Q4 2025 US growth by the Bureau of Economic Analysis (BEA), released mid-March revised growth down to a 0.7% annualized growth rate, significantly lower than the initial 1.4% estimate. The BEA said the slowdown reflected reduced consumer spending, exports, and government expenditures caused by the U.S. government shutdown in October and November.

The U.S. lost 92,000 jobs in February, according to the Labor Department, well short of expectations and January's gain of 126,000 jobs. The unemployment rate ticked slightly higher to 4.4%. Core U.S. consumer price inflation, excluding food and energy, stood at 2.5% (annualized) in February, the lowest since March 2021, unchanged from January and matching forecasts. Initial unemployment claims for the third week of March rose slightly but were below year-ago levels. Continuing claims fell to their lowest level since May 2024, suggesting many displaced workers are either finding new jobs relatively quickly or have reached their maximum benefits eligibility period.

February retail sales were positive, according to the Commerce Department, driven by strong spending on vehicles, clothing, and personal care stores. Sales rose 0.6% from January, above expectations. January's sales were revised to a drop of 0.1% from a previous estimate of a 0.2% decline. The data, as with almost all other official releases, tracked activity before the onset of the Iran war.

Manufacturing expanded in March for the third consecutive month, according to the ISM Manufacturing PMI, rising to 52.7 from 52.4 in February and above forecasts of 52.5. The reading pointed to the strongest growth in factory activity since August 2022.

However, two key surveys of U.S. consumer sentiment conducted after the start of the war produced different headlines. The Conference Board consumer confidence index rose slightly in March to 91.8 from 91.0 in February. The survey period for preliminary results was March 1 to 24, 2026. In contrast, the University of Michigan's consumer sentiment index fell to 53.3 in March, down from the preliminary estimate of 55.5 and below February's 56.6. Declines were recorded across all age groups and political affiliations. Data was collected between February 17 and March 23, with about two-thirds coming after the start of the war.

The U.S. Federal Reserve held rates steady in March, while noting still elevated inflation and a stable employment picture but also increased uncertainty due to the war. Producer prices were up more than expected in February, confirming that cost pressures were firming even ahead of the sudden spike in energy prices.

In the eurozone, the European Central Bank (ECB) held rates steady but, like other central banks in March, noted the inflation risks linked to higher energy prices and flagged elevated uncertainty and downside risks to growth.

In the UK, the Bank of England held rates in March. Employment data was firmer than expected, with unemployment holding steady. February inflation held at 3%, year over year, indicating easing price pressures prior to the war. Monthly GDP showed no growth in January according to the UK Office for National Statistics, following gains of 0.1% in December and 0.2% in November 2025.

In Australia, the Reserve Bank raised the cash rate by 25 basis points in March to 4.1%, citing rising inflation risks from higher energy prices. Jobs data showed employment strengthening, largely in part-time positions. February headline inflation softened to 3.7% year over year.

The Bank of Japan kept rates unchanged while noting the potential impact of higher energy costs as Japan relies heavily on energy imports. Headline inflation in February eased to 1.3% year over year, as government energy subsidies pushed down utility costs.

In China, economic activity in the first two months of the quarter surprised to the upside, led by improving industrial output and infrastructure investment, though retail sales and private investment remained soft. Exports grew strongly. Loan prime rates were left unchanged, but February headline inflation was higher than expected, rising 1.3% year over year, while producer prices remained in deflation. As in many global economies, the future impact of higher oil prices will be closely monitored by policymakers.

What can we expect now?

Comments from Donald Trump at the end of March suggesting the war may end in the coming weeks boosted markets, but the economic impact of the conflict could reverberate throughout 2026. While energy is the primary focus, the war has also disrupted critical supplies of agricultural fertilizer and helium, a byproduct of liquefied natural gas production. Helium is used in a variety of applications, including MRI scans, and is vital for manufacturing chips used in smartphones, cars, data centers and defense technology. Soaring energy prices will ripple across multiple aspects of the global economy, with transportation costs for commercial and consumer goods via rail, road, air, and sea being a key example. Markets will also be alert in coming quarters to further signs of stress in the trillion-dollar private credit market in 2026, where several major managers capped investor redemptions during Q1 as the pace of withdrawals from those funds accelerated.

Despite the unexpected upheavals of March, economic fundamentals and identifying corporations with proven abilities to generate revenue, cash flow, and profits for shareholders remain the foundation of successful long-term investing. Markets have weathered shocks in the past and will do so again in the future.

I welcome your thoughts or questions about your personal investing goals and current asset allocation in the current environment. Please do not hesitate to contact me.

Sincerely,
John S. Bruce, CIM

Note:
All index performance is in Canadian dollars.

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