

Quarterly Market Review Q1 2026

Canadian Equity

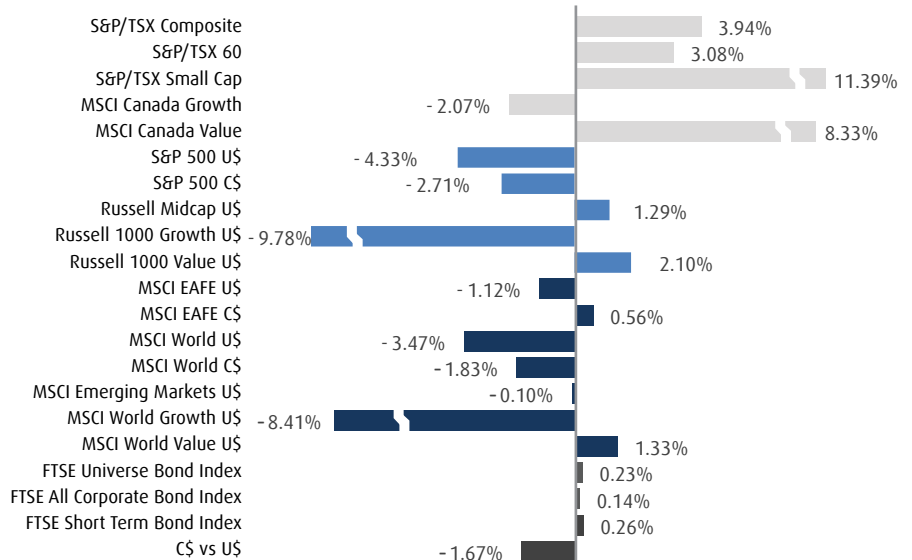
The conflict in Iran triggered a major energy supply shock, driving oil prices sharply higher and adding near-term inflationary pressure to an already fragile global growth backdrop. Energy dominated global equity performance, with the Canadian market benefiting proportionally from higher oil prices relative to other developed market indices. The S&P TSX Composite Index reached an all-time high in early March before retracing, as markets began to price in rising geopolitical risks and uncertainty. The index rose 3.9% for the quarter.

Performance was mixed with six of the 11 sectors producing negative performance. The top performing sector was the Energy sector as the price of oil rose on geopolitical concerns. The Utilities sector was also strong, returning 11.2% as the companies within that sector were rewarded for their more defensive characteristics in a volatile market. The worst performing sectors were Information Technology and Real Estate, which returned -22.5% and -5.2%, respectively.

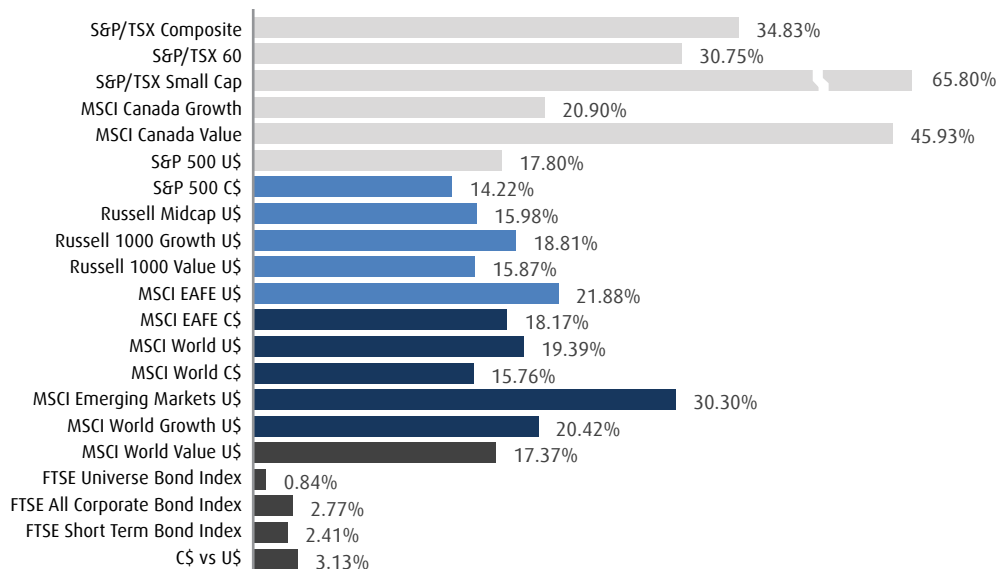
From a style perspective, value outperformed growth investing over the quarter, rising 8.3% and falling 2.1%, respectively. Over the past year, value has outperformed growth stocks by just over 25%. Small-cap stocks in Canada outperformed large-cap stocks and have outpaced them on the year by a staggering 31% as small cap gold stocks have risen significantly.

Capital Markets Review

3 Months (ending March 31, 2026)



1 Year (ending March 31, 2026)



Source: BMO Capital Markets and Bloomberg

U.S. Equity

The defining event of the quarter was the large-scale U.S.-Israeli strike on Iran following the collapse of diplomatic efforts. The escalation severely disrupted global shipping routes, particularly the movement of critical commodities through the Strait of Hormuz. Big Tech, particularly software, saw broad weakness amid rising concerns over AI-driven disruption, with related stress spilling into private credit as several software-exposed funds faced withdrawal limits. The S&P 500 declined 4.3% in U.S. dollar terms.

Performance in the U.S. was mixed with six of the 11 sectors delivering positive returns for the period. The Energy sector produced outsized returns, returning 38.3% on the quarter. The Materials sector also rose significantly as the price of gold rose, returning 9.7%. The Financials and Consumer Discretionary sectors were the worst performing sectors, falling -9.4% and -9.2%, respectively.

From a style perspective, value significantly outperformed growth by a wide margin (+2.1% vs -9.8%) for the quarter. However, growth and value stocks have performed in line with each other over the past year. Small-cap stocks performed in line with large-cap stocks while mid-cap stocks outperformed.

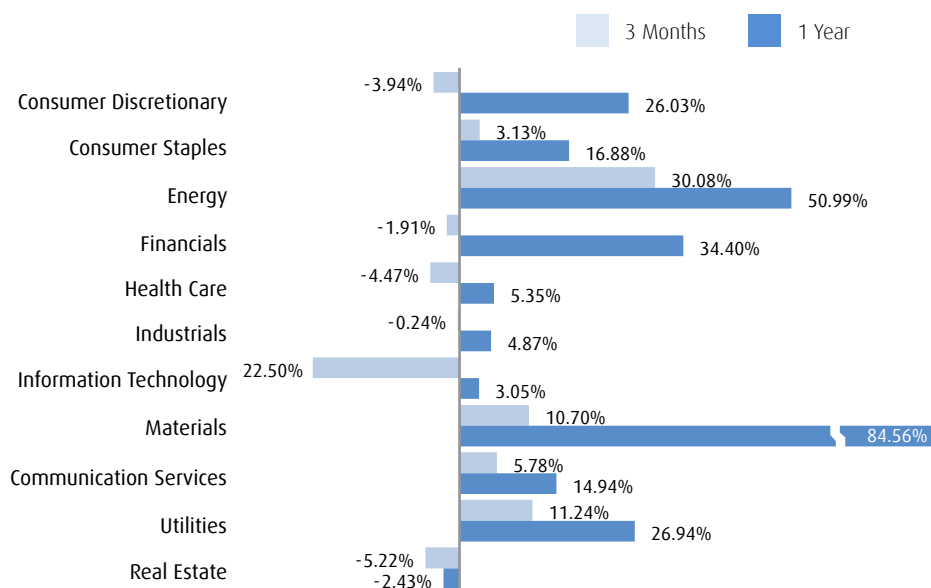
International Equity

European equity markets underperformed in March, with cyclical and consumer-oriented sectors particularly affected, reflecting the region's heavy reliance on energy imports from the U.S. and the Middle East. Asian markets held up relatively better over the quarter despite renewed weakness in March, though rising energy costs may ultimately force regional central banks to raise interest rates. The MSCI EAFE decreased -1.1% over the quarter.

Within the MSCI EAFE Index, Energy and Utilities were the best performing sectors, while Financials and Consumer Discretionary were the worst performing sectors. Over the past year, the Energy sector was the top performing sector. From a country perspective, the United Kingdom and Australia performed better than the broad market, while Germany and France lagged.

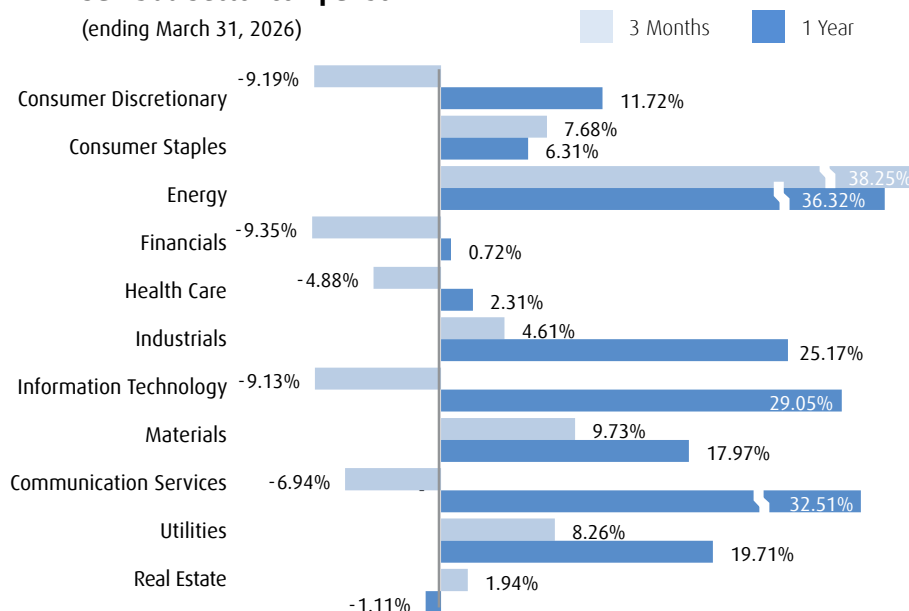
S&P/TSX Composite Sector Comparison

(ending March 31, 2026)



S&P 500 Sector Comparison

(ending March 31, 2026)



Source: BMO Capital Markets and Bloomberg

Emerging Markets outperformed the U.S. and International equity markets, returning -0.1% in U.S. dollar terms for the three months ending March 31, 2026. Over the past year, an allocation to Emerging Markets would have slightly negatively impacted a Canadian investor (as compared to the S&P/TSX).

Fixed Income

The Middle East conflict also influenced central bank expectations, with many shifting from possibly cutting interest rates to holding steady or hiking. The US Federal Reserve held rates stable and adopted a more cautious tone in March, warning that persistent inflation—partly driven by higher energy costs—limits its ability to ease policy. However, it left open the possibility of one rate cut by late 2026. Credit spreads on Canadian investment-grade corporate bonds widened modestly over the period, reflecting higher credit risk premiums amid rising interest rates and elevated macro uncertainty.

The FTSE Canada Universe Bond Index was flat, rising only 0.2%. The short segment of the Index performed in line and returned 0.3% while the long segment underperformed, returning -0.3%. The Bloomberg Global Aggregate Index returned -1.1%.

Please contact your BMO Private Wealth professional if you have any questions or would like to discuss your investments.



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