

## RJL PCS: INSIGHTS & STRATEGIES

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## March 2026 Insights & Strategies: Iran strikes cap off a dizzying month of newsflow and volatility-causing events

### Macro Highlights for February

- The U.S./Israeli attacks on Iran, and subsequent retaliatory strikes by Iran against U.S. assets and other countries in the region quickly became the most impactful event of the month. It is unclear how this conflict ends, but base-case scenarios are typically factoring in 3-5 weeks of military operations. We should at least expect a short-term spike in energy prices, with the extent and longevity determined by the length or extension of operations, and if escalation leads to any significant damage to energy infrastructure in the region, or extreme actions, such as the mining of the Strait of Hormuz.
- Canadian GDP contracted by 0.6%, q/q annualized, in Q4, following a 2.4% increase in Q3, although key components suggested a firmer economy. Headline numbers can be volatile, due to variations in imports/exports and inventory distortions driven in-part by tariffs. On an annual basis, real GDP grew by 1.7% in 2025, the slowest pace since 2020, yet a reasonably resilient outcome given elevated trade uncertainty and tariff-related risks throughout the year.
- The latest U.S. data showed 92k job losses in February, following a surprisingly good 126k (revised from 130k) gain in January. The U.S. unemployment rate has thus ticked up from 4.3% to 4.4%. New Canadian employment data for February will be released March 13. Canada's unemployment rate was last reported as 6.5% in January.

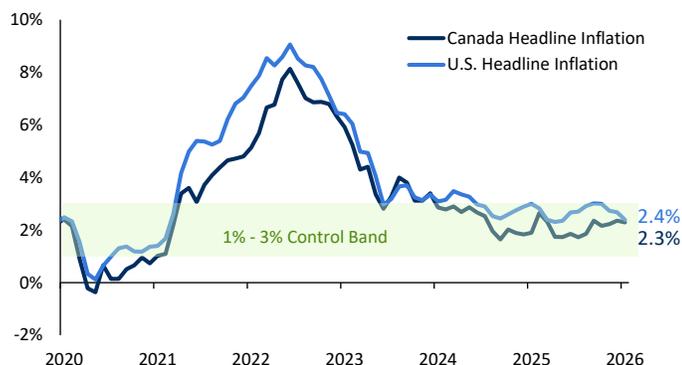
### Financial Markets in February

- In February, the S&P/TSX Composite posted price and total returns of 7.6% and 7.7%, respectively, bringing YTD returns of 8.3% and 8.6%. The S&P 500 recorded price and total returns of -0.9% and -0.8% for the month, and 0.5% and 0.7% YTD. The risk-off sentiment and concerns of escalation in the Iran conflict has led to losses in the first four trading days of the month, with the TSX Composite impacted by 2.1% and the S&P 500 by 0.7%.
- Concerns and questions about A.I. disruption in various industries has led to a 'sell first, ask questions later' reaction that has impacted sectors like software, cybersecurity and wealth managers, despite what has been a strong earnings reporting season. While we do expect efficiencies and disruptions in many industries, changes are likely to take effect over many years, and likely allow companies that currently look like they're being disrupted to become even more dominant.
- Financial markets mostly shrugged off the impact of the IEEPA ruling, as the outcome was generally expected, the ability of companies to obtain refunds and the process and length of time that would be required to claim any such refunds will likely be questionable, and the fact that the Administration is, as expected, prepared to use alternative authorities to maintain its tariff platform.

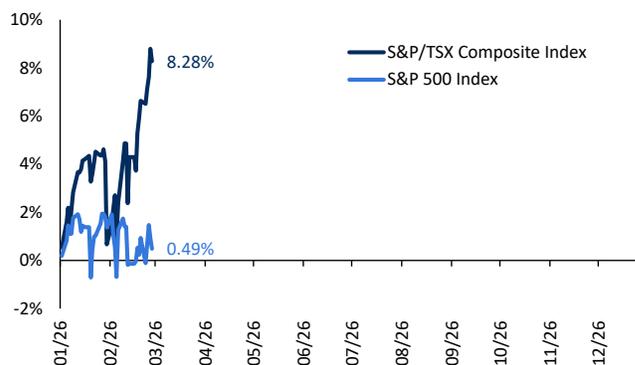
### Upcoming

- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, will likely be the most consequential event for Canada this year. While we are optimistic of a reasonably good outcome for Canada, we are also braced for high-priority demands from the U.S. related to rules of origin, digital services, and the dairy industry, to impact various sectors.
- The striking down of IEEPA-based tariffs has forced the U.S. Administration to shift tactics, but not to abandon its goals of tariffs as a policy tool and to drive government revenues. This is leading to persistent uncertainty that keeps businesses from longer-term planning and investing. We will be watching ongoing revisions to the tariff strategy.

- The Iran conflict is rapidly evolving, and so we will be watching for both short-term and longer-term impacts to energy prices and broader economic impacts, depending on any further escalation and expected duration. Persistence in higher oil prices could stoke inflation concerns and push out the timeline for further Fed rate cuts.

**Chart 1 - Canada and U.S. Headline Inflation**

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026. Not seasonally adjusted.

**Chart 2 - S&P/TSX Composite and S&P 500 YTD Performance**

Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026. Price return in local currency.

## Executive Summary

Despite being the shortest month of the year, February was certainly an overly eventful month, which included a U.S. Supreme Court ruling against President Trump's use of the International Economic Emergency Powers Act (IEEPA) to impose broad tariffs, and ended with a U.S./Israeli attack on Iran, which killed the country's Supreme Leader and unleashed retaliatory attacks on several gulf countries. In addition to the predictable spike in energy prices, we have seen a modest risk-off tone in equities, although the U.S. and Canada are relatively insulated against broader economic impacts of these events.

### The tariffs are dead, long live tariffs

Until the attack on Iran at the end of February, the biggest news of February was probably the U.S. Supreme Court declaring, in a 6-3 decision, that the U.S. President's use of IEEPA to impose tariffs was illegal. This outcome was not unexpected, and the Administration quickly implemented alternative authorities to maintain the flow of collections from tariffs. The potential for reimbursement of those previously collected, but now illegal tariffs, to the tune of US\$175 billion, will likely require further drawn out negotiation, and we imagine that only some, if any, of those tariffs collected will ever be reclaimed, and the timeline and process to do such will be onerous. Ultimately, the only outcome from this ruling is more uncertainty as the playing field shifts and emphasis will move to tariffs against specific countries and/or industries through other mechanisms. The impact on Canada is likely muted, as USMCA exclusions remain in place, shielding the vast majority of Canadian goods from tariffs, while the renegotiation of the trade deal this year will be much more impactful.

### A.I. disruption causing concerns in various sectors

In February, Anthropic released updates for Claude, which included new tools for coding, finance, legal, and enterprise reasoning performance. This triggered concerns that established software providers could be challenged or become redundant. This seems unlikely, as established software solution providers are embedded in enterprise processes and would similarly have access to these tools to improve their own efficiencies and capabilities. The Wealth Management industry was similarly impacted, reminiscent of the launch of robo-advisors more than a decade ago, which became a tool of wealth management firms, rather than a replacement for financial advisors.

### Iran conflict primarily impacting energy markets for now

The U.S./Israeli attacks against Iran were not a complete surprise as the U.S. military presence in the region, and rhetoric, had been building for weeks. The surprising aspect was the breadth of the retaliation as Iran struck U.S. bases and other countries in the region. Immediate concerns focus on the disruption of oil through the Strait of Hormuz, which sees the transit of 20% of global oil (and LNG) shipments. While ships have already been anchoring outside the strait, rising costs for insurance could make transit uneconomic in the short-term. The Islamic Revolutionary Guard Corps (IRGC) has also announced a closure of the Strait of Hormuz, warning that no vessels will be permitted to transit the narrow waterway.

While we've seen estimates that rising tensions had already been contributing to a US\$5-6/bbl premium applied to WTI pricing before the strikes, a more serious and prolonged conflict could push pricing up to US\$100+/bbl. A rule of thumb is that a US\$10 increase in oil results in a 30-40 bp increase in headline U.S. PCE inflation. With the breadth of attacks in the Gulf region, and if the retaliatory attacks persist for an extended period, we also have to consider the potential of disruption beyond the Strait of Hormuz, towards damage to infrastructure that could cause more significant and longer-lasting impacts. Our initial base case would probably be for a relatively limited operation (measured in weeks) that results in a spike to US\$80-100/bbl, settling back to the US\$60 level over the next few months, as the longer-term supply-demand dynamics rebalance, absent any lasting impact to energy infrastructure.

### **Canadian economy contracts in Q4, but key components look firmer**

Canadian GDP contracted by 0.6%, annualized, in Q4, following a 2.4% increase in Q3. Headline numbers can be volatile, due mainly to imports/exports and inventory distortions driven in-part by tariffs. A sizable inventory drawdown in Q4, following a buildup in 1H25, was the main factor in the Q4 contraction.

U.S. real GDP grew at a 1.4% q/q annualized pace in Q4, a sharp moderation from the 4.4% growth in Q3. The slowdown was driven primarily by a steep contraction in federal spending tied to the government shutdown, while underlying private-sector momentum remained comparatively solid.

### **Economic growth despite weakness in the labour market**

The latest U.S. data showed 92k job losses in February, following a surprisingly good 126k (revised from 130k) gain in January. The U.S. unemployment rate has thus ticked up from 4.3% to 4.4%. We are mostly in a low-hire/low-fire environment. At the same time, population growth is slow, which is keeping unemployment rates from increasing substantially. The relative weakness in the labour market seems unusual against a backdrop of apparent solid GDP growth in the U.S. and muted, but still positive, growth in Canada. New Canadian employment data for February will be released March 13. Canada's unemployment rate was last reported as 6.5% in January.

### **Still positive outlook for equity markets in 2026**

In February, the S&P/TSX Composite posted price and total returns of 7.6% and 7.7%, respectively, bringing YTD returns of 8.3% and 8.6%. The S&P 500 recorded price and total returns of -0.9% and -0.8% for the month, and 0.5% and 0.7% YTD. The risk-off sentiment and concerns of escalation in the Iran conflict has led to losses in the first four trading days of the month, with the TSX Composite impacted by 2.1% and the S&P 500 by 0.7%.

While short-term volatility can be nerve wracking, the overall backdrop for 2026, with improving corporate earnings, contained inflation, fiscal stimulus, and an easing bias to monetary policy, all play towards our still positive outlook for equity markets. 4Q25 earnings season has been playing out, with strong EPS growth from S&P 500 companies in the 14% range, which is ahead of expectations of just over 8% growth coming into the quarter, and the fifth straight quarter of double-digit earnings growth. In Canada, with three quarters of the TSX Composite reporting, 68% of those companies have so far beat expectations, with EPS growth of approximately 19.8% over the same quarter last year. As such, we are increasing our target for the TSX Composite by the end of 2026, to 34,900 from 34,000, maintaining an 18.0x P/E multiple against 2026 earnings of \$1,939 (up from \$1,890).

## **Tariffs**

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. However, there remain two important considerations that could impact 2026. The first is the Supreme Court of the United States (SCOTUS) ruling that has declared IEEPA-based tariffs as illegal. The second is the USMCA renegotiation that could affect the tariff-exempt status of the majority of Canadian exports to the U.S.

Tariffs collected by the U.S. government were well over US\$250 billion in 2025. Up until the SCOTUS ruling, it has been estimated that through 2025 and into 2026, IEEPA-based tariffs could have resulted in US\$175 billion of government collections. We expect any refund process to be slow and onerous. According to the Yale Budget Lab, just prior to the SCOTUS ruling, the overall effective tariff rate was 16.0%, falling to 9.1% after the ruling, only to bounce back to 13.7% with the then threatened 15% Section 122 tariffs.

Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, in Table 1, we include brief updates on key tariff-related items. We expect more intensive use of Section 232 tariffs now that the IEEPA tariffs

have been struck down.

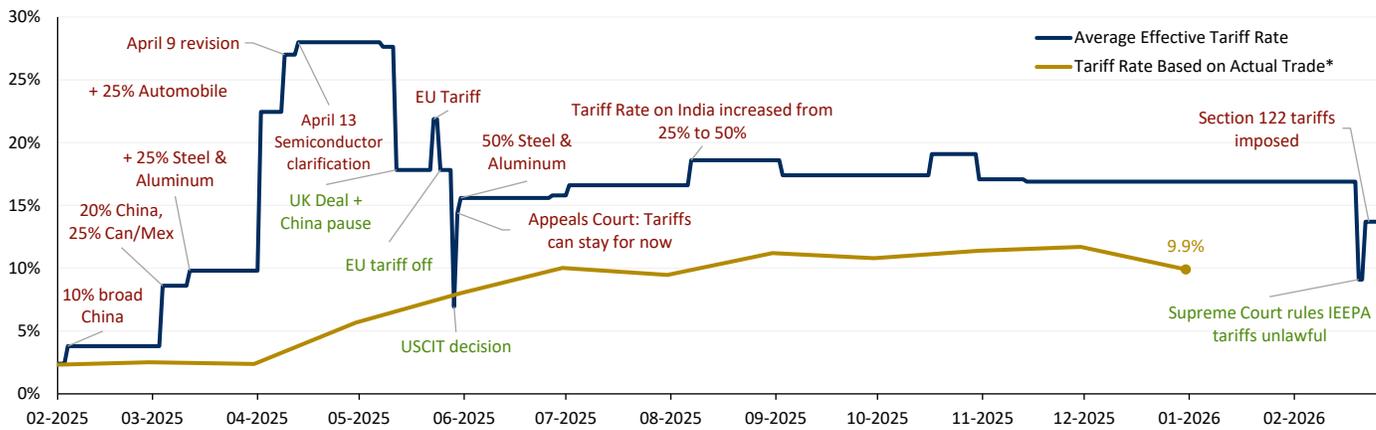
So far, we have seen President Trump threaten 15% tariffs under Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address “large and serious” trade deficits, although a 10% rate was actually implemented. Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China, or the automotive industry, steel, and aluminum tariffs, were unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

**Table 1 - Section 232 Tariffs Summary, as of March 6, 2026**

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3, 2025	25%
Steel and aluminum	Effective June 4, 2025	50%
Copper	Effective August 1, 2025	50%
Softwood timber and lumber	Effective October 14, 2025	10%
Wooden furniture, kitchen cabinets and vanities	Effective October 14, 2025	25%
Medium/heavy duty trucks & buses	Effective November 1, 2025	25% on trucks/parts; 10% on buses
Specific semiconductors and related products	Effective January 15, 2026	25%
Processed critical minerals and derivative products	Investigation initiated April 22, 2025	-
Commercial aircraft and jet engines	Investigation initiated May 1, 2025	-
Polysilicon and its derivatives	Investigation initiated July 1, 2025	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1, 2025	-
Wind turbines	Investigation initiated August 13, 2025	-
Robotics and industrial machinery	Investigation initiated September 2, 2025	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2, 2025	-

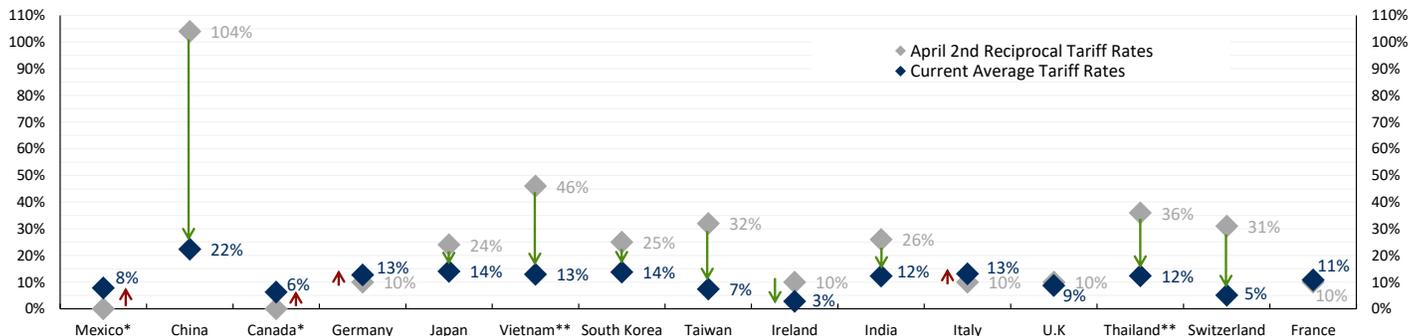
Source: U.S. Department of Commerce, Raymond James Ltd.

**Chart 3 - U.S. Effective and Actual Tariff Rate**



Source: The Budget Lab at Yale. \*Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

**Chart 4 - April 2nd Reciprocal Tariff Rates vs. Current Average Tariff Rates, as of March 6, 2026**



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd. \*USMCA-compliant goods remain exempt. \*\*40% tariff rate on transshipments.

## Economics

### Canada – 4Q25 GDP contraction rooted in inventories, not broad-based weakness

Real GDP contracted at a 0.6% q/q annualized rate in Q4, with much of the decline driven by a sizeable inventory drawdown following the buildup seen in the first half of the year. Inventories were the only major component to weigh on growth, subtracting 4.2 percentage points from the headline figure (Chart 5). Outside of this drag, other components of GDP showed relatively firmer momentum.

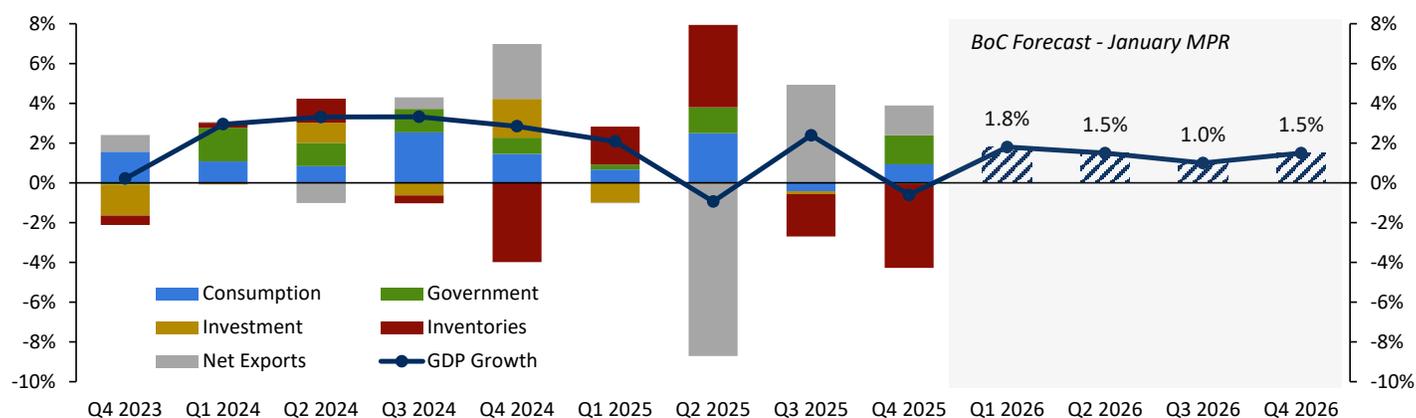
Household consumption rebounded to a 1.7% q/q annualized pace following a contraction of 0.8% in Q3. The recovery was supported in part by a further decline in the household saving rate from 5.2% in Q3 to 4.4%, suggesting consumers drew more heavily on savings to increase spending. Government spending strengthened as well, with public outlays contributing 1.7 percentage points to quarterly growth, consistent with increased capital investments, particularly in defense and infrastructure.

Private investment remained subdued, although its net contribution to growth was neutral in Q4. While investment in machinery & equipment (+12.3% q/q annualized) and intellectual property (+4.9% q/q annualized) strengthened, this was offset by continued weakness in residential and non-residential structures. Net trade provided a meaningful offset, contributing approximately 1.5 percentage points to GDP as export growth outpaced imports. Exports rose 6.1%, while imports increased 1.0% (both q/q annualized), partially cushioning the drag from inventories.

Overall, the Q4 contraction primarily reflected inventory adjustments rather than a broad-based weakening in demand. With consumption and government spending advancing, final domestic demand held up more constructively than the headline GDP figure alone would suggest.

On an annual basis, real GDP grew by 1.7% in 2025, the slowest pace since 2020, yet a reasonably resilient outcome given elevated trade uncertainty and tariff-related risks throughout the year. Household consumption rose 2.3%, providing the main support to growth, while net trade subtracted 0.4 percentage points from GDP, driven largely by weaker exports to the U.S. Overall, the annual data suggest domestic demand remained relatively resilient even as softer external conditions constrained the pace of expansion.

**Chart 5 - Contribution to % Change in GDP (q/q annualized)**



Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of December 31, 2025.

### Inflation eases as core measures continue to trend lower

Headline Consumer Price Index (CPI) inflation eased to 2.3% y/y in January from 2.4% in December, with the deceleration largely driven by lower gasoline prices. On a monthly basis, CPI was flat, rising just 0.1% (seasonally adjusted). Year-over-year comparisons, however, continue to reflect base effects from the temporary GST/HST break in early 2025, which are still exerting modest upward pressure on headline inflation. These distortions should gradually fade in the months ahead.

Measures of underlying inflation continued to soften. The Bank of Canada's preferred core measures, CPI-trim and CPI-median, slowed to 2.5% and 2.4%, respectively. On a monthly basis, the two measures rose by an average of 0.11%, marking a third consecutive month below the pace consistent with the 2% target. As a result, the three-month annualized rates eased further to 1.1% for CPI-trim and 1.3% for CPI-median (Chart 7).

Overall, recent inflation data point to further easing in price pressures. The continued deceleration in the core measures suggests inflation dynamics are increasingly aligned with the Bank's 2% target. However, higher oil prices resulting from the U.S.-Iran conflict could lift headline inflation in the near term, mainly through the transportation component, although such effects would likely be temporary. While not our base

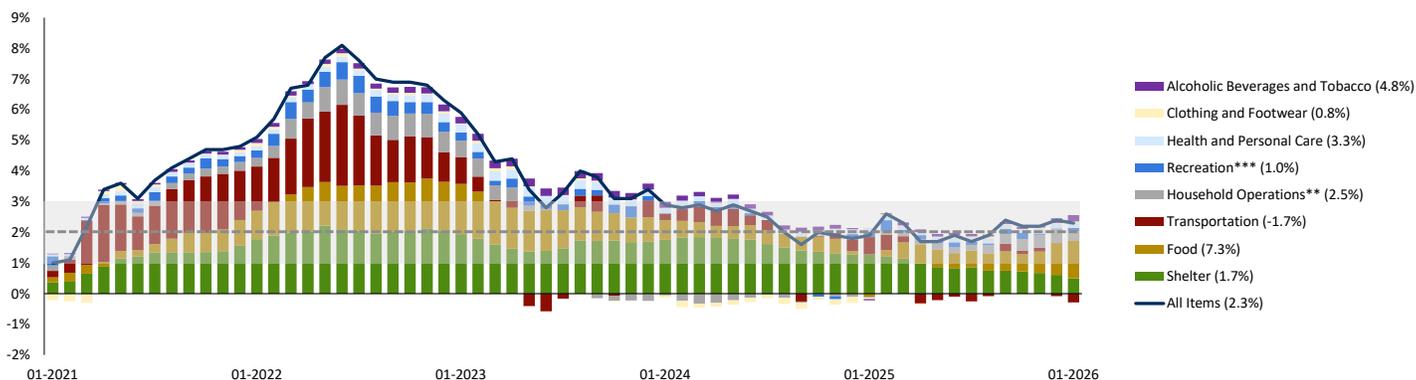
case, a more prolonged disruption could sustain upward pressure on oil prices and raise the risk of broader spillover effects into other components of the CPI.

### Bank of Canada expected to hold rates in March

We expect the Bank of Canada to keep its policy rate unchanged at the March meeting. At its January decision, policymakers emphasized that elevated uncertainty is making it difficult to predict both the timing and direction of the next policy move. This uncertainty remains closely tied to trade-related risks, including the upcoming USMCA review, which continue to weigh on business investment and hiring plans.

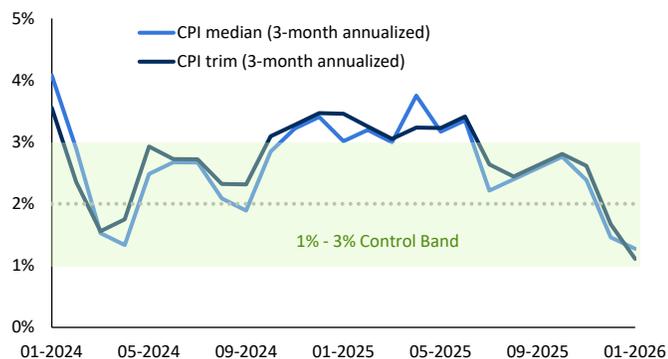
Against this backdrop of fragile growth and persistent external uncertainty, a further rate cut later in the year remains plausible (Chart 8). Inflation continuing to evolve in line with the 2% target would provide the Bank with greater flexibility to deliver such easing should economic conditions warrant additional support. However, as mentioned before, a sustained rise in energy prices stemming from geopolitical tensions could temporarily lift headline inflation, which could potentially delay the timing of any additional easing.

**Chart 6 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)**



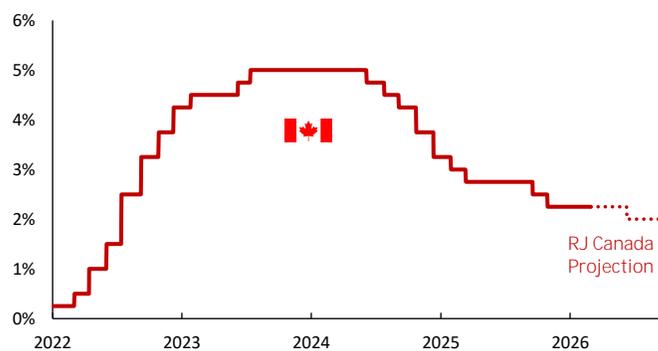
Source: Statistics Canada, Raymond James Ltd.; Data as of January 31, 2026. \*\*Household operations, furnishing and equipment; \*\*\*Recreation, education and reading.

**Chart 7 - Core Inflation Measures Continue to Ease**



Source: Statistics Canada, Raymond James Ltd.; Data as of January 31, 2026.

**Chart 8 - Additional Rate Cut in 2026 Remains a Possibility**



Source: FactSet, Raymond James Ltd.; Data as of February 28, 2026.

### Trade deficit narrows as exports rebound

Canada's merchandise trade balance improved in December 2025, with the deficit narrowing to \$1.3B from \$2.6B in November. Total merchandise exports rose 2.6% m/m in December, while imports increased 0.6% m/m. Export gains were relatively broad-based, with notable increases in metal and non-metallic mineral products and record-high aircraft and transportation equipment shipments. Exports to countries other than the U.S. reached an all-time high, supported in part by higher shipments of unwrought gold to the United Kingdom, while imports from non-U.S. partners declined. Canada's merchandise trade surplus with the United States narrowed modestly to \$5.7B in December.

Looking beyond monthly fluctuations, there continue to be tentative signs of trade diversification. While the U.S. remains Canada's dominant trading partner, exports to non-U.S. markets increased in 2025 relative to previous years. Following the implementation of U.S. tariffs in early April,

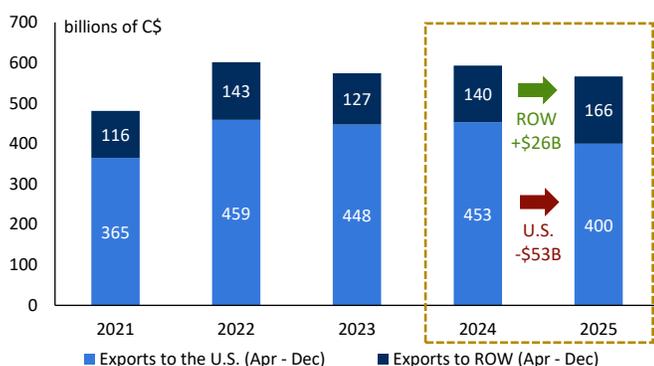
export patterns began to shift. Over the April-December period, exports to the U.S. were \$53B lower in 2025 compared to the same period in 2024, while exports to non-U.S. destinations were \$26B higher (Chart 9). That said, establishing new trade relationships with customers and suppliers outside the U.S. is inherently gradual, and the rebalancing of trade flows is expected to unfold over time.

### Foreign direct investment strengthened in 2025

Foreign direct investment (FDI) into Canada rose to \$96.8B in 2025, the strongest annual inflow since 2007 and up from \$86.8B in 2024 (Chart 10). Inflows were driven primarily by merger-and-acquisition activity, with gains concentrated in trade and transportation, management of companies, and manufacturing. Investment from the United States totaled \$51.2B for the year, slightly lower than \$54.2B in 2024, while inflows from non-U.S. economies increased modestly to \$45.6B, led by the United Kingdom. In contrast, Canadian direct investment abroad slowed to \$79.4B in 2025, down from \$123B in 2024 and marking the lowest level since 2020. Outward flows to both the United States and other destinations declined compared with the previous year.

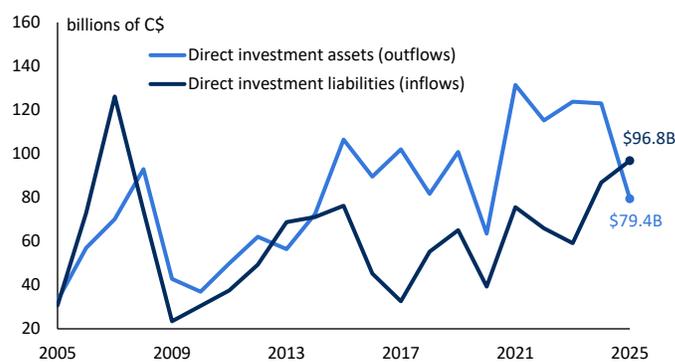
Overall, the data suggest Canada remained an attractive destination for foreign capital despite heightened trade uncertainty. Looking ahead, the ongoing efforts to diversify trade relationships and attract strategic investment could support domestic capital formation and strengthen Canada's longer-term growth outlook, particularly if inflows extend beyond merger activity into productive capacity-enhancing investment.

**Chart 9 - Some Signs of Trade Diversification**



Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 10 - Inward FDI Reaches Highest Level Since 2007**



Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

### The U.S. — government shutdown weighs on 4Q25 GDP growth

U.S. real GDP grew at a 1.4% q/q annualized pace in Q4, a sharp moderation from the 4.4% growth in Q3. The slowdown was driven primarily by a steep contraction in federal spending tied to the government shutdown, while underlying private-sector momentum remained comparatively solid.

Consumer spending remained the primary driver of growth, with PCE rising 2.4% q/q annualized, supported by a 3.4% increase in services, contributing 1.6 percentage points to GDP growth (Chart 11). Private investment also remained firm, particularly across equipment, software, and R&D, contributing 0.5 percentage points to overall growth. In contrast, the government sector was a significant drag as total government consumption and investment fell 5.1% q/q annualized, subtracting 0.9 percentage points from GDP growth. Net exports provided only a modest lift, adding 0.08 percentage points as the strong gains seen earlier in the year normalized.

Final sales to private domestic purchasers rose 2.4% q/q annualized, indicating that private-sector demand remained resilient. For the full year, real GDP grew 2.2%, down from 2.8% in 2024, with Q4 confirming a transition to more moderate but still positive momentum heading into 2026.

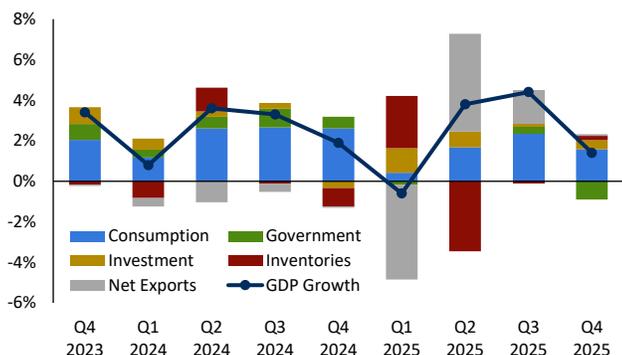
### Consumer spending remains a key driver of growth

Personal consumption expenditures (PCE) have remained firm and continue to serve as a key driver of overall growth. However, spending has outpaced income gains in recent months, resulting in a steady decline in household savings. The personal saving rate has fallen from 5.5% in April to 3.6% in December, suggesting that part of the recent strength in consumption has been supported by lower saving. That said, we expect larger-than-usual tax refunds tied to last year's OBBBA-related fiscal measures to provide near-term support to household finances, helping to sustain consumer spending in the months ahead.

### PMIs suggest improving economic momentum

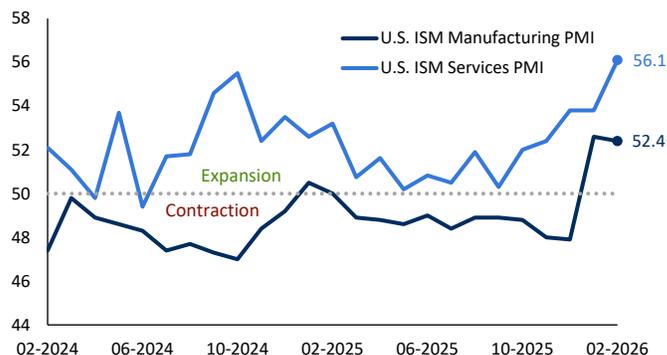
The ISM Manufacturing Purchasing Managers' Index (PMI) surprised to the upside in January, rising to 52.6 from 47.9 in December and returning to expansionary territory (above the 50 level) for the first time since January 2025 (Chart 12). The improvement was sustained in February, with the index easing slightly to 52.4 but remaining firmly above the 50 threshold. On the services side, the ISM Services PMI climbed to 56.1 in February, after holding steady at 53.8 over the prior two months. Taken together, both indicators point to activity remaining firmly in expansionary territory.

**Chart 11 - Contribution to % Change in GDP (q/q annualized)**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 12 - PMIs Firm in Expansion**



Source: FactSet, Raymond James Ltd.; Data as of February 28, 2026.

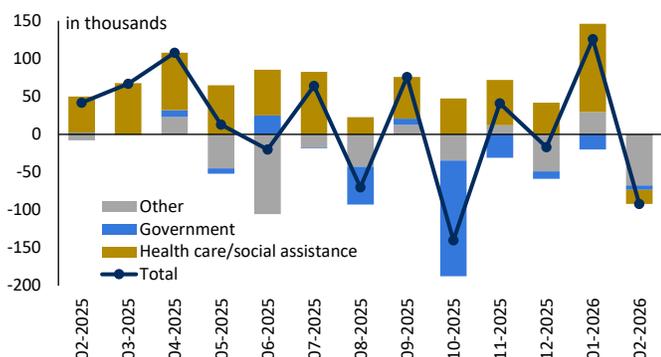
### Labour market fragility persists

Nonfarm payrolls declined by 92k in February, following a revised 126k gain in January. The unemployment rate rose to 4.4%, up from 4.3% in January, reflecting both softer hiring and a pullback in labour force participation, which fell to 62.0% from 62.5% last month. Revisions to prior months were negative, with December payrolls revised down sharply and January revised slightly lower, resulting in a net downward adjustment of 69k jobs over the two-month period.

Employment losses were broad-based. Private employment fell by 86k, and service-providing industries shed 61k jobs, with weakness concentrated in sectors that had previously supported overall job growth. Notably, health care and social assistance, a key driver of employment gains in recent months, cut 18k positions, partly reflecting strike-related disruptions (Chart 13). Meanwhile, government employment also remained in contraction, extending the softening trend across both the private and public sectors.

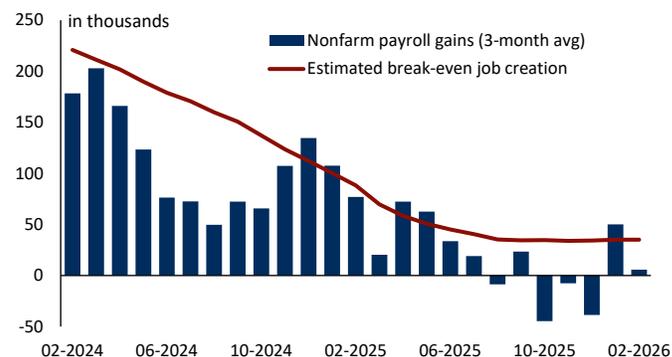
Despite recent volatility, the broader dynamic remains consistent. Overall labour demand is softening, but the slowdown in hiring has been partially offset by a contraction in the labour force, reflecting slower population growth. As a result, the breakeven pace of employment growth, the rate needed to absorb new entrants and keep the unemployment rate broadly stable, has declined materially and is now estimated at roughly 35k jobs per month (Chart 14). That said, February's loss of 92k jobs has pulled the three-month average below this breakeven threshold, pointing to a softer trend in labour demand.

**Chart 13 - Monthly Change in Employment**



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of February 28, 2026.

**Chart 14 - Lower Break-Even Job Growth Threshold**



Source: U.S. Bureau of Labor Statistics, Dallas Fed, Raymond James Ltd.; Data as of February 28, 2026.

### Cooling CPI contrasts with firm PCE inflation

U.S. inflation readings at the start of the year suggest some moderation in CPI measures, while the Fed's preferred PCE gauge continues to indicate firmer underlying pressures. Headline CPI rose 0.2% m/m in January, easing the year-over-year rate to 2.4% from 2.7% in December. Core CPI increased 0.3% m/m and 2.5% y/y, down slightly from 2.6% y/y in the previous month.

In contrast, the PCE price index has been pointing to more persistent inflation as both, the headline and core PCE rose 0.4% m/m in December. On a year-over-year basis, headline PCE increased to 2.9%, while core PCE climbed to 3.0%, its highest level since March 2025 and further above the Fed's 2% target (Chart 16). The divergence between softer CPI readings and firmer PCE data largely reflects compositional and methodological differences, but overall suggests that underlying inflation remains somewhat sticky.

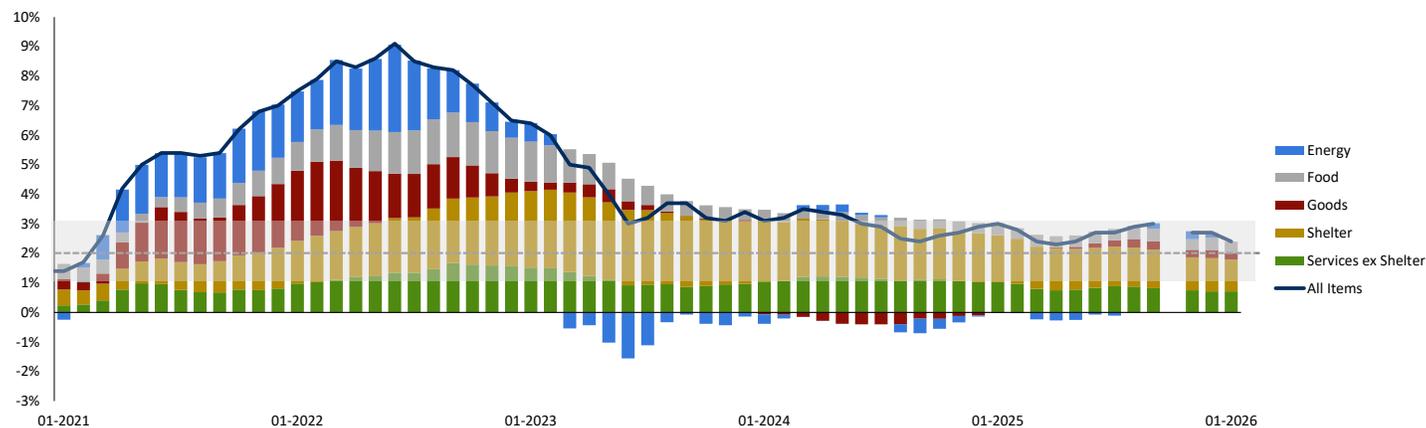
Looking ahead, geopolitical developments present an additional risk to the inflation outlook. Rising tensions in the Middle East have already contributed to higher oil prices, but a more prolonged conflict or any material damage to energy infrastructure could put further pressure. As a rule of thumb, a US\$10 increase in oil prices could add roughly 30–40 basis points to headline PCE inflation. Our initial base case would probably be for a relatively limited operation (measured in weeks) that results in a spike to US\$80-100/bbl, settling back to the US\$60 level over the next few months, as the longer-term supply-demand dynamics rebalance, absent any lasting impact to energy infrastructure. However, a more extended disruption could delay progress toward the Fed's inflation objective.

### Fed to stay on hold in March

At its January meeting, the Federal Open Market Committee (FOMC) left the policy rate target range unchanged at 3.50–3.75%, following December's 25 bp rate cut. Committee participants noted that downside risks to employment had moderated, pointing to a more stable labour market backdrop. At the same time, the Fed has maintained a cautious stance on inflation. For several months, Chair Powell has highlighted tariff-related price pressures, and core PCE inflation has remained relatively sticky, in contrast to the softer CPI readings observed recently. As noted earlier, the inflation impact of the U.S.–Iran conflict will depend on both the duration of the conflict and the extent of any damage to energy infrastructure in the Middle East. Prolonged disruptions or infrastructure losses could sustain upward pressure on oil prices and delay the timing of potential rate cuts.

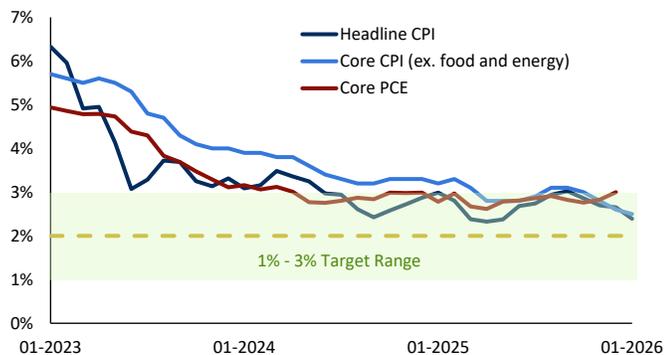
In the upcoming FOMC meeting in March, we expect the Fed to remain on hold, in line with market expectations. Beyond that, while markets are pricing in two rate cuts in 2026, our U.S. economics team anticipates a slower path, projecting one rate cut this year as the labour market stabilizes and underlying inflation remains somewhat sticky (Chart 17).

**Chart 15 - Major Components' Contributions to U.S. CPI**



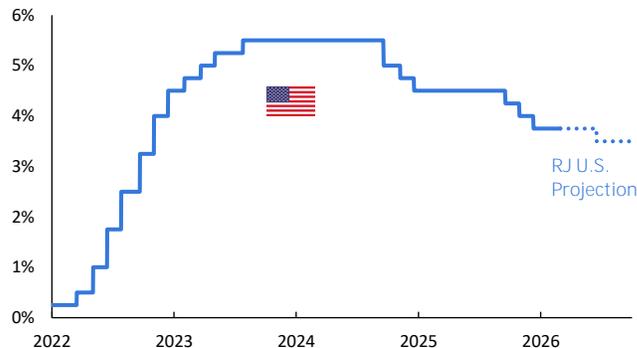
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of January 31, 2026.

**Chart 16 - CPI Moderates But Core PCE Holds Firm**



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of January 31, 2026.

**Chart 17 - Fed Expected to Deliver One More Cut**



Source: FactSet, Raymond James Ltd.; Data as of February 28, 2026.

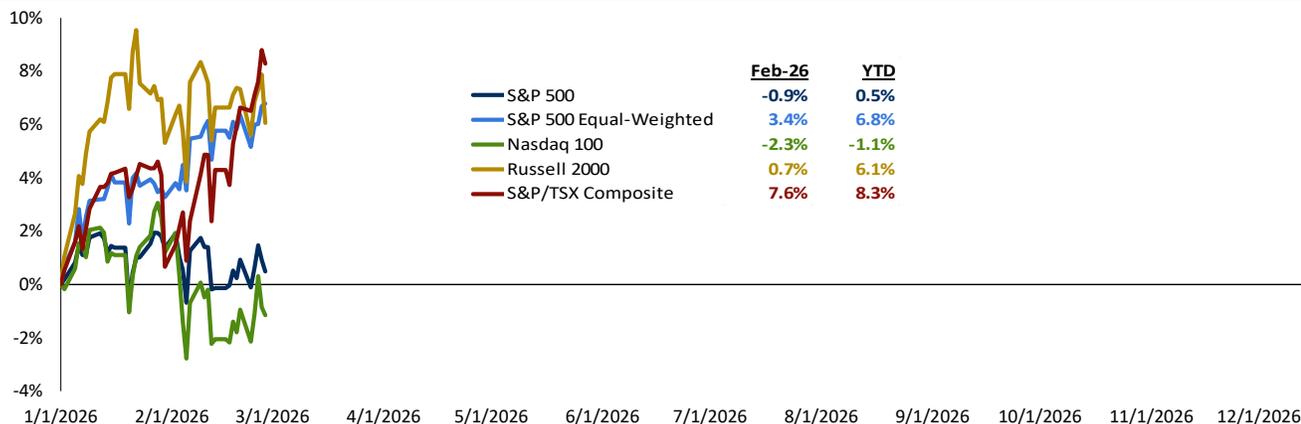
## Financial Markets

In February, rising geopolitical uncertainty and concerns around potential A.I.-driven disruption to SaaS business models were key drivers of market performance. Capital flowed into gold and oil, driving outperformance in the Materials and Energy sectors. At the same time, investors rotated toward hard-asset industries such as Utilities and Industrials, reflecting a preference for capital-intensive businesses perceived to be less vulnerable to technological displacement relative to asset-light software models.

The divergence in index composition between the resource-oriented S&P/TSX Composite and the technology-heavy S&P 500 translated into markedly different performance in February. The S&P/TSX Composite generated price and total returns of 7.6% and 7.7%, respectively. Even excluding the gold sub-industry, total return remained robust at 4.6%. In contrast, the S&P 500 posted price and total returns of -0.9% and -0.8%, respectively, with pronounced dispersion between technology-exposed sectors and the broader market.

Among the major U.S. equity indices, the equal-weighted S&P 500 was the top performer, reflecting continued improvement in market breadth within the broader index. The Russell 2000, a proxy for U.S. small-cap equities, was volatile over the period but finished broadly unchanged, while the NASDAQ 100 remained under pressure, weighed down by sell-offs in several large SaaS names.

**Chart 18 - Selected Indices Price Returns**



Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026. Price return in local currency.

## U.S. Equity Markets

The market capitalization-weighted S&P 500 has delivered relatively muted returns two months into 2026. Beneath the headline figures, however, there has been a pronounced sector rotation away from prior leaders, particularly A.I.-linked segments, toward the broader market, rather than broad-based weakness across sectors. In February, the market capitalization-weighted S&P 500 fell 0.9% on a price basis, while the equal-weighted S&P 500 rose 3.4%, producing a 4.3 percentage point performance gap, the widest since April 2009. The equal-weighted S&P 500 has been steadily

catching up since October 2025 and has now fully closed the cumulative performance gap versus the market capitalization-weighted index since the start of 2025.

This sharp reallocation appears driven by the market's "sell first, ask questions later" approach in responding to concerns over potential A.I.-driven disruption to SaaS business models, prompting investors to de-risk crowded exposures and rotate into previously lagging areas. As a result, the recent price action looks more narrative- and sentiment-driven than fundamentally driven, with the adjustment showing up more in valuation multiple expansion and compression than in changes to earnings expectations (Chart 19).

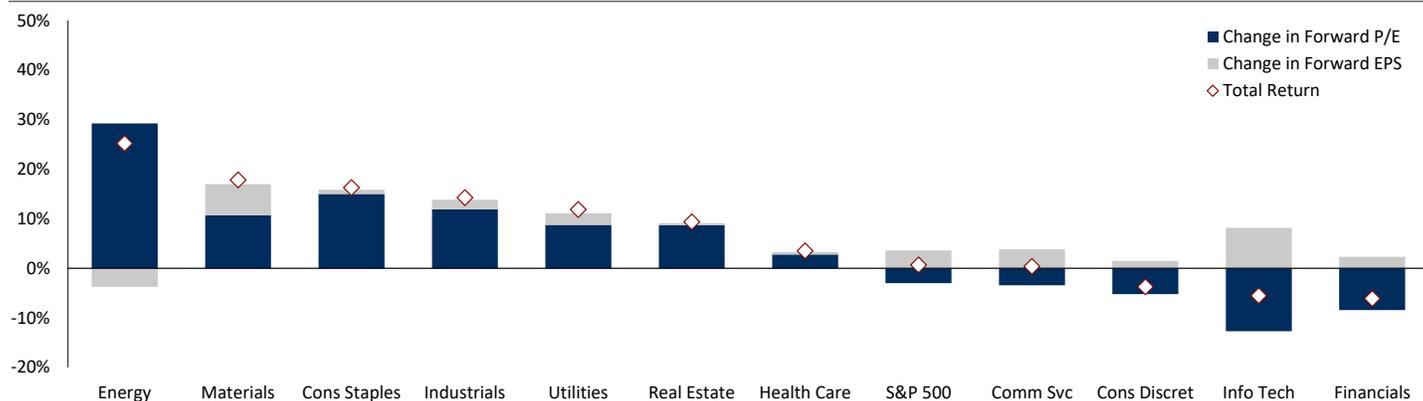
Looking ahead, we do not believe the A.I. theme is over. Rather, it is entering a more chaotic phase in which selectivity is increasingly important. The ongoing broad-based sell-off across Information Technology, particularly within software, likely reflects indiscriminate de-risking at present. However, for some companies, this may create attractive entry points; for others, it may signal structural headwinds. We will outline the key analytical lenses to apply in assessing A.I.-related opportunities in the following section.

At the same time, several sectors that had previously lagged but have rallied sharply in recent months now appear stretched from a valuation standpoint. For example, Consumer Staples is trading at a forward P/E of 25.2x, compared with 23.5x for Information Technology. Without a clear reacceleration in earnings growth, these elevated multiples could come under pressure if market narratives shift again.

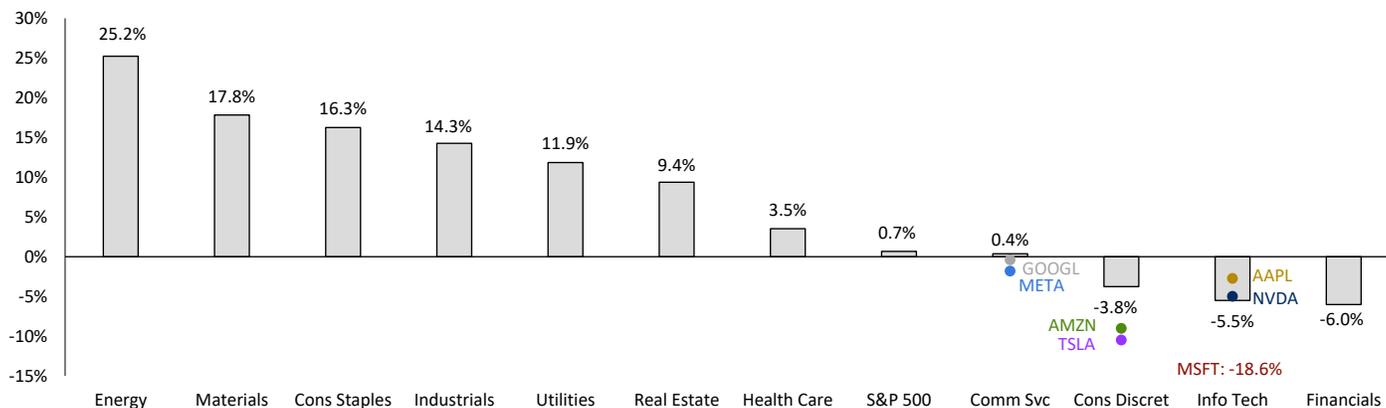
From a shorter-term tactical perspective, or as a hedge against ongoing uncertainty surrounding SaaS, exposure to hard-asset sectors such as Industrials and Utilities may help smooth portfolio returns. These capital-intensive businesses are generally viewed as less susceptible to technological displacement than asset-light software models. While A.I. may enhance operational efficiency and decision-making, it does not eliminate the need for physical infrastructure. Digital intelligence cannot replace rail networks, power grids, or heavy industrial assets that underpin the real economy.

With 485 of the 500 constituents having reported, S&P 500 earnings have once again exceeded expectations. For 4Q25, year-over-year earnings growth stands at 13.7%, well above the market's 8.3% expectation, while quarter-over-quarter growth came in at 4.8%. Earnings strength was led primarily by the Information Technology, Industrials, and Materials sectors, whereas Consumer Discretionary posted a slight decline, Health Care, Energy, and Real Estate posted the weakest growth.

**Chart 19 - S&P 500 Sector 2026 YTD Total Return Breakdown**



Source: Bloomberg, Raymond James Ltd.; Data as of February 27, 2026.

**Chart 20 - S&P 500 Sector and “Magnificent Seven” YTD Total Returns**

Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026.

### Latest thoughts on the A.I. trend

**Hyperscalers:** since 4Q25, the market has increasingly penalized hyperscalers for their aggressive capital expenditure plans. The primary concern centres on capital efficiency, specifically the perception that A.I. monetization remains too slow and too limited relative to the scale of investment, leading to growing investor impatience.

Our view is not that hyperscalers will be unable to generate substantial profits from their A.I. platforms. Rather, we believe the current strategy reflects a deliberate prioritization of market share over near-term monetization. In the early stages of platform competition, pricing aggressively risks user attrition, particularly when switching costs remain low.

The competitive dynamic between ChatGPT and Gemini illustrates this point. Both platforms continue to operate at significant cost to provide token access and model usage. While monetization levers such as advertising, premium functionality, or tiered access are clearly available, providers appear cautious about implementing them prematurely for fear of slowing adoption or losing users to competitors.

Meanwhile, companies seeking to build services and applications on top of large language models (LLM) are likely waiting for the underlying models to reach greater stability and predictability before committing fully to commercialization strategies. Over the past three years, progress in model capabilities has been exceptionally rapid, but that pace of change also increases integration risk for downstream applications.

Overall, we are not overly concerned about A.I. monetization and remain optimistic about upstream A.I. beneficiaries, as outlined in the “Performance Dispersion Within the A.I. Cycle” section of our February monthly report. That said, we continue to monitor leverage levels and balance sheet discipline closely.

**Software-as-a-Service (SaaS):** This segment has been the weakest area within Information Technology relative to semiconductors, with year-to-date losses in 2026 exceeding 20%. Amid concerns about potential A.I.-driven disruption, the market has adopted a “de-risk first, ask questions later” stance.

Investors are reassessing SaaS valuations under the assumption that A.I. agents will increasingly perform tasks traditionally executed by humans. This shift implies a change in traffic and workflow entry points, from browser-based interfaces to LLM-driven queries. Accordingly, potential survivors will need highly robust, agent-friendly APIs in addition to the traditional characteristics of a successful software company.

Stepping back, not all software companies are destined to become commoditized within hyperscalers’ LLM ecosystems. Businesses anchored by proprietary data, embedded transaction rails, communication-layer network effects, regulatory lock-in, or control over sensitive information retain structural defensibility. These companies may choose to develop their own LLM capabilities and preserve their distribution layer, or alternatively operate as high-value infrastructure APIs if their business is inherently back-end oriented. Even so, business model adjustments are likely. Importantly, as demonstrated during the dot-com era, many of the most successful application-layer outcomes tend to emerge years after the underlying technology becomes widely available. There remains ample time for differentiation, validation, and consolidation as the ecosystem evolves.

**Robotics:** Robotics has emerged as a new area of market focus and, notably, has remained relatively insulated from the recent technology sell-off. It represents a physical and scalable form of A.I. commercialization, translating software intelligence into physical-world applications. Importantly,

robotics exposure spans multiple sectors, including Industrials, Defense, and Healthcare, allowing investors to participate in the A.I. theme without excessive concentration in the Information Technology sector.

### Canadian Equity Markets

As highlighted in our December outlook outlining key themes for 2026, hard assets have been turning higher so far this year. Multiple tailwinds are supporting these sectors, including increased fiscal backing for critical minerals, energy exports, nuclear and clean power development, and broader infrastructure initiatives. At the same time, investors have been rotating out of asset-light businesses such as software and into hard-asset sectors, which are perceived as less vulnerable to A.I.-driven disruption. In addition, the resurgence in geopolitical uncertainty has provided further support to energy and precious metals prices. Given the significant weighting of hard-asset sectors within the S&P/TSX Composite, the index has outperformed the S&P 500 and ranks among the stronger performers across developed markets year to date.

Three-quarters of S&P/TSX Comp constituents have reported results for 4Q25, with year-over-year earnings growth running at 19.3% and quarter-over-quarter growth at 18.6% thus far. The strength has been led by the Materials sector, while Utilities, Consumer segments, and Industrials have also delivered notably robust results.

We believe the macro backdrop remains supportive for the S&P/TSX Composite. Accordingly, we are raising our year-end 2026 target to 34,900 from 34,000, maintaining an 18.0x P/E multiple on 2026 earnings of \$1,939, up from our prior estimate of \$1,890.

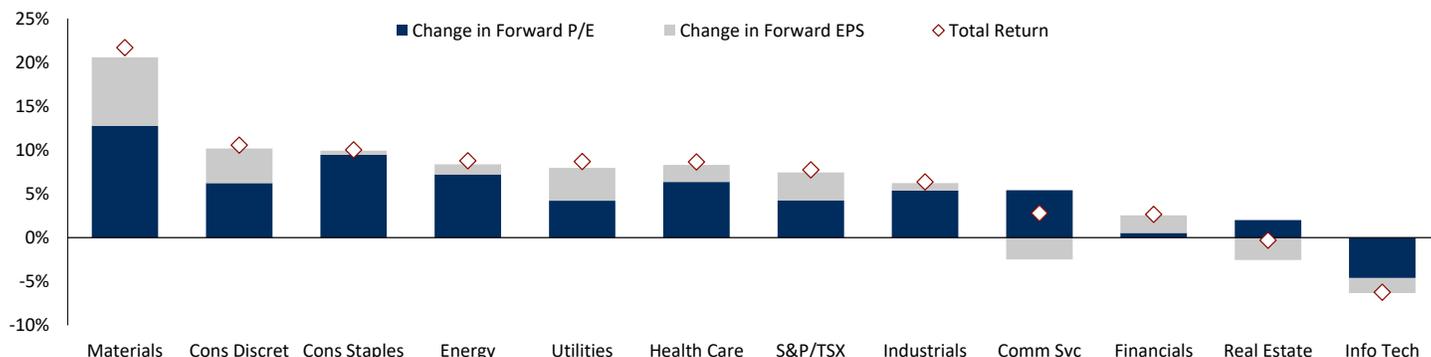
### Top 3 Sectors (Feb 2026):

- **Materials:** Following a brief pullback at the end of January and into early February, gold prices recovered quickly through the remainder of the month, driving renewed outperformance among gold miners. The broader Materials sector also performed well, with the exception of lumber, which lagged modestly. The initial decline in gold prices after the outbreak of the Iran conflict in early March reflected a sharp appreciation in the U.S. dollar, as institutional investors moved to U.S. cash for liquidity. The stronger dollar temporarily functioned as a more immediate safe haven than gold. While the initial pullback in gold price may appear counter-intuitive, we could still see appreciation over the coming weeks. That said, our constructive long-term view on gold rests primarily on structural drivers, including sustained central bank purchases and growing concerns around U.S. fiscal sustainability. In this context, any crisis risk premium should be viewed as incremental support rather than the core investment thesis.
- **Consumer Discretionary:** The sector rebounded from its weaker performance in January, supported by both valuation multiple expansion and upward revisions to earnings expectations. February gains were broad-based across industries, with automotive parts manufacturers leading performance. While 4Q25 earnings results have been quite positive, the ongoing Iran conflict and the associated risk-off sentiment could weigh on this cyclical sector in the near term.
- **Consumer Staples:** The sector delivered broad-based gains in February, rebounding from January's weakness, with the majority of the upside driven by valuation multiple expansion. Risk-off sentiment also provided support to this defensive segment. The sector's concentrated exposure to convenience stores saw a particularly strong recovery following a prolonged period of consolidation. Grocers reported earnings largely in line with expectations; however, ongoing food inflation pressures and uncertainty surrounding USMCA renewal continue to present headwinds to the earnings outlook.

### Bottom 3 Sectors (Feb 2026):

- **Info Tech:** The TSX Composite's Information Technology sector is heavily weighted toward software, leaving it particularly exposed to the recent sell-off in SaaS names. Following the sharp decline in January, the sector continued to weaken through the first half of February, though signs of stabilization began to emerge toward month-end. The sector's largest constituent remains one of the earliest and most visible examples of successful A.I. monetization at the application layer. It also demonstrates many resilience characteristics. As such, we believe the company is well positioned to recover and continue compounding over time, which could again provide meaningful support to overall sector performance.
- **Real Estate:** The sector gave back much of the momentum gained in January, pressured by weakness in multifamily residential and office REITs, which remain the segments most exposed to macro headwinds from slower population growth. Disappointing earnings from a major real estate services company also weighed on overall sector performance. By contrast, retail and industrial REITs were relative bright spots within the sector.

- Financials:** The sector posted modest gains in February, supported primarily by upward revisions to earnings expectations. Year-to-date performance across sub-industries has been uneven, with banks continuing to outperform insurance and capital markets. Looking ahead, non-interest revenue growth may moderate amid more subdued market returns compared to last year. However, fiscal support measures are likely to encourage a pickup in business activity, and investment projects deferred during tariff-related uncertainty in 2025 may begin to resume. This could support earnings growth in commercial lending and capital markets activity, partially offsetting broader revenue pressures.

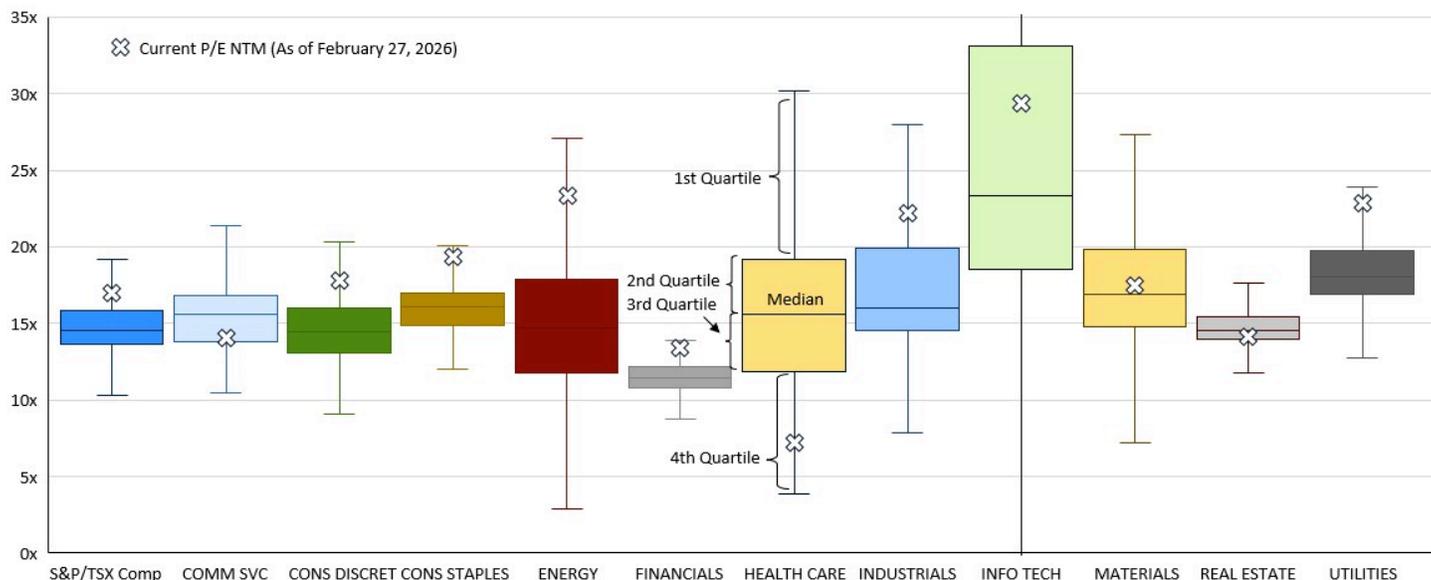
**Chart 21 - S&P/TSX Composite Sector February 2026 Total Return Breakdown**


Source: Bloomberg, Raymond James Ltd.; Data as of February 27, 2026.

**Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)**

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	20.9%	32.5%	32.5%	21.7%	17.5	16.9
Energy	16.8%	20.3%	20.3%	8.8%	23.4	14.7
Utilities	3.5%	10.8%	10.8%	8.7%	23.0	18.1
S&P/TSX Composite	--	8.6%	8.6%	7.7%	17.4	14.6
Industrials	10.4%	6.7%	6.7%	6.3%	22.5	16.0
Communication Services	2.0%	6.5%	6.5%	2.8%	14.1	15.6
Consumer Staples	3.3%	5.8%	5.8%	10.0%	19.3	16.0
Consumer Discretionary	3.2%	4.7%	4.7%	10.5%	17.8	14.5
Health Care	0.3%	4.0%	4.0%	8.6%	7.3	15.6
Real Estate	1.4%	1.4%	1.4%	-0.3%	14.2	14.5
Financials	31.0%	1.1%	1.1%	2.7%	13.2	11.4
Information Technology	7.4%	-22.8%	-22.8%	-6.2%	29.0	23.4

Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

**Chart 22 - S&P/TSX Composite Sector Current vs. Historical P/E NTM**


Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026. Historical P/E: 1/1/2000 – 2/27/2026. Excluding outliers.

**Table 3 - Global Equities Performance**

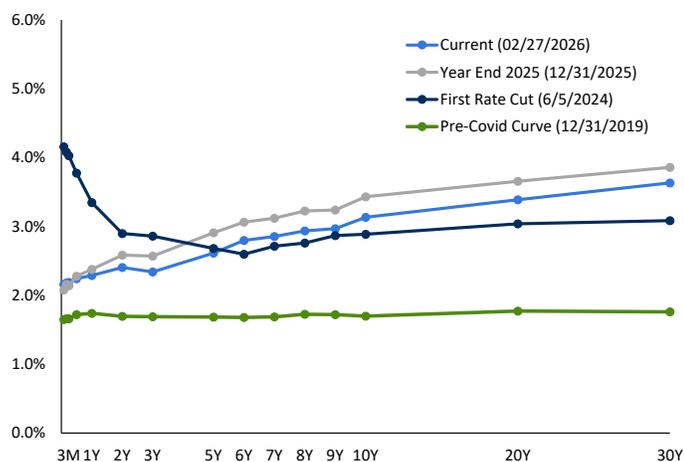
Select Global Equity Indices	Feb (in LCL)	Feb (in USD)	Feb (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
<b>Major Aggregates</b>												
World (Global)*	0.8	0.8	1.5	3.8	3.8	1.5	3.0	3.0	2.5	19.6	16.1	3.6
EAFE (DM ex U.S. & Canada)*	4.7	4.7	5.5	13.0	13.0	10.5	10.0	10.0	9.5	16.4	13.6	2.8
EM (Emerging Markets)*	5.7	5.7	6.4	17.1	17.1	14.6	14.2	14.2	13.6	13.2	11.8	1.4
<b>Selected Developed Markets</b>												
Nikkei 225 (Japan)	10.4	9.1	9.9	17.3	17.2	14.7	17.0	17.1	16.8	22.3	16.9	5.4
Euro STOXX 50 (Europe)	3.3	2.4	3.2	8.6	10.2	7.8	6.2	6.6	6.0	16.9	13.4	3.6
FTSE 100 (U.K.)	7.0	4.6	5.3	12.7	13.9	11.4	10.2	9.8	9.3	14.2	12.3	1.9
CAC 40 (France)	5.6	4.8	5.6	5.9	7.7	5.4	5.3	5.9	5.3	16.9	13.5	3.4
DAX (Germany)	3.0	2.3	3.0	6.1	7.9	5.6	3.2	3.7	3.3	15.6	12.7	3.0
Hang Seng (Hong Kong)	-2.8	-2.9	-2.2	3.3	2.8	0.6	3.9	3.4	2.9	11.3	11.7	-0.4
<b>Selected Emerging Markets</b>												
CSI 300 (China)	0.2	1.5	1.9	4.5	7.7	5.1	1.9	3.8	3.1	17.0	13.8	3.2
Nifty 50 (India)	-0.4	0.3	0.6	-3.7	-5.5	-7.8	-3.4	-4.6	-5.2	20.0	18.7	1.3

Source: FactSet, Raymond James Ltd; Total returns, data as of February 27, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 - 02/27/2026. \*Indices are represented by their corresponding iShares ETFs, serving as proxies.

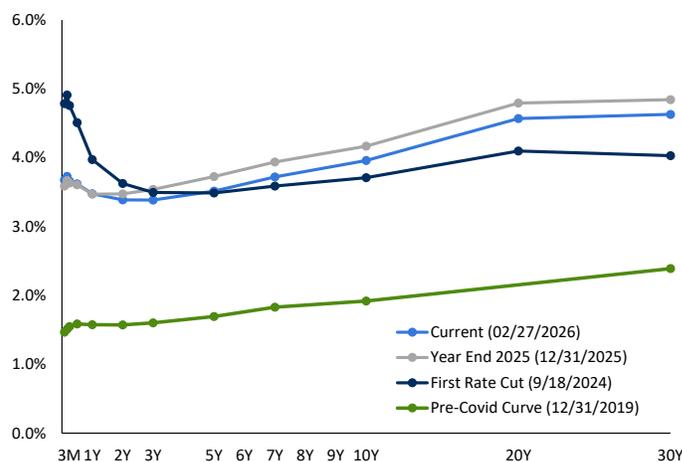
### Fixed Income & Treasury Yields

Both the U.S. Treasury and Government of Canada yield curves shifted broadly lower over the course of February, supported by generally favourable inflation data. Safe-haven demand amid the Iran conflict also drove investors into government bonds, pushing yields down. The U.S. 10-year Treasury yield declined from 4.2% to 3.9%, its lowest level since September 2024, while Canada's 10-year government bond yield fell from 3.4% to 3.1%.

However, as the Iran conflict continued beyond initial expectations and tensions surrounding the Strait of Hormuz have intensified, oil prices have risen more than 20% relative to pre-conflict levels. The sustained increase in energy prices has renewed concerns about broader inflationary pressures. This dynamic constrains monetary policy flexibility, prompting a more hawkish Federal Reserve response and upward pressure on both the front-end and the long-end of the yield curve. Indeed, U.S. Treasury yields have since retraced higher. Elevated short-term rates increase corporate borrowing costs, while higher 10-year yields weigh on equity valuations through discount rate effects. Investment-grade and high-yield credit spreads have widened relative to January month-end, though they remain relatively tight by historical standards.

**Chart 23 - Canada Government Yield Curves**

Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026.

**Chart 24 - U.S. Treasury Yield Curves**

Source: FactSet, Raymond James Ltd.; Data as of February 27, 2026.

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