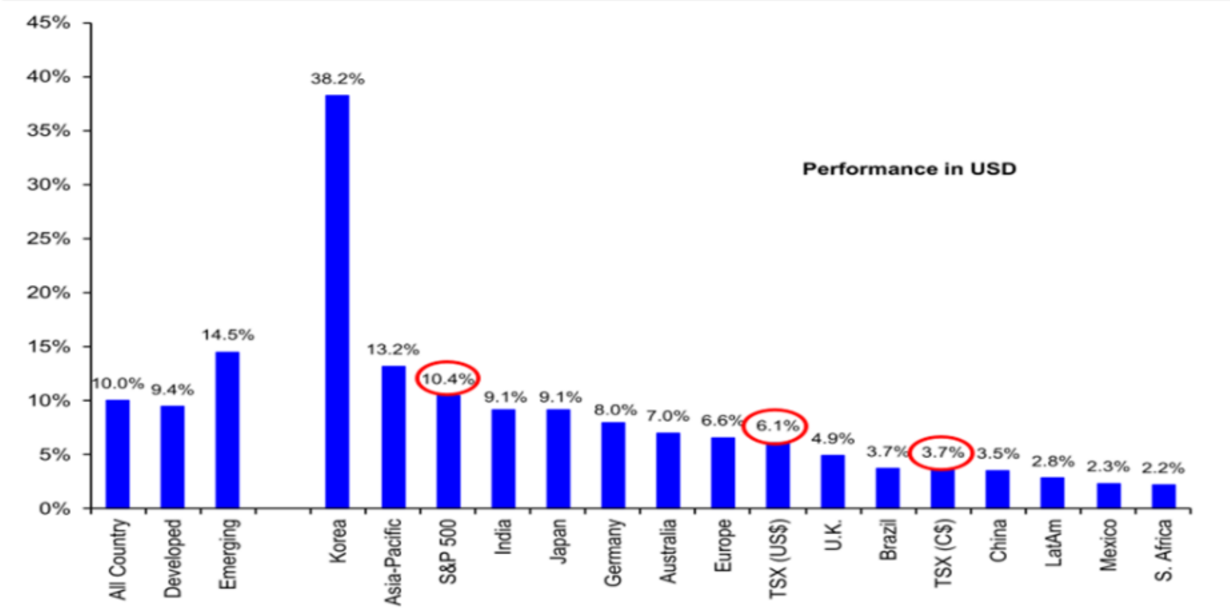
April Market Commentary I Earnings Strength Meets Geopolitical Risk

Markets Rebound After Near-Correction

Markets were approaching correction territory in March, with both the S&P 500 and S&P/TSX down nearly 10% from their year-to-date highs at various points. By April, however, the equity markets had largely recovered. Emerging market stocks led the way, with South Korea standing out. The S&P 500 delivered a +10.5% return (total return, US$), and the S&P/TSX rose 3.8% (total return, CAD$). Government bonds again performed poorly, as yields moved higher during the month, credit spreads tightened, helping keep corporate credit returns generally in positive territory. Notably, rate volatility moved lower in April as the implied volatility of one-year swaps continued to trend lower from recent highs following geopolitical disruptions.

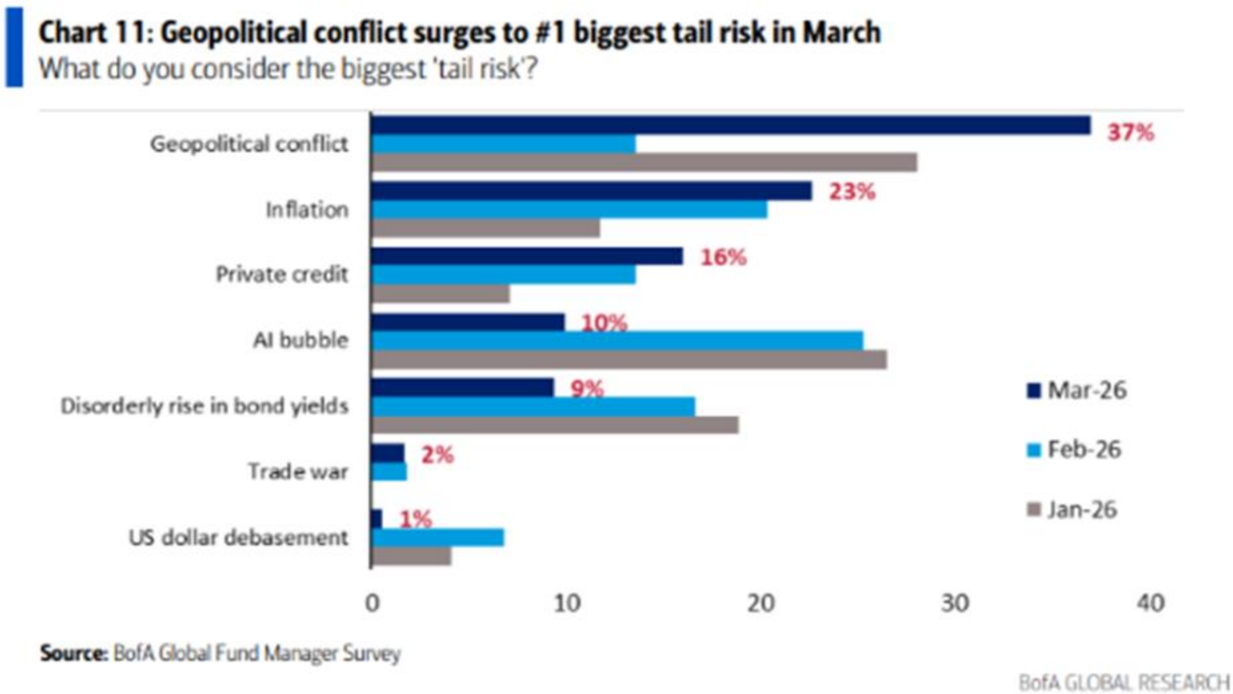
Exhibit 1 - Global Large Cap Equities: MTD Performance (As at April 30, 2026)



Based on MSCI indices unless otherwise indicated

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

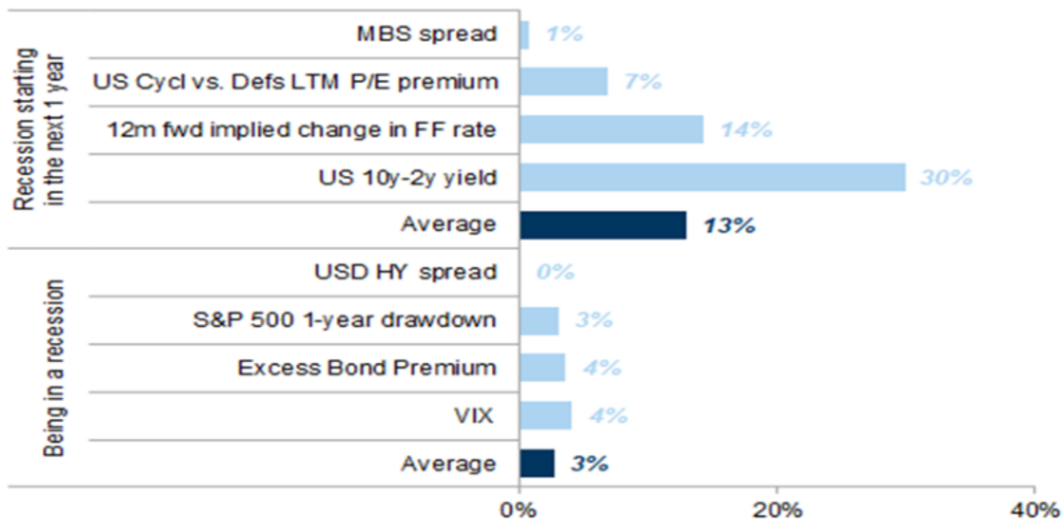
According to a recent Fund Manager survey conducted by Bank of America, investors have identified geopolitical conflict as the leading tail risk. This is notable, given they appear to be largely ignoring the potential negative fallout that a prolonged conflict in Iran might bring. According to Strategas, the S&P 500 took just 11 days to reclaim the 9.1% drawdown inflicted by the start of hostilities between Iran and America/Israel. This is the fastest recovery of at least an 8% correction in 75 years. By comparison, the S&P 500 declined more sharply in 2025, falling nearly 19% between February 19 and April 8, and that recovery took 55 days. According to Bloomberg's Simon White, stocks are trading at all-time high valuations, despite the Iran war.



Investor Sentiment Remains Constructive

According to Barron's "Big Money" poll of professional investors, the so-called "smart money" remains bullish on both US stocks and the broader economy. The market-implied US recession probabilities, as calculated by Goldman Sachs, suggest a relatively low probability of recession, at approximately 13%. Among key indicators, only the US 10-year versus 2-year yield curve is signaling any concern, with probabilities closer to 30%.

Exhibit 17: Market-implied US recession probability by indicator
Univariate logit models. Maximum history since 1950



Source: Haver Analytics, Datastream, Worldscope, Goldman Sachs Global Investment Research

Technology and Semiconductors Continue to Lead

Investors are particularly bullish on big tech, which once again continues to lead market performance. Last month, the technology-heavy NASDAQ returned 15.3%, while the average S&P stock (as represented by the S&P 500 equal weight index) returned 7.9%. Since the start of the conflict in Iran on February 28, the NASDAQ has gained nearly 10%, while the average stock has recorded a slight loss.

At a more granular level, the semiconductor sector saw a particularly strong performance. The PHLX Semiconductor index rose 17 consecutive days in April, delivering a total monthly return of more than 38% for the month and nearly 30% since the start of the conflict. The Semiconductor sector is up nearly 30%.

The influence of Chipmaker's large-cap equity returns was not confined to US markets. Emerging markets' outperformance last month was largely powered by the outsized returns of Asian semiconductor stocks such as TSMC, Samsung, and SK Hynix.

Source: @TheMarketStats

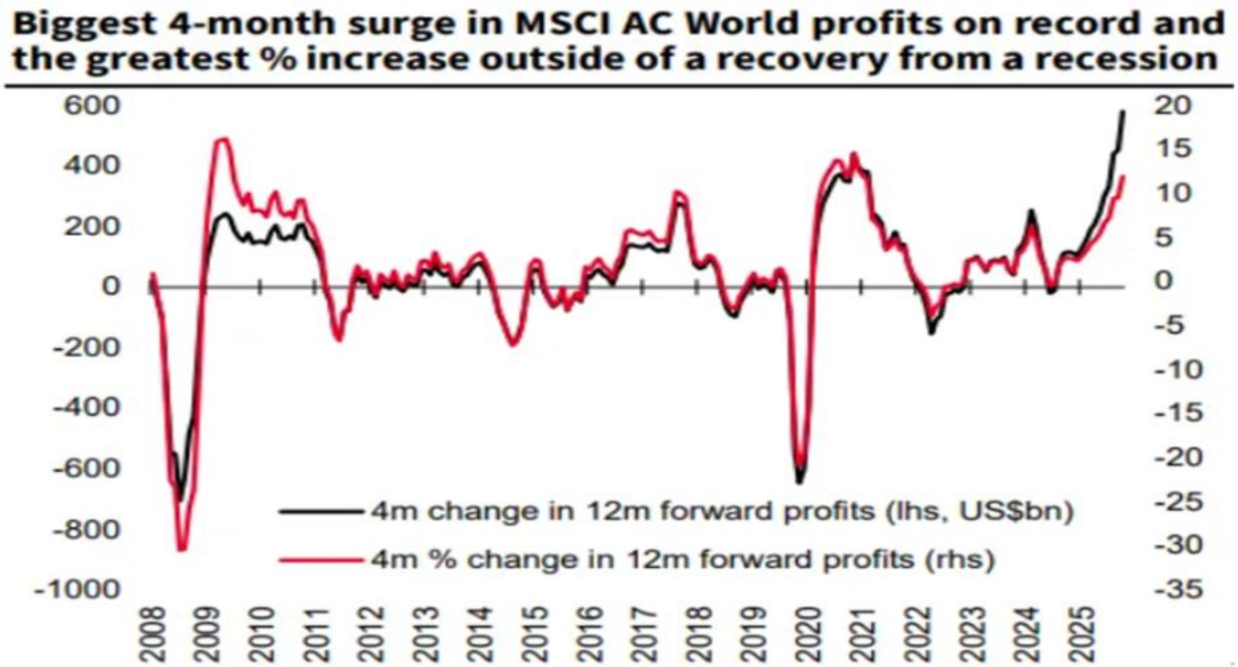
Earnings Driving Markets, Not Economic Data

The rally in stocks, particularly in technology, has not been primarily driven by macro-economic data. Citigroup's US and Eurozone Economic Surprise Index have in fact recently turned lower, with economic data disappointing since the start of the conflict in Iran. Earnings, which ultimately drive equity returns, have remained strong, and have shown continued improvement.

Société Générale highlights that the last four-month period has seen the greatest percentage increase in MSCI AC (All-Cap) World index profits ever, outside of a recovery from a recession.

These gains have extended beyond semiconductors and technology hardware, to include non-tech sectors such as Oil & Gas and Mining.

Since the conflict began, 2026 estimated earnings for the S&P 493 (meaning the S&P 500 excluding the Magnificent 7) have surged. Strategas forecasts that earnings growth for the "Remaining 493" will broadly match the Mag 7 in Q2, before gradually outpacing the Mag 7 through the remainder of 2026 and into early 2027.



Source: SG Cross Asset Research/Equity Quant, Factset, MSCI

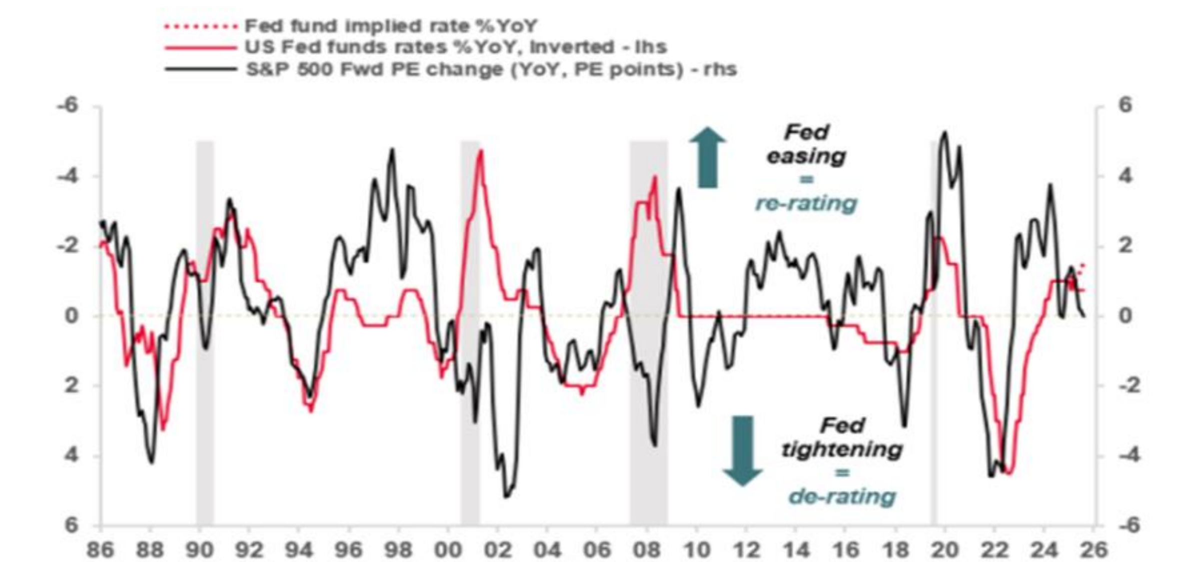
Interest Rates Re-Emerge as a Key Risk

Strong earnings should support strong market returns over the longer term. Strategas highlights that the correlation between earnings growth and US equity returns is strongest over the 5 to10 year holding periods.

In the near term, however, higher interest rates remain a key risk to this earnings-driven backdrop. Short term moves in stock valuations are heavily influenced by interest rates, with Société Générale pointing to Federal Reserve rate cuts and hikes as a primary driver of valuations and returns. Based on futures market pricing, many developed market central banks have flipped from expecting rates cuts before the war to now discounting rate hikes in 2026, including Canada.

As for the US, the Fed appears to be finely balanced and could go either way. Before the war, two cuts (or 50 basis points) were largely expected. Since then, the futures market has started to price in a rate hike and is currently discounting about a 50% chance of a 25-basis point increase in the Fed Funds rate by mid-2027.

The S&P 500 re-rates and de-rates with the Fed cuts and hikes



Source: Refinitiv, Bloomberg, SG Cross Asset Research/US Equity Strategy

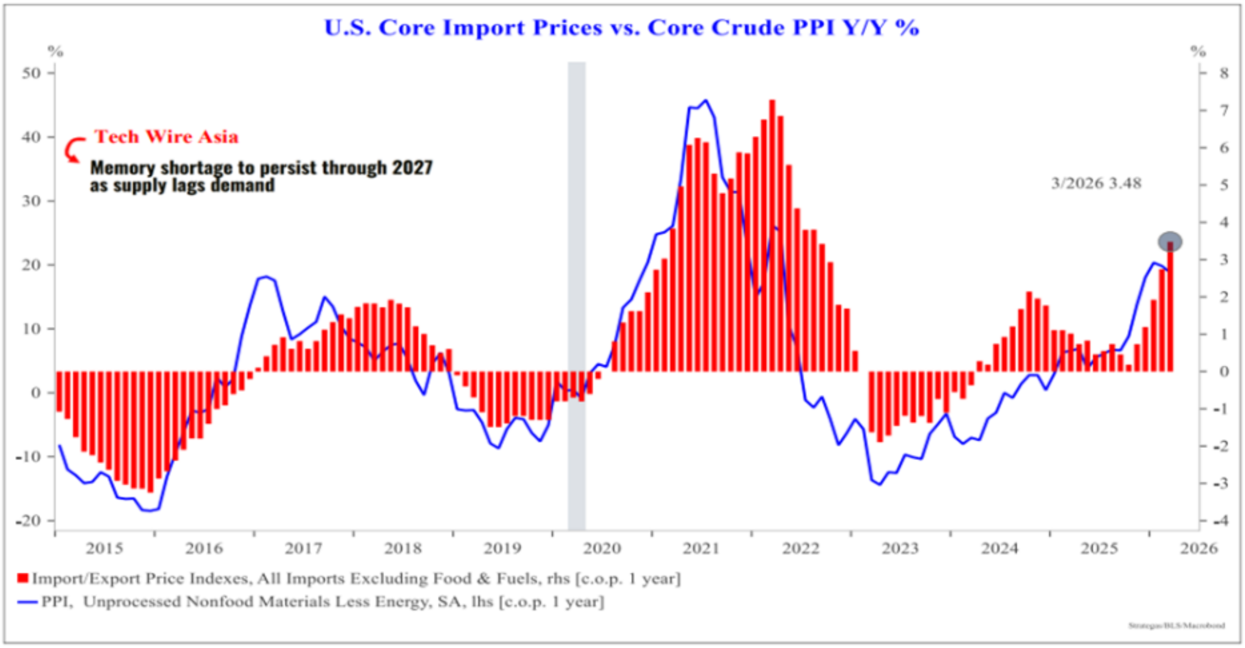
Inflation Signals: Mixed, but Anchored

What could ultimately drive the Fed to take action regarding interest rates, will depend primarily on Inflation and the labour market.

On inflation, Core PPI (Producer Price Index) was elevated even before the recent increase in oil prices, likely due in part to tariffs. Alternative inflation indicators favored by incoming Fed Chairman Kevin Warsh, such as the Trimmed Mean CPI and Fed Median CPI, remain subdued and trending lower.

More importantly, long-term inflation expectations remain anchored, with 10-year inflation breakeven rates largely rangebound at relatively low levels. Shorter term inflation swaps have broken out to the upside, but so far expectations are that this increase may prove transitory.

U.S. CORE INFLATION WAS STICKY EVEN BEFORE THE ENERGY SHOCK



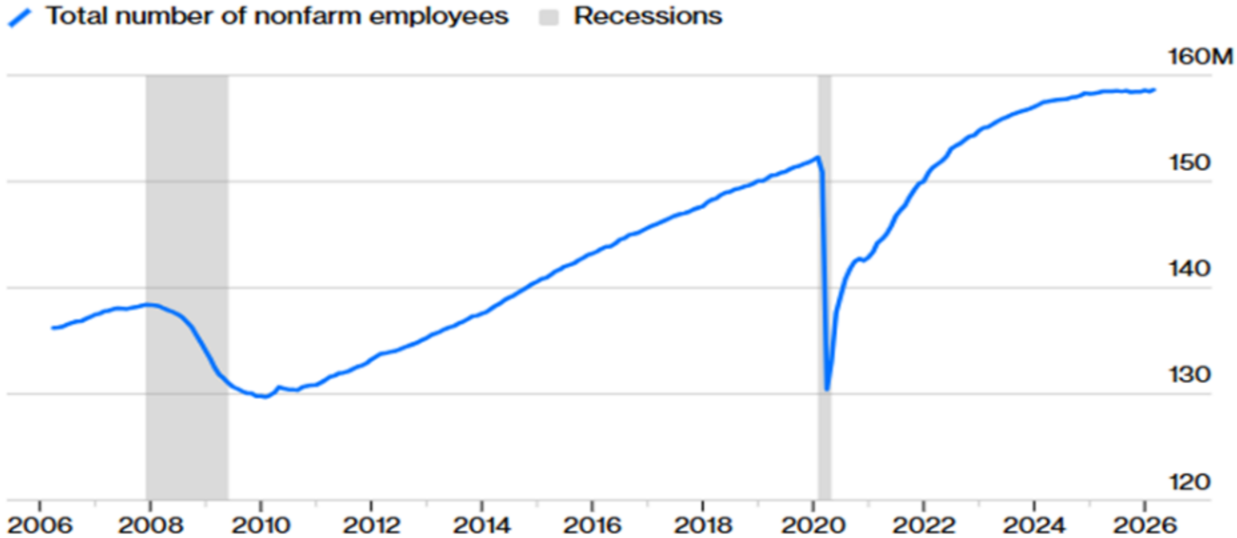
Labour Market: Slowing but Stable

The labour market, like inflation, continues to present mixed signals. Job growth has stalled but so have layoffs. Weekly U.S. initial jobless claims have recently come in well below the average since 2022, indicating that fewer American workers are losing their jobs.

With immigration slowing materially, the U.S. doesn't need to create as many new jobs to remain at full employment. In such a balanced environment, wage growth should hold steady but stay controlled.

Job Growth Has Stalled Out

What explains the recent plateau in the number of jobs in the US?

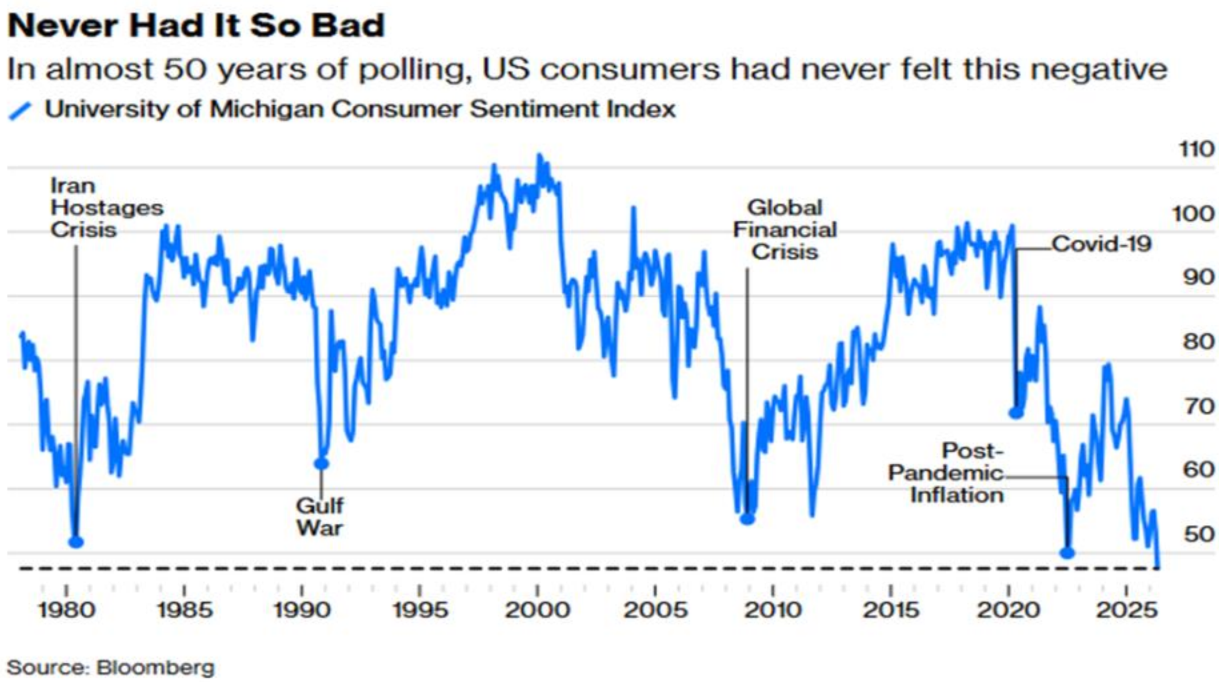


Source: US Bureau of Labor Statistics

Consumer Sentiment Deteriorates

Consumers remain cautious. According to the University of Michigan Consumer Sentiment Index, U.S. consumers have not reported sentiment levels this low in recent history.

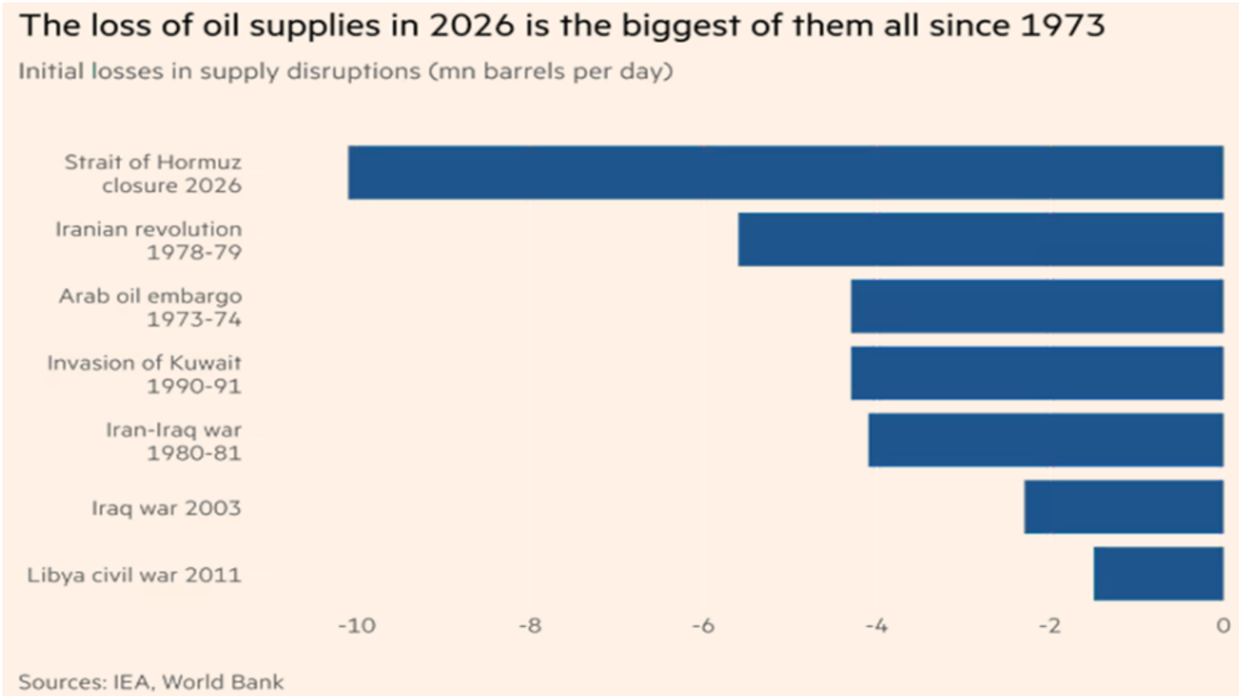
Political dynamics have contributed to this divergence in sentiment, with Democrats reporting a sharp decline in confidence after the 2024 presidential election, while Republicans experienced the opposite. As a group, however, Americans claim to feel more pessimistic now than during the depths of the pandemic. Job market concerns are one factor, but persistent inflation and lack of affordability remain the key issues.



Geopolitical Risk: Oil Supply Disruption Remains the Key Wild Card

The wild card remains the conflict in Iran and its impact on the global economy. According to the World Bank, the closing of the Strait of Hormuz has resulted in a global loss of more than 10 million barrels of a day, the largest decline in oil supply on record.

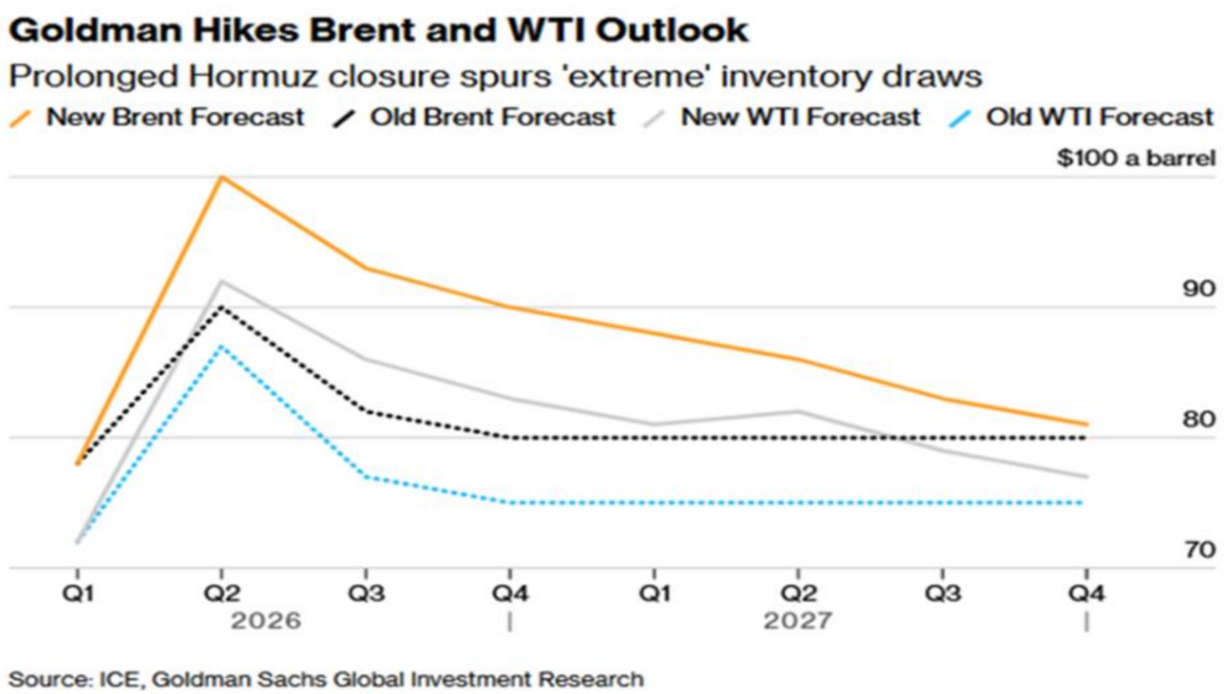
In reaction, the price of Brent crude oil jumped more than US$45 a barrel in March. In the short term, the World Bank estimates the loss of supply can largely be offset, leaving a supply gap of just under five million barrels a day. This is still a large number, and the longer the Strait remains closed, the harder it becomes to balance the oil market without meaningful demand destruction.



Oil Outlook: Elevated Prices and Ongoing Volatility

Time remains a critical factor in resolving the supply imbalance. Goldman Sachs recently raised its fourth quarter forecast for Brent crude oil to $90 a barrel and WTI Crude to $83, through it concedes refined product prices could further amplify the broader economic impact. Futures markets also have Brent crude oil trading above $80 in December, and Polymarket puts just a one-in-three chance the Strait opens by the end of May.

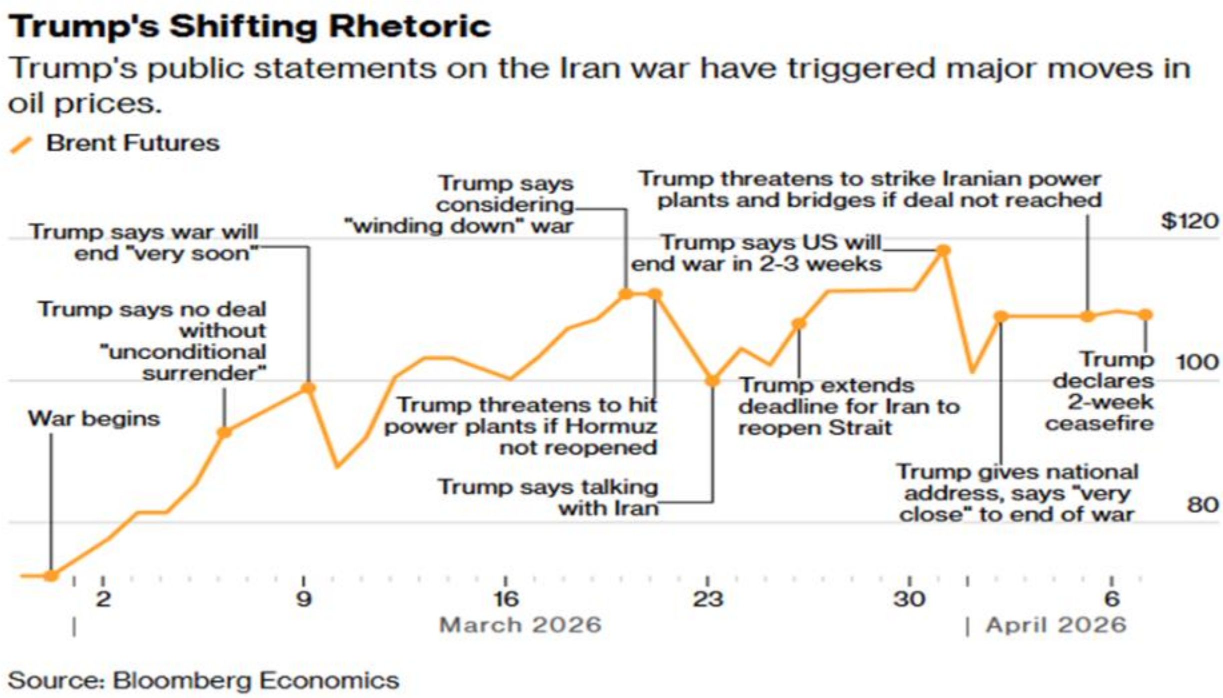
With the spot price of Brent hitting $120 a barrel in late April and no clear resolution between the U.S. and Iran oil prices are likely to remain elevated and volatile. In an adverse scenario where the Strait fails to re-open in the coming weeks, JP Morgan sees oil spiking to over $150 a barrel.



Market Positioning: Risks May Be Underappreciated

We continue to question whether the market is fully reflecting the downside risks a prolonged closure the Strait of Hormuz could have on the Global economy.

President Trump’s shifting rhetoric is not helping; his contradictory public statements have triggered major moves in both Brent oil futures and the stock market. According to Bloomberg, both the S&P 500’s best and worst days during the current administration have been driven by U.S. government policy.

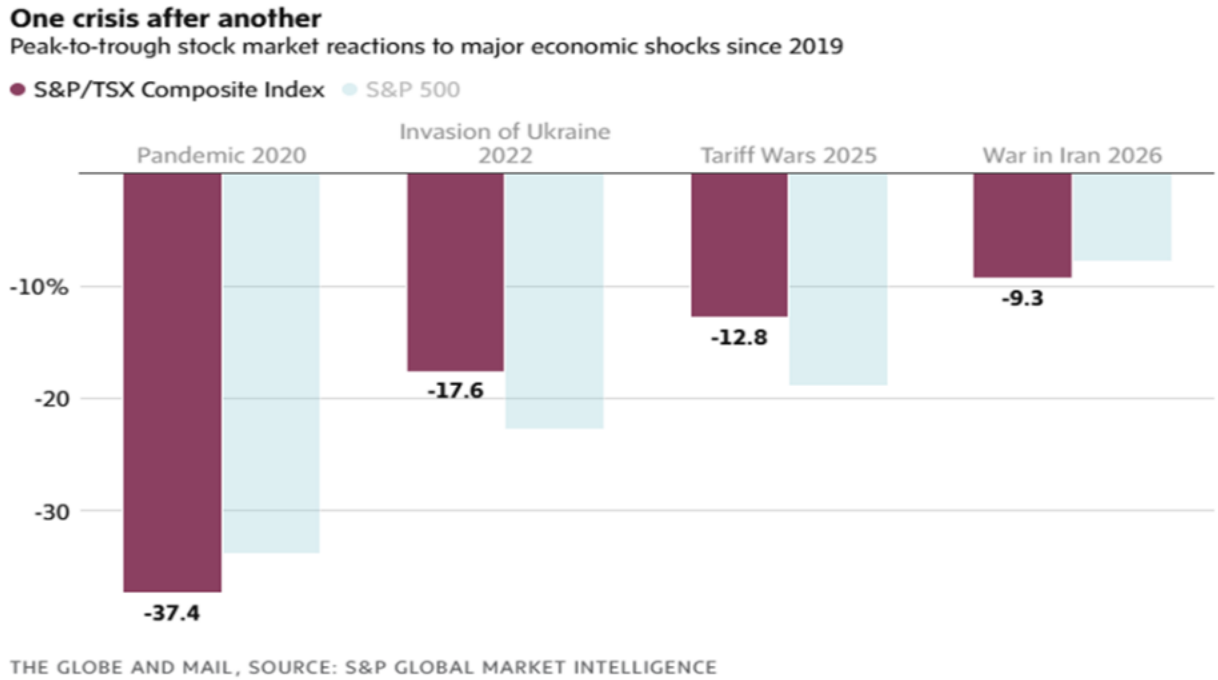


Market Narrative: Between Resilience and Complacency

The market appears to be trading between two acronyms: TACO – Trump always chickens out, and NACHO – Not a chance Hormuz opens. So far, TACO appears to be the prevailing market assumption.

In this scenario, while inflation may move higher in the short term, the market chooses to look past it and focus on earnings and the economy.

This bull cycle has shown it is resilient, bouncing back from several macro shocks over the past six years. As a result, traders have been conditioned to buy the dip.



Structural Drivers: AI and Productivity Supporting Growth

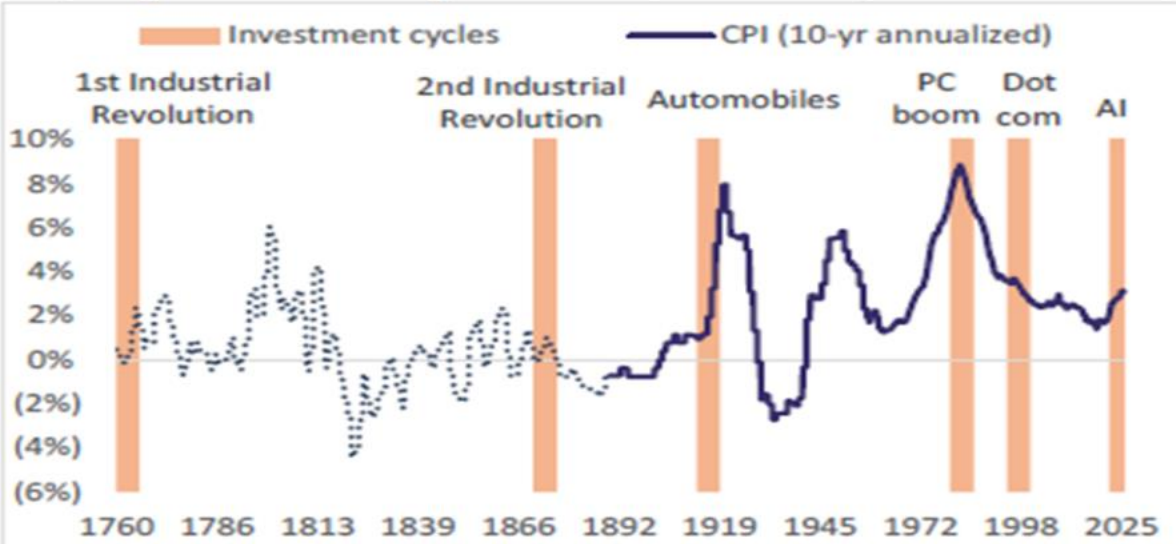
Rather than focusing on geopolitical issues that are impossible to forecast, investors appear to be focusing on earnings and the economy, which is being driven higher by AI and the prospect of improved productivity growth.

Even with little contribution from the job market to economic growth this year, strong productivity growth is expected to drive GDP higher. According to Jefferies, U.S. real non-residential private fixed investment is trending higher, and the increase has been attributed to AI related investment.

A key feature of technology-led growth is its ability to enhance productivity while moderating inflationary pressures. This combination of stronger growth with contained inflation represents a particularly constructive macro-economic outcome, or investment nirvana.

Exhibit 18 - Tech innovations are disinflationary

CPI, 10-year annualized growth rate (1760-9/25; dotted line is UK)



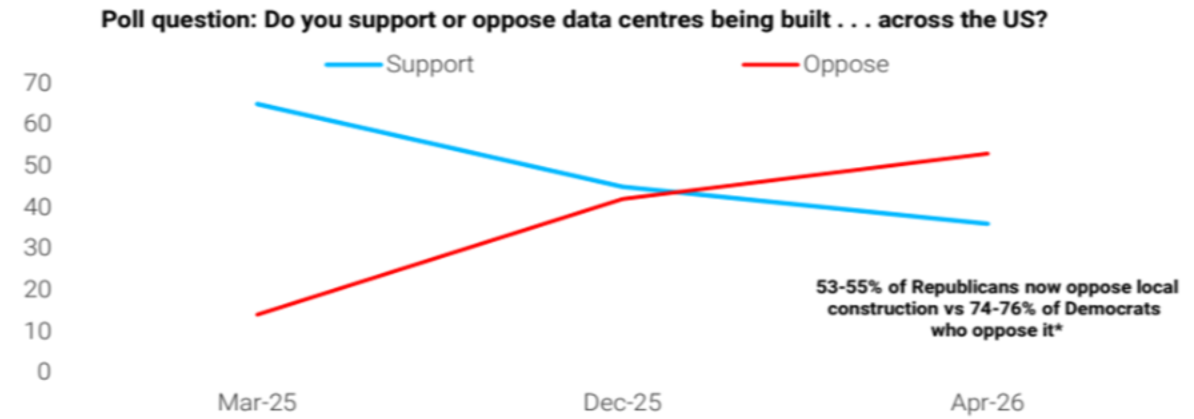
Source: Wells Fargo Securities, LLC, BoE, Federal Reserve, Bloomberg

It's not all smooth sailing for AI, however. Politically, AI risks are becoming the new fracking, with many Americans viewing the costs outweighing future rewards. According to polls, American support for the construction of data centers continues to decline, while opposition has surged. The main drawbacks cited include higher electricity costs, the risk of blackouts, and concern that the build-out will cost taxpayers money. Longer term, Americans worry AI will take their jobs

There is also the ultimate fear that malicious artificial intelligence could result in the extinction of humanity. According to surveys, a majority of researchers put at least a 10% probability of AI causing human extinction. Despite these concerns, AI regulation is nearly non-existent. In a race with China for AI supremacy, guardrails could leave American efforts at a disadvantage, making global cooperation essential. Unfortunately, that is not the President's strong suit.

Warning sign: American opposition to data centres being built in the US has surged in the past year

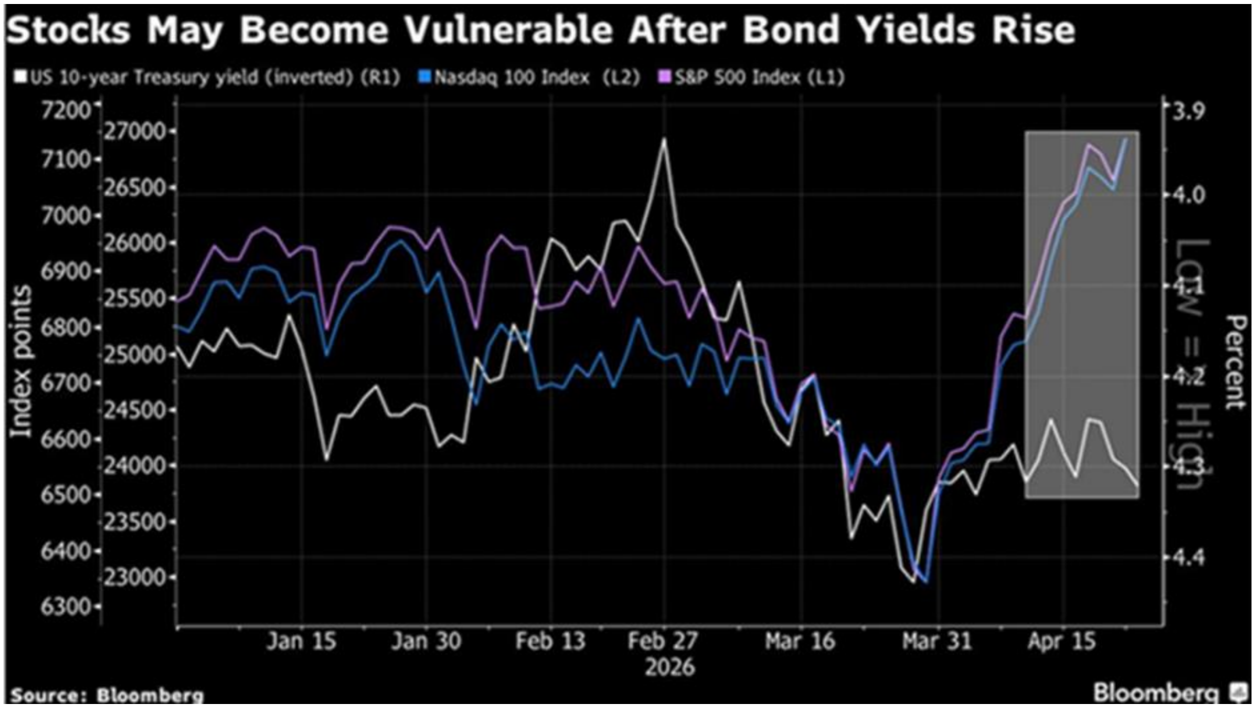
% of US registered voters



*Support for national construction for data centres remains higher than for local construction. In Apr 2026, 50% of Republicans still back national construction vs 29% of pure independents and 23% of Democrats.

Sources: Change Research, GlobalData TS Lombard.

The market is focused on earnings, but we worry that the longer the War in Iran drags on, the higher the risk that rising oil prices could either cause a second wave of inflation or lead to demand destruction and a global recession. Longer term bond yields remain elevated, which makes stocks look more expensive on a relative basis. According to both Morgan Stanley and Strategas, 10-year yields above 4.5% have historically been an important level, with stock valuations compressing when yields trade above it. President Trump may project confidence, but the Bond market has humbled more than one US President. To quote President Clinton's political advisor and strategist James Carville in 1994: "I want to come back as the bond market. You can intimidate everybody."


Stocks May Become Vulnerable After Bond Yields Rise
US 10-year Treasury yield (inverted) (R1)
Nasdaq 100 Index (L2)
S&P 500 Index (L1)
Index points
Percent
Low = High
7200
7100
7000
6900
6800
6700
6600
6500
6400
6300
27000
26500
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24500
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3.9
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Jan 15
Jan 30
Feb 13
Feb 27
Mar 16
Mar 31
Apr 15
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Source: Bloomberg
Bloomberg