



# ETERNA FINANCIAL GROUP

# QUARTERLY

## REVIEW

MARCH 2026

MARKET SUMMARY AND ASSET ALLOCATION

## MARKETS UNDER PRESSURE AS MIDDLE EAST CONFLICT ESCALATES

March saw a major escalation of the conflict in the Middle East, following large-scale air strikes carried out by the United States and Israel against strategic Iranian infrastructure at the end of February. Unlike previous incidents, this intervention was part of a much broader pattern of confrontation, significantly increasing broader geopolitical and economic risks. The scale and speed of the escalation took markets by surprise, considerably widening the range of possible scenarios for the global economy.

At the heart of the crisis lies the closure of the Strait of Hormuz. This narrow passage, which accounts for around 20% of global oil and liquefied natural gas transit, has become impassable due to Iran's use of naval mines and drones. The reaction in commodity markets has been dramatic, with oil prices rising sharply; Brent crude rose above US\$100 a barrel, temporarily approaching US\$120. Despite coordinated intervention by international authorities, including massive releases of strategic reserves, these measures only partially offset the shortfall in supply from the Gulf states.

Energy aside, the conflict has highlighted significant vulnerabilities in global supply chains. With the region

being a key player in the production of essential inputs, including fertilizers, helium and certain industrial metals, logistical disruptions have quickly led to rising costs across several sectors. The sharp rise in fertilizer prices threatens global agricultural production in particular, while constraints on helium and aluminum are affecting strategic industries such as semiconductors, the automotive sector, and aerospace.

The conflict in the Middle East constitutes a major exogenous shock to the global economy in 2026. Although markets may be able to absorb a short-lived episode, a prolonged disruption would pose a significant risk of a global economic slowdown. Geopolitical developments therefore remain crucial to the economic and financial outlook for the coming months.

### Sharp falls in the markets in March

Stock markets fell over the past month. The S&P/TSX Index fell by 4.3% but still managed to post a positive return of 3.9% for the first quarter. In the United States, the bellwether S&P 500 index fell by 5% in March and by 4.3% over the first three months of the year. European and Asian markets were the most affected by the conflict in March. The FTSE 100 (UK) fell by 6.7%, the CAC

40 (France) by 8.9%, the DAX 30 (Germany) by 10.3%, and the Nikkei 225 (Japan) by 13.2%. For the quarter, performance differed from region to region: the FTSE 100 rose by 2.5%, while the CAC 40 and the DAX 30 fell by 4.1% and 7.4% respectively. The Nikkei 225, meanwhile, gained 1.4%.

### Asset allocation: a cautious approach even before the conflict

Against this backdrop, we remain cautious in our positioning and asset allocation. Even before the conflict escalated, we had been relatively prudent, slightly overweighting alternative assets and fixed-income securities relative to our targets. This allocation aimed to strike a balance between the risks and investment opportunities that might arise in the short term.



**Bobby Bureau, MBA, CIM®**  
Senior Manager, Fixed Income  
Portfolio Manager

## ECONOMY AND FIXED INCOME

# MIDDLE EAST CONFLICT SENDS UNEVEN SHOCKWAVES THROUGH GLOBAL ECONOMIES

Analyzing the global economic outlook for the first quarter of 2026 inevitably involves looking at the geopolitical instability in the Middle East. While the year began with signs of inflation settling down and moderate growth, the ongoing conflict has radically transformed the macroeconomic landscape, introducing uncertainty that makes any forecasting particularly challenging.

The implications differ from those of the energy shock observed in 2022 following the outbreak of the conflict in Ukraine. This time, the global economy faces a more moderate demand environment. The rise in energy prices therefore acts more as a negative shock to households' real income than as a driver of uncontrolled inflation. The main risk now is a slowdown in growth combined with persistent inflation – a stagflation-type scenario.

For the Canadian economy, a rise in fossil fuel prices tends to be seen as a driver of growth. However, the current shock comes with features that limit this theoretical benefit. Unlike rising prices driven by strong global demand, what we are facing here is a supply shock of uncertain duration. Recent history offers an interesting example: during the invasion of Ukraine in 2022, the surge in oil prices did not result in a significant rebound in investment in the Canadian oil sector. This reluctance is repeating itself today. Companies are hesitant to commit to major capital investments, worried that improved margins may be only temporary. Therefore, this energy shock isn't translating into real gains for the Canadian economy.

This lack of momentum in the energy sector comes at a time when other parts of the economy are showing signs of weakness. The Bank of Canada is being forced to reassess its outlook, with the risks to economic growth tilted to the downside. Meanwhile, the labour market

is providing cause for concern, as Canada has seen no job creation for the past eight months. With regard to inflation, the Bank of Canada can afford to remain patient, even though year-over-year inflation could temporarily rise to the upper limit of its target range due to energy costs.

The United States' structural resilience leads to a different picture. Now the world's leading oil producer, the country has limited direct oil exposure to the Strait of Hormuz, which mitigates the logistical impact of the conflict.

Nevertheless, persistent inflation is prompting the Federal Reserve to exercise caution, as tariffs continue to complicate the inflationary landscape. Hopes of swift rate cuts are fading, with rising energy prices stalling progress towards the inflation target. As in Canada, the labour market remains fragile, with no job creation for the past ten months. Despite these negative factors, U.S. economic growth continues to feed on corporate investment in artificial intelligence (AI) and budget deficits. The "One Big Beautiful Bill Act" is beginning to work its way through the economy, with a rise in disposable income among U.S. households.

In summary, the conflict in the Middle East is expected to affect different regions of the world unevenly. North America, which is an energy exporter, is likely to be less affected than Europe or Asia, both of which are more dependent on energy imports. In this regard, we are already seeing fuel rationing measures in smaller Asian economies.

## No shift to safe-haven assets

This tension between inflationary pressures and an economic slowdown is being reflected in the Canadian bond market. The FTSE Canada Universe Bond Index fell by 2% in the first quarter. Interestingly, investors did not flock to

safe-haven assets, a move that usually drives down government bond yields in times of crisis. On the contrary, yields rose, driven by fears that central banks would have to adopt restrictive policies to counter energy inflation. In short, the conflict in the Middle East is hampering the recovery not only by driving up energy costs, but by stalling investment decisions and complicating the task of central banks, which must navigate between a weakened real economy and energy-driven inflation.

## Bobby Bureau, MBA, CIM®

Senior Manager, Fixed Income,  
Portfolio Manager

## KEY TAKEAWAYS

- Uncertainty continues, fuelled by the war in the Middle East.
- The scale and speed of the escalation took markets by surprise and broadened the range of possible scenarios for the global economy.
- A prolonged period of disruption would pose a significant risk of a global economic slowdown.
- Rising energy prices act as a negative shock to real household income.
- We continue to favour a cautious asset allocation.



CANADIAN, U.S. AND INTERNATIONAL EQUITIES

## ENERGY POWERING CANADA, WHILE TECH WEIGHS ON U.S. MARKETS

### Canadian equities: energy leading the way, but cracks beneath the surface

In Canada, 2026 began much like 2025, with the same themes dominating the headlines: the rise of AI and a sharp surge in precious metal prices. However, mirroring last year's tariff saga, another unilateral decision by the U.S. president, without congressional approval, has sent shockwaves through the stock markets, this time with significant human and economic consequences. The war against Iran, which began on February 28 with US-Israeli military strikes, took experts by surprise, many of whom did not believe the President would actually commit to such a risky conflict with such significant economic repercussions.

The S&P/TSX fell by 4.3% in March, following an 8.6% rise in the first two months of the year, resulting in a total return of 3.9% for the first quarter. While Canadian stocks in the oil sector faced pressure at the start of the year, following the U.S. military operation in Venezuela and the capture of Maduro, the situation in Iran quickly reversed this sentiment. The Canadian index's performance, boosted by the energy sector's 29% gain over the three months, hides a deeper weakness. Excluding energy stocks, nearly 20% of the S&P/TSX index's constituents fell by more than 10% during the quarter. Stocks in the IT, industrials and financials sectors (excluding banks) were particularly hard hit, with many now trading at the lower end of their valuation ranges.

For example, Constellation Software, which manages and grows vertical software businesses in highly specialized niches, has fallen by more than 50% from its peak in May 2025. This decline has brought its projected EV/EBITDA ratio below 10x, whereas the stock was previously trading at over 18x. The widespread adoption of AI is causing concern among investors, even though the company continues to post strong results and has a clear plan to capitalize on changes in technology.

The same applies to WSP Global, a global engineering and consulting firm specializing in infrastructure, buildings, the environment and transport. We believe it will be one of the biggest beneficiaries of AI adoption, enabling it to undertake more projects more efficiently. Its CEO, Alexandre L'Heureux, did a great job of dispelling fears that AI will partially replace the work of engineers. Regulatory requirements, the company's extensive proprietary database and the physical need for engineers on site during every phase of a project bear this out. The company continues to post excellent results quarter after quarter, and its acquisitions in sectors such as energy and infrastructure position it well to take advantage of related needs arising from the expansion of AI.

These spells of market disconnect from corporate fundamentals occur when significant shifts take place in sector dynamics. Although we are aware of the significant impact that AI will have on many industries and companies, we see these periods of uncertainty as an opportunity to

increase our holdings in companies likely to demonstrate sustained earnings growth, as well as an evolution of their business model to leverage technological changes.

### U.S. equities: sector rotation and relative resilience

The S&P 500 index fell by just over 4% in the first quarter of 2026, amid high volatility driven by geopolitical uncertainties and concerns about AI. Technology was the main drag on performance during the period, having had a difficult start to the year as investors worried that new AI capabilities could challenge the software-as-a-service (SaaS) model. In addition, even though companies reported strong results, investors began to more closely scrutinize the ability of hyperscalers to generate returns in light of continued increases in AI-related capital expenditure.

The energy sector emerged as the quarter's top performer, rising more than 38% thanks to a sharp rise in oil prices. Investors shifted heavily into energy stocks when the conflict in Iran began in March, causing other sectors to fall.

Despite March's downturn in the U.S. market and the decline over the quarter as a whole, the overall performance masks gains in more than half of the sectors. In fact, a sector rotation towards more defensive stocks had already begun in the first two months of the year, benefitting the materials, utilities, consumer staples and industrials sectors, in addition to energy.

**CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONTINUED)**

The “Magnificent Seven’s” weighting in the S&P 500 declined to just over 32%, while still accounting for more than 80% of the index’s return since the start of the year. Despite this contribution, these companies have all underperformed the index, posting an average return of -11%, compared with a much more moderate decline of -1% for the other 493. This kind of gap between the seven big names and the rest of the market hadn’t been seen since 2022, when they underperformed badly in the midst of a bear market, falling by an average of 40%. Nevertheless, the earnings growth outlook for the Mag Seven remains significantly higher than that of the rest of the index (26% vs 14%).

Against the backdrop of a more challenging market environment during the quarter, the U.S. Dividend Strategy performed well, delivering a net return of 1.6% in CAD. This performance was driven in particular by an overweight position in energy stocks, as well as sound stock selection in more defensive sectors such as utilities (Duke Energy) and consumer staples (Costco). This helped offset the negative impact of the tech sector’s underperformance, despite a significant underweight position in that segment.

For our U.S. Equity Fund, the first quarter proved somewhat more challenging, with a net return of -4.3% in CAD. This performance was attributable to two factors: our greater exposure to technology stocks, particularly the software subsector, and an overweight position in financial services, particularly payment processors (Visa and Mastercard), impacted by regulatory risks and potential uncertainties related to AI. The negative contribution from these

two sectors could not be offset by our positive performance in several other sectors, notably industrials and energy.

**International equities: portfolio resilience despite a turbulent quarter**

The first quarter of 2026 saw two distinct phases for international markets. After a flying start, the Nikkei 225 reached an all-time high of 58,850 points at the end of February, while European indices flirted with record levels. But the conflict in the Middle East triggered a sharp reversal in March. The STOXX 600 fell by nearly 8% in that month alone, its worst performance since mid-2022.

Against this backdrop, our Eterna International Equity Fund delivered a net return of -0.5% over the quarter, demonstrating solid relative resilience in the face of volatility. Our diversified exposure to Europe, Japan and the Asia-Pacific region helped cushion the impact of the geopolitical shock. On the positive side, our positions in the energy sector (Shell, TotalEnergies) and materials (Marubeni, BHP Group, Rio Tinto) benefitted from rising commodity prices. Conversely, certain Japanese industrial stocks and more cyclical shares came under pressure, with the Nikkei falling by around 13% between its February peak and the end of the quarter.

In terms of portfolio changes, we added three new positions: HSBC Holdings, Nordea Bank and Siemens AG. The addition of HSBC and Nordea strengthens our exposure to the financial sector, as both are financially sound institutions that should benefit from a still-favourable interest rate environment. Siemens,

for its part, provides us with additional exposure to electrification and industrial modernization, two structural trends we believe to be promising in the medium term. Our view remains unchanged: geographical and sectoral diversification continues to offer a relevant counterbalance in an environment of heightened uncertainty.

**Philippe Côté**

Vice President, Senior Portfolio Manager, Equities

**Maxime Bertrand Gilbert**

Portfolio Manager, Equities

**Philippe Tardif**

Vice President, Eterna Financial Group

## ALTERNATIVE INVESTMENTS

# PRIVATE CREDIT HOLDS FIRM WHILE PRIVATE EQUITY REACHES MILESTONES

## Private credit: between noise and fundamentals

Private credit was a hot topic in the financial news during the first quarter of 2026. Caps on client withdrawals announced by a number of alternative investment managers rekindled concerns about the liquidity of semi-liquid funds that had been available to the public for some time. Two factors fuelled dramatic headlines: fears regarding the impact of AI on software companies (the so-called 'SaaS-pocalypse') and listed business development companies trading as low as 65% of their book value.

Nevertheless, the underlying fundamentals tell a very different story. According to Cliffwater data, private credit generated an estimated return of 9.33% in 2025, with realized losses of 0.70%, well below the historical annual average of 1.01% (Canadian bonds generated a return of around 4%). The addressable private credit market now stands at over US\$4.3 trillion, supported by strong structural demand and a partial withdrawal of traditional banks from mezzanine lending. Much of the current dislocation is technical, not fundamental. Private credit secondary transaction volume reached a record US\$23 billion in 2025, as high-quality assets are being divested by sellers seeking liquidity. As for the risk associated with AI, a distinction must be made: the loans are generally senior, with

loan-to-value ratios of around 40% and equity buffers of around 60%.

Our approach remains intentionally conservative, with the vast majority of our exposure consisting of senior loans, backed by adequate collateral and a disciplined structure.

## Historic developments in private equity

The first quarter of 2026 was marked by unprecedented developments in our private equity exposures. On 31 March, OpenAI closed the largest private funding round in history, raising US\$122 billion in capital and bringing the company's post-investment valuation to US\$852 billion. It is worth noting that, in the spring of 2025, its valuation was approximately US\$300 billion, rising to US\$500 billion during a secondary transaction in the autumn. For the first time, approximately US\$3 billion was raised from individual investors through banking channels, highlighting how access to cutting-edge private capital is gradually opening up. The company now generates around US\$2 billion in revenue per month and boasts more than 900 million weekly active users.

For its part, SpaceX filed a confidential initial public offering (IPO) application with the SEC on 1 April, with an anticipated valuation potentially exceeding US\$1.75 trillion and a fundraising target of approximately US\$75 billion. These

figures would make it the largest IPO in history and the seventh-largest company in the world by market capitalization. For our portfolios, the surge in valuation—from US\$800 billion in December 2025 to a potential US\$1.75 trillion in just a few months—illustrates how much value can be created in private equity investments when the underlying companies hold irreplaceable strategic assets.

Overall, the private equity exit market is showing positive signs. Transaction volume rose by 18.1% year-on-year in the fourth quarter of 2025. The IPO market picked up in 2025 with high-profile debuts from Figma (July), Klarna (September) and CoreWeave. This momentum is expected to accelerate in 2026 with a pipeline of mega-IPOs, including SpaceX, OpenAI, Anthropic (Claude), Canva and Stripe. These companies' entry into the public market could offer concrete opportunities to capture value in our portfolios over the coming quarters.

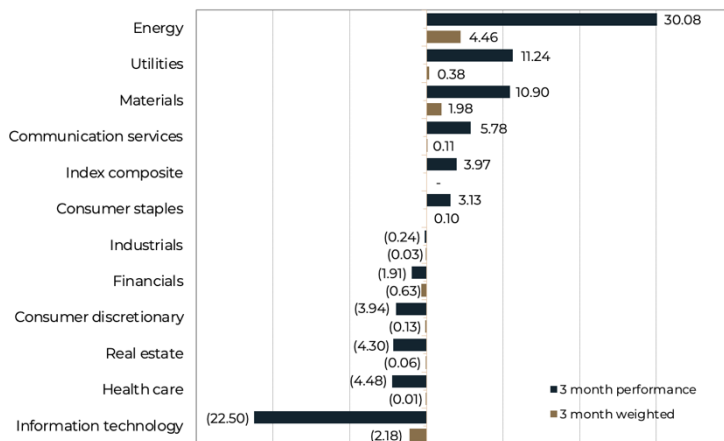


**Philippe Tardif**  
Vice President, Eterna  
Financial Group

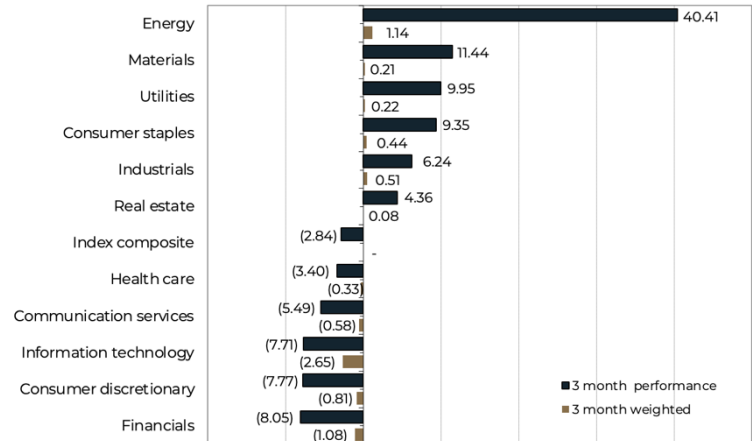


## SECTOR PERFORMANCE

Canadian Equities (S&P/TSX)



U.S. Equities (S&P 500)



SOURCE: Bloomberg. Returns in Canadian dollars, including dividends as at March 31, 2026

## ECONOMIC DATA AND CURRENCIES

STATISTICS AS AT MARCH 31, 2026

CANADA		UNITED STATES		CURRENCIES	
Unemployment (February)	6.7 % ↑	Unemployment (February)	4.4 % ↑	USD / CAD	0.72 ↑
IPC (February)	1.8 % ↓	IPC (February)	2.4 % -	USD / EUR	1.16 ↑
3-month T-Bills	2.32 % ↑	3-month T-Bills	3.67 % ↑	JPY / USD	158.72 ↓
5-year bonds	3.10 % ↑	5-year bonds	3.94 % ↑	The arrow indicates the trend since the publication of the last monthly data or end of the month.	
10-year bonds	3.47 % ↑	10-year bonds	4.32 % ↑		
S&P/TSX	32,768 ↓	Dow Jones - Industrial	46,342 ↓		
		S&P 500	6,529 ↓		

SOURCE: Bloomberg.

## MARKET RETURNS

### TOTAL RETURNS IN CANADIAN DOLLARS AS OF MARCH 31, 2026

	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	0.51%	0.51%	2.52%	3.95%	2.98%
<b>BONDS</b>					
FTSE Canada Universe Bond Index	0.23%	0.23%	0.84%	3.49%	0.73%
FTSE Canada Short Term Overall Bond Index	0.26%	0.26%	2.41%	4.32%	2.02%
Eterna Adapted Private Wealth Index <sup>1</sup>	0.32%	0.32%	2.15%	4.11%	1.71%
FTSE Canada Mid Term Overall Bond Index	0.40%	0.40%	1.74%	3.76%	1.18%
FTSE Canada Long Term Overall Bond Index	-0.03%	-0.03%	-2.52%	1.69%	-1.63%
<b>NORTH AMERICAN STOCK MARKETS</b>					
Canada - S&P/TSX Composite	3.94%	3.94%	34.83%	21.18%	15.19%
United States - Standard & Poor's 500	-2.84%	-2.84%	14.19%	19.51%	14.39%
United States - Dow Jones Industrial Average	-1.68%	-1.68%	8.78%	14.91%	11.37%
<b>INTERNATIONAL STOCK MARKETS</b>					
United Kingdom - FTSE-100	3.19%	3.19%	21.72%	17.94%	14.07%
France - CAC-40	-4.20%	-4.20%	3.82%	5.32%	7.00%
Germany - DAX	-7.43%	-7.43%	5.88%	16.66%	10.47%
Japan - Nikkei-225	1.59%	1.59%	31.06%	16.16%	6.18%
Hong Kong - Hang Seng	-2.49%	-2.49%	3.12%	7.82%	-0.82%
Australia - S&P/ASX 200	2.01%	2.01%	15.64%	7.76%	4.59%
<b>CURRENCIES</b>					
USD versus CAD	1.40%	1.40%	-3.27%	0.98%	2.07%

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

<sup>1</sup> The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.

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