

Views from the Frontline

March 3, 2026

As of Feb 27, 2026	MTD	YTD
S&P 500	-0.8%	0.7%
S&P/TSX Composite	7.7%	8.6%
EAFE	5.5%	8.9%
Volatility (VIX)	2.4	4.9

Equity market volatility continued in February as macro uncertainties overshadowed robust U.S. corporate earnings. U.S. equities ended the month modestly lower as investors faced rising fears of AI-driven disruption, stress in private-credit markets, and rising geopolitical tensions. The Canadian stock market increased 7.7%, led by strong gains in energy and materials.

In the U.S., AI-related volatility increased through what investors called a “SaaS apocalypse.” Software and AI-exposed companies fell sharply as investors questioned the pace, cost, and impact of new AI agents. Private-credit markets also faced pressure. Liquidity became tighter and funding risks increased. This raised concerns about transparency and the stability of semi-liquid lending structures. U.S. earnings were solid, though many companies issued cautious guidance with a focus on margin and cost control. In Canada, geopolitical events and a heightened national-security focus attracted investors. Gold prices held firm and oil moved higher on supply concerns. Contagion worries within the financial sector persisted, yet major Canadian banks remained resilient with strong results from wealth management and capital-market activities.

U.S. interest rates moved lower in February as demand for bonds increased amid equity volatility. Economic growth in the U.S. was modest last quarter, weighed down by weaker government spending. While the labour market is softening, it remains stable. Inflation continued to ease, supported by lower energy prices and softer goods inflation. The U.S. Supreme Court struck down President Trump’s “reciprocal” tariffs, though many investors expect that similar tariffs will be introduced through other legal channels. The recent announcement of a 10% global tariff is one example.

As of Feb 27, 2026	MTD	YTD
US 10 Year	-30 bps	-23 bps
Canada 10 Year	-29 bps	-31 bps
Volatility (MOVE)	14.2	9.4

Canadian interest rates declined along with those in the U.S. in February. On a year-to-date basis, Canadian rates have fallen further than those in the U.S., as economic momentum remained weak and global risks persisted. The economy contracted last quarter due to softer manufacturing activity and inventory reductions. Inflation has eased and labour market conditions remain subdued. Looking ahead, the mandatory review of the Canada-United States-Mexico Agreement (CUSMA) remains a key risk to Canada’s economic outlook.

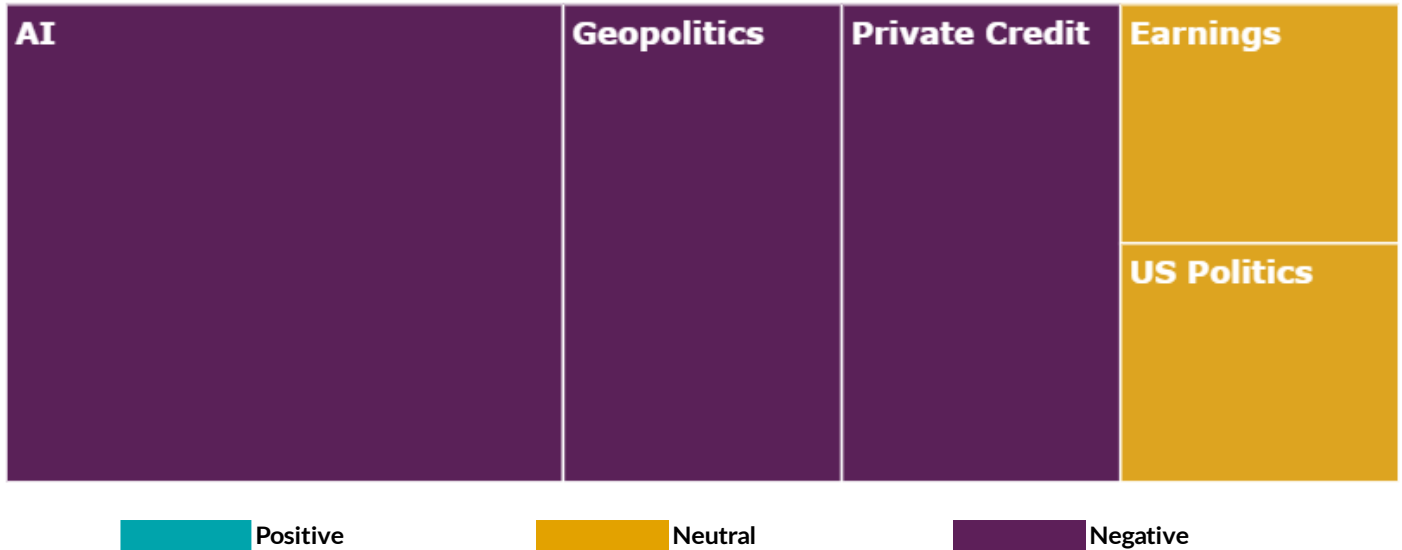
Interest rates rose sharply on the first two trading days of March as the U.S.-Iran conflict fueled inflation concerns driven by higher oil prices. Nonetheless, market participants continue to expect the Federal Reserve to deliver two 25-basis-point rate cuts in 2026, but no changes by the Bank of Canada this year.

As of Feb 27, 2026	MTD	YTD
Canada Aggregate Bond	1.7%	2.2%
US Aggregate Bond	1.6%	1.7%
US High Yield Bond	0.2%	0.7%

In February, the FTSE Canada Universe Bond Index returned 1.7%. Long-term bonds performed the best (+2.9%), followed by mid-term bonds (+1.9%), and short-term bonds (+0.7%). Corporate bonds underperformed government bonds with a return of 1.1%, marking its worst monthly relative performance since March 2023.

The cause of the underperformance in corporate bonds was twofold: 1) concerns about defaults and liquidity in private credit, notably names like Blue Owl and MFS, spilled into the public credit market, and 2) the strong supply of corporate bonds in the new issue market pushed the risk premium higher. That said, the new issue market was quite strong from an issuance perspective. In total, February saw 34 bond issues come to market worth \$18 billion, a new record for February. Issuers of note included Goldman Sachs (first time in Canada since 2021), banks (BMO, Desjardins), Enbridge, General Motors, Toyota, Bell Canada, and Metro.

Market Drivers



*Market driver size implies significance of developments, subjectively ranked given internal opinions.

AI – Negative

Several equity market sectors experienced declines as investors began pricing in the disruptive potential of AI on traditional business models.

Private Credit – Negative

Concerns about defaults and liquidity in the private-credit market intensified. This unease spilled into public markets, weighing on shares of other alternative asset managers.

Geopolitics – Negative

U.S.–Iran tensions rose significantly, heightening the risk of energy supply disruptions.

Earnings – Neutral

U.S. earnings were solid, though many companies issued cautious forward-looking guidance.

US Politics – Neutral

While the U.S. Supreme Court struck down President Trump’s “reciprocal” tariffs, the rapid rollout of new global tariffs has kept trade uncertainty elevated.

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