



UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT

Market News - Navigating 2026 Market Conditions

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What Happened this Quarter and What is Ahead

From the Desk of Gerdi Lito, CFA

- Portfolio Manager, Manulife Wealth Inc.
- Life Insurance Advisor, Upper Canada Capital Inc.

As we wrap up the first quarter of 2026, a number of events have shaped how markets have behaved so far this year. Here's a quick summary, followed by our thinking on what may come next.

The US conducted a military operation in Venezuela in January, resulting in the arrest of the Venezuelan president and giving the US access to Venezuelan oil. Markets largely shrugged this off, with only a modest impact on the energy sector.

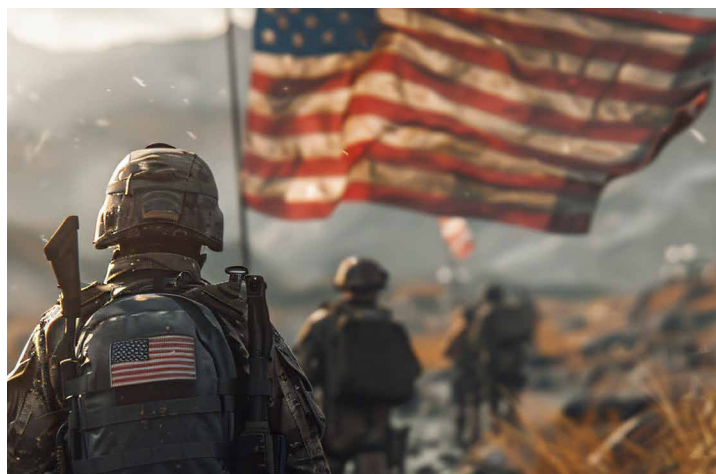
In February, Anthropic released new artificial intelligence (AI) models capable of handling tasks traditionally done by humans — in areas like finance, software development, and insurance. This rattled the technology sector, which fell nearly 20% and also weighed on companies in financial data and insurance brokerage.

The US Supreme Court struck down the tariffs introduced by the current administration last year. In response, the administration put in place a broad 10% tariff and launched a review to potentially reinstate stronger tariffs later in the year. Markets had already anticipated this outcome, so the reaction was muted.

Jerome Powell's tenure as Federal Reserve Chair ends in May, and Kevin Warsh has been nominated to replace him — subject to congressional approval. Expectations for significant interest rate cuts in the U.S. in 2026 were somewhat lessened as a result of Mr. Warsh's selection.

Manulife Wealth Inc.

2848 Bloor Street West, Toronto, Ontario M8X 1A9
T: 416.628.5761 F: 416.225.8650 TF: 1.866.275.5878
Visit our website: UpperCanadaCapital.com



The biggest story, however, is the war in Iran, which began on February 27th and is still ongoing. For the first couple of weeks, markets were volatile but held relatively steady, as many hoped the conflict would be resolved quickly. That optimism has faded. Oil prices are now firmly above \$100 per barrel, with no clear end to the conflict or the closure of the Strait of Hormuz in sight. As a result, both the S&P 500 and the TSX have turned negative for the year. The Nasdaq 100 — which is heavily weighted toward technology — is now approaching correction territory¹ (a drop of more than 10% from its recent peak; a drop of more than 20% would be considered a bear market).

SOURCES

¹ YCharts, March 20, 2026

What Comes Next?

War, oil, inflation and markets

The key question is: how long will the Strait of Hormuz remain closed and global energy supply disrupted? If the conflict ends soon and oil flows normalize, the economic impact should be manageable. A few more weeks of disruption would begin to weigh more heavily on global growth. A prolonged conflict lasting months could tip the world into recession.

The war itself isn't the direct threat to markets — it's the ripple effects on energy prices and supply chains that matter. Oil was at \$67 a barrel when the war started. It's now above \$100. Higher oil prices push up costs across most industries, which feeds into inflation. Even in oil-producing countries like Canada and the US, higher global prices still filter through to the cost of imported goods.

For Canada, oil is uniquely important. Canada is the world's fourth-largest oil producer and a major exporter, meaning that higher oil prices directly benefit Canadian energy companies, government revenues (particularly in Alberta), and the broader economy's trade balance. Canadian energy stocks — companies like Canadian Natural Resources, Suncor, and Cenovus — stand to benefit meaningfully from elevated prices.

But higher gasoline prices can result in higher inflation which puts pressure on households — people spend less when everyday essentials cost more. It also ties the hands of central banks, making it harder for them to cut interest rates, which stimulates economic growth.

In Canada, annual inflation came in at 1.8% in February, just below the Bank of Canada's 2% target. That's expected to rise above 2% in March¹.

The Middle East conflict has already pushed gasoline prices sharply higher across Canada. Energy is a major component of inflation, and if oil prices remain elevated for months — rather than settling back down — Canadians will feel it at the gas pump, in grocery stores (where transportation costs feed through to food prices), and on utility bills. Core inflation, which strips out volatile items like food and energy, was running at approximately 2.5% as of early 2026, still above target. Investors should assume that inflation will remain somewhat sticky and factor that into any fixed-income decisions. The Bank of Canada has made clear it will not be cutting interest rates while inflation remains uncertain — and some market participants even expect an interest rate hike if inflation stays elevated.

In the US, inflation is already above 2% and could exceed 3%² when March data is released in April. Markets have moved from expecting two interest rate cuts this year to expecting none, with a possible interest rate hike now on the table.

Stock markets are gradually adjusting to these new realities. The first adjustment — pricing in the likelihood of no interest rate cuts — tends to happen quickly, and we believe this process is already underway. The second adjustment — factoring in the impact on lower corporate profits — takes longer. We may see more of that play out in April and May, when companies report their quarterly earnings and give guidance for the months ahead.



SOURCES

¹ <https://www150.statcan.gc.ca/n1/daily-quotidien/260316/dq260316a-eng.htm>

² <https://www.bls.gov/cpi/>



What Happened this Quarter & What is Ahead - Part II

From the Desk of Kurt Rosentreter
CPA, CA, CFP, FCSI, CLU, TEP, FMA, CIM®

• Senior Financial Advisor & Portfolio Manager, Manulife Wealth Inc.

Interest Rates and Government Bond Yields

Think of a Government of Canada bond as lending money to the federal government. In return, the government pays you interest over a fixed period. The “yield” is the annual return you earn. The 5-year Government of Canada bond yield — currently sitting around 3.0% to 3.2%¹ — is one of the most important numbers in Canadian finance because banks use it as the foundation for setting 5-year fixed mortgage rates.



The Bank of Canada’s overnight policy rate, which it held at 2.25% at its March 18, 2026 meeting, affects variable mortgage rates and short-term borrowing costs. This rate has come down significantly from a peak of 5.0% in mid-2024². However, the Bank has now paused its rate-cutting cycle, sitting in a difficult position: the Canadian economy is weak, but rising oil prices are threatening to push inflation back up.

What This Means for Mortgage Bonders and Fixed Income Investors

Fixed mortgage rates in Canada currently range from roughly 3.7% to 6%, depending on the lender and term. Five-year fixed rates hover around 4.5%, while variable rates are tied to the prime rate of 4.45%³.

Most economists expect the Bank of Canada to hold its interest rate steady through most of 2026, though markets are pricing in roughly a 75% chance of a modest interest rate hike by year-end if oil prices remain elevated⁴. For investors, bonds and Guaranteed Investment Certificates (GICs) are now offering meaningfully positive real returns for the first time in years — making them worth including in a balanced portfolio.



SOURCES

- 1 <https://tradingeconomics.com/canada/5-year-note-yield>
- 2 <https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/#:~:text=The%20Bank%20carries%20out%20monetary%20policy%20by,rate%20on%20eight%20fixed%20dates%20each%20year>
- 3 <https://www.ratehub.ca/best-mortgage-rates>
- 4 <https://ca.finance.yahoo.com/news/money-markets-raise-bank-canada-171246701.html>

Canadian Real Estate: A Market in Transition



After years of surging prices, Canada's real estate market has cooled considerably. National benchmark home prices fell approximately 4.8% compared to the same time last year, according to the Canadian Real Estate Association⁵. Markets in Toronto and Vancouver are described by some analysts as being "firmly in recession," while the average Canadian home price is around \$670,000.

The combination of mortgage renewals — many Canadians who locked in at ultra-low rates in 2020 and 2021 are now renewing at much higher interest rates — and continued affordability challenges for first-time buyers is keeping demand subdued. The spring 2026 housing market is expected to be sluggish, particularly if fixed mortgage rates drift higher in response to rising bond yields.

What This Means for Investors

Real estate as an investment is more complicated than it was three years ago. While prices have pulled back from their peaks, carrying costs (mortgage interest, property taxes, maintenance) remain high relative to rental income, particularly for condos. The condo market specifically has seen a notable decline in sentiment: surveys show 35% of Canadians now believe condos are not a good investment, up from 30% just months ago⁶. Investors considering real estate should look for properties with strong rental fundamentals outside of the priciest downtown cores and should stress-test their finances against the possibility of further rate volatility.

The CUSMA/USMCA Review: Canada's Trade Wildcard

One of the most consequential — and underappreciated — events for the Canadian economy in 2026 is the scheduled July 1 review of the Canada-United States-Mexico Agreement (CUSMA, known as USMCA in the U.S.). This is the first formal review of the trade deal that replaced NAFTA in 2020. Under the agreement's rules, all three countries must decide by July 1 whether to renew CUSMA for another 16 years, continue on an annual review basis, or withdraw.

The stakes for Canada could not be higher. Roughly 76% of Canada's⁷ worldwide goods exports go to the United States, and the CUSMA framework currently shields the vast majority of Canadian exports from Trump's 35% "fentanyl" tariffs. U.S. Trade Representative Jamieson Greer has stated that simply renewing the deal "as-is" is not in the U.S. national interest, and the Trump administration is pushing for changes including greater access to Canada's dairy market, tougher rules on Chinese-made goods entering North America via Canada, and changes to digital services regulations.

Prime Minister Carney's government has been actively negotiating, resuming trade talks with Washington in March 2026 after they were disrupted last fall. Canada's leverage includes its critical role as a supplier of oil, critical minerals, and energy to the United States, as well as the deep integration of supply chains — U.S. companies exported roughly \$350 billion in goods to Canada in 2024. The outcome of these negotiations, due by July 1, will significantly shape Canada's economic trajectory for the rest of the decade. A failed renewal or a deal with major concessions could weigh on Canadian economic growth and investor confidence⁸.



SOURCES

⁵ <https://www.cbc.ca/news/business/crea-numbers-february-2026-9.7130835>

⁶ <https://rates.ca/resources/condo-report-November-2025>

⁷ <https://www150.statcan.gc.ca/n1/pub/11-631-x/11-631-x2025004-eng.htm>

⁸ <https://www.cbc.ca/news/politics/trump-tariffs-canada-trade-negotiation-cusma-usmca-9.7132301>

The U.S. Stock Market in 2026: Higher Oil, More Uncertainty

The U.S. stock market entered 2026 with high valuations and strong investor optimism, but the Iran conflict has introduced significant uncertainty. The S&P 500 dropped roughly 0.7% on the first day of the conflict and markets have remained volatile ⁹.

Higher oil prices are a mixed signal for U.S. equities: they boost the energy sector (Exxon, Chevron, and other oil majors have risen sharply) and defense stocks (Northrop Grumman, Lockheed Martin), but they raise costs for consumer-facing companies and weigh on overall economic growth.

The U.S. Federal Reserve held its policy rate steady in the 3.5% to 3.75% ¹⁰ range at its March 2026 meeting. Wall Street's base case — that the U.S. economy remains resilient and corporate earnings continue to grow — is still intact, but is being tested. Morgan Stanley and other major banks have noted that continued oil price elevation could add 0.8% or more to global inflation, complicating the Fed's path ¹¹.

For Canadian investors with U.S. equity exposure, the strong Canadian dollar (boosted by high oil prices) provides a partial natural hedge — but also reduces the Canadian-dollar value of U.S. returns if the loonie continues to rise.

The bottom line for U.S. equities: remain invested in quality companies and diversified index funds, but expect more volatility than last year. Sectors to watch include energy, defense, and infrastructure. Technology remains the dominant long-term growth story, but elevated valuations mean the upside is more modest from current levels.



SOURCES

⁹ YCharts, March 3 2026

¹⁰ <https://www.cnbc.com/2026/03/18/fed-march-rate-decision.html>

¹¹ <https://www.roic.ai/news/morgan-stanley-warns-125-oil-could-force-global-demand-destruction-03-17-2026>



Investment Strategy

From the Desk of Kurt Rosentreter, CPA, CA, CFP, FCSI, CLU, TEP, FMA, CIM®
Senior Financial Advisor & Portfolio Manager, Manulife Wealth Inc.

From the Desk of Gerdi Lito, CFA
Portfolio Manager, Manulife Wealth Inc.
Life Insurance Advisor, Upper Canada Capital Inc.



Over the past several months, our team has been taking a more cautious approach with discretionary and non-discretionary investment portfolios:

- For older investors, we slowed our pace of investing new cash into equities starting last fall and nearly stopped altogether in January — including RRSP contributions that were originally earmarked for stocks. Instead, we've been directing that cash into bonds and GICs with rates in the 3–4% range.
- We've been selectively locking in gains from equity positions, either to meet spending needs or to reduce risk.
- We've shifted some exposure away from sectors that performed strongly in 2025 (such as technology and financials) and into more defensive areas like food, healthcare, and utilities.
- We built up cash positions for retirees in the second half of 2025 and early 2026 to provide for spending in 2026.

Market corrections tend to create good buying opportunities — but we don't think this one is over yet. Our suggestion is to start putting cash to work gradually, beginning with smaller amounts and adding more if markets fall further.

If you anticipate needing cash in the next 12 months — for any reason we may not be aware of — please get in touch soon. We typically keep one year of spending needs in cash for clients who are drawing from their portfolios, and we want to make sure that's in place for you.

We don't recommend trying to sell now and buy back later — timing the market is notoriously difficult, and prices can jump sharply on any positive news about the conflict. In most cases, the right approach is to stay the course.

That said, if you're feeling uneasy and want to reduce your risk exposure — whether temporarily because you can't stand negative news or as a longer-term adjustment because your situation has changed and retirement goals are closer — we're here to talk it through. It's not too late to make changes: the TSX is currently at levels last seen in mid-December, and the S&P 500 is back to where it was at the start of December.

From 2023 to 2025, global stock markets provided some of the strongest and most consistent stock market returns in decades. World markets were overdue for a cyclical turndown — the reason is different this time in 2026, but the results are the same: a

short-term market decline. You should never have so much money exposed to the stock market that a regular decline keeps you awake at night or more concerning, affects your financial goals. All investors are well served by some volatility-smoothing fixed income investments in a balanced portfolio just for times like this.

We will continue to monitor global markets and communicate through regular meetings, personal emails and phone calls and more generally through a newsletter like this throughout the year. Frequency of contact increases with worse and longer market volatility. We are here for you seven days a week — email or call the team if you have any questions, want to know your year to date market impact on the portfolio, check on your asset allocation or just to talk about the news. We are always in your corner and ready to speak.





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Manulife Wealth Inc.

2848 Bloor Street West, Toronto, Ontario M8X 1A9

T: 416.628.5761 **F:** 416.225.8650 **TF:** 1.866.275.5878

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