

WEEK ENDED APRIL 3, 2026

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Bonds Behaving Badly

“Never try to time the bond market. Anyone who claims to know the future of interest rates is certifiable.”

– Jane Bryant Quinn

The Through Line: Fixed income markets have had a rough go of it in the last couple months. Instead of serving their traditional role – as steady, safe-haven investments during a period of heightened macro/geopolitical angst – bond prices have gyrated between competing storylines. Will the disruption in energy prices sparked by the Middle East conflict lead to temporary price increases, or will it ripple through more broadly and sustainably, dragging down global growth prospects? We parse what’s happened and what the future may hold for this important asset class.

A port in a storm

In theory, fixed income securities – especially those issued by developed market governments like the U.S. and Canada (a.k.a. sovereign bonds) – can play a stabilizing role in portfolios. This makes intuitive sense since key variables of an individual bond are fixed at the outset¹. Specifically, we’re talking about the amount and timing of periodic interest payments (coupon) and the specific date (maturity) when the original investment (par value) is repaid.

For many investors, a bond is attractive because of its predictable income stream and often smaller price variability compared to other asset classes (e.g., stocks). Most of the time, the coupon rate does not change over the life of a bond (other than for a small subset of variable-rate securities). If prevailing yields move higher or lower than the coupon rate on a particular bond then the price of that security will move in the *opposite* direction in order to keep its yield similar to what is available in the open market.

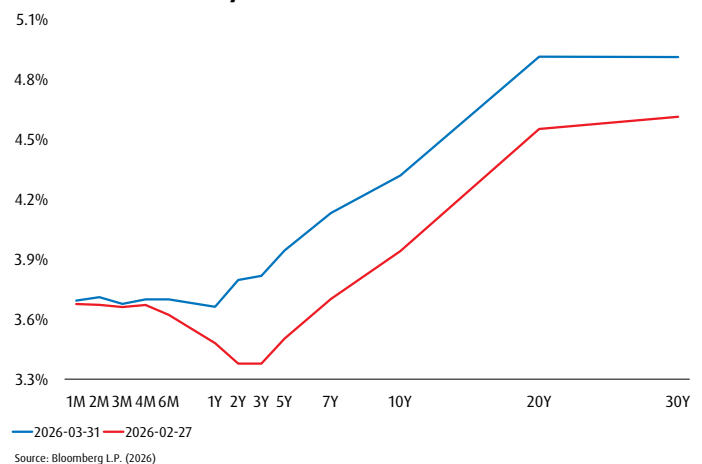
Another important consideration is time to maturity. The longer the maturity of a bond, the riskier it becomes (inflation could erode its purchasing power). For example, even at today’s moderate rate of inflation, every \$1.00 of 2026 income buys just \$0.97 of 2027 goods. The drag becomes even greater when it’s compounded over 10, 20 or 30 years. Thus, all else being equal, the price of longer bonds is expected to move more widely for a given swing in prevailing rates.

What makes market rates shift?

Short rates are largely influenced by expectations for central bank policy. If conventional wisdom projects that the U.S. Federal Open Market Committee (FOMC) will cut one or more times in a given year (for example) then short-term rates may start to migrate down. Any key economic release (say, an unexpectedly robust jobs report or above-expectations inflation reading) can push the rate upward. We see that illustrated in the chart, which shows prevailing 2-year

Treasury yields before and after the February 28 Israeli-U.S. attack on Iran. Note that while yields at all maturities moved up, those at the short end of the yield curve moved up the most, essentially erasing expectations for any Fed interest rate reductions this year. Before the conflict, markets were leaning toward cuts for most major central banks, with the exception of Japan’s.

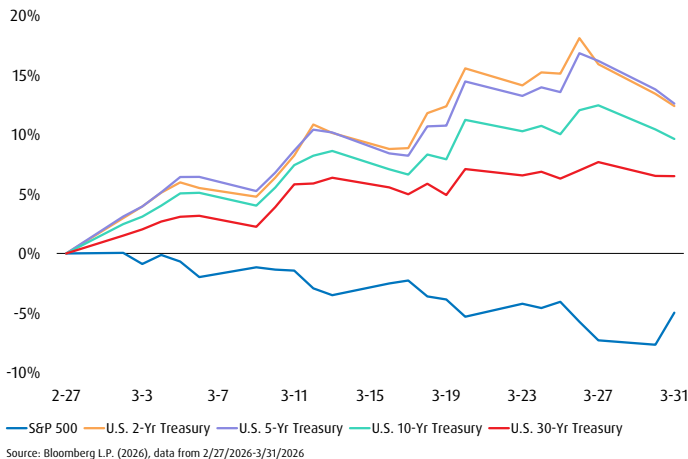
U.S. Treasury Curve: Current vs. Start of Conflict



Intermediate and longer rates are more influenced by expectations for two core factors: *economic growth* and *expected inflation*. While central bank policy may influence directionality, those additional factors often influence yield levels to a greater degree, given compounding and the longer time until maturity. If investors believe that growth is likely to slow in future years, longer-dated yields may glide downward (in industry parlance this is called flattening the yield curve). For instance, in the immediate aftermath of the outbreak of Middle East hostilities, 2-to-10-year bonds moved almost in lock step when investors priced in concerns about price inflation induced by oil shocks (and sidelined hopes that the Fed would cut rates anytime

soon). Longer (e.g., 30-year) maturities were less impacted. The ascent of mid- to long-term rates slowed while the conflict evolved and the balance of concern tipped toward the potential for flagging growth. These shifts have led to the curve flattening.

Percent Change in S&P 500 and Select U.S. Treasury Yields



The oft-quoted and much-watched 10-year Treasury traded with a yield just below 4% in late February, only to rise to over 4.4% just last week. A number of consumer loans – including mortgage rates – are tied to this benchmark security, making the volatility in its yield problematic.

A lot to deal with

Equity markets have been the poster child for roiled volatility this year – even before the Iran conflict erupted. Although aggregate index performance had been relatively steady, significant rotation had occurred under the hood as the prior narrow leadership of the Mag 7 broadened. In such unsettled markets – especially factoring in a multi-country conflict in the Middle East – bonds would normally be a go-to stabilizer. However, fixed-income investors currently have plenty of their own concerns to cycle through:

- **Inflation** – how far will it tick up and for how long? Will price increases move from “headline” impacts and ripple through second- and third-tier knock-on implications, then become embedded in investor and consumer expectations? This could happen, given the significant spike in oil prices – from \$60-ish dollars per barrel in December to over \$100 recently – and the potentially lasting disruption to energy infrastructure. The Fed closely watches these forward expectations for signs that they are well anchored to low single-digit levels. If those expectations start to creep up, it becomes difficult for the Fed to justify rate cuts.
- **Growth** – will the pace of GDP growth slow even though it had been picking up steam coming into the year thanks to a host of constructive factors? (see [WSP - What Could Go Right?](#)) Aside from a brief pandemic-induced slowdown, the U.S. hasn’t seen a lasting recession in nearly 20 years. Corporations are showing continued capital discipline despite steadily increased data center spend.
- **Conflict’s longevity** – will the Middle East war (and its economic impact) be lasting or brief?
- **Central bank policy** – if the oil shock proves to be short term (which oil futures imply it will) are central banks able to look through it and remain on the sidelines? Where is that line in the sand where demand destruction (significantly reduced economic activity) starts to impact the growth forecast?

- **Questions arising over sovereign indebtedness** – investors have agonized for decades over the increasing indebtedness of nearly all developed-market economies. Debt-to-GDP ratios have risen across the board – and there’s little relief in sight (first COVID, now increased military and infrastructure spend plus newly elected politicians “hired” by voters looking for stimulative policies). Loftier interest rates only exacerbate the issue. In short, economic risks are climbing, which leaves less fiscal wiggle room to fight off an unexpected slowdown.
- **Credit spreads** – (the yield differential between different issuer types of bonds at similar maturity points) are widening, reflecting greater uncertainty and a higher risk premium. *For now, markets are primarily pricing the conflict like an inflationary shock, not a growth collapse.* Private credit concerns are also playing a role in industry angst as investors seek to understand the financial strength of underlying loans in an overtly opaque segment of lending. Because fundamentals remain strong, however, there are few if any signs of systemic credit stress. Except for an increase in volatility and reduced short-term access to liquidity in the private market sector, there is no liquidity stress or forced deleveraging/liquidation event.

Implications for Investors

Canada and U.S. breakeven yields (the premium above the real yield to compensate for expected inflation over the term of the bond) are behaving well so far. The 2-year is predictably rising, which reflects the short-term potential inflationary energy shock created by the conflict. **Longer-term breakeven yields still show inflation expectations well anchored for the moment, although they bear watching if the conflict drags on, or if the price per barrel of oil fails to migrate back down.** In contrast, European breakeven yields have been rising on concerns about the longer-term impact on inflation. This is feeding market expectations for rate hikes from central banks there.

North American markets remain relatively less exposed (though not entirely immune) to oil-related disruptions thanks to the region’s net-energy exporter status. That said, oil prices and prices at the pump are up – factors that will undoubtedly appear in headline inflation reports over the coming months. A key factor will be whether central bankers are willing to treat those headline spikes like one-offs – and won’t raise rates in hopes of preventing further bleed-through to other areas. U.S. Federal Reserve Chair Jerome Powell has suggested in recent presentations and at the last FOMC press conference that the Fed is in a good spot to be patient and observant while the unpredictable impacts sort themselves out in coming days.

Markets have shifted recently from expecting central bank rate cuts later this year to pricing in the possibility of limited action in the next 12 to 18 months – an outcome we do not agree with, given the solid underlying economic pillars we outlined above. **Thus, short rates (1-year to 5-year) have become rich and can provide an interesting vantage point for those unsettled by volatility elsewhere in their portfolios.**

Studies have shown that in the short term under unexpected duress, movements in stocks/bonds can temporarily become more synchronous as investors respond to unexpected news. But that tight correlation typically sorts itself out quickly, leaving bonds to play an important stabilizing role in portfolios. It’s worth noting that not all bonds will offer the same protection and a more proactive approach can help improve results. **Today, the fixed income markets offer a broader universe of securities and investment vehicles that allow for greater selectivity and diversification to help position for different cycles. In the current environment, a bias toward higher-quality government bonds and diversified credit exposure with a short- to mid-term focus should offer income predictability and provide the necessary portfolio ballast.**

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. employment data reiterates the delicate balance – Labor momentum continued to slow in February according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics. The hires rate (which measures workers added as a percentage of total employment) fell around 0.3 percentage points to 3.1%. This marks the lowest hires rate since 2020. Separations and quits were little changed from January at 3.1% and 1.9%, respectively. The ratio of job openings to unemployed workers fell to 0.91 in February from 0.98 in January, meaning there are now more job seekers than available positions. This indicates rising slack in the labor market and should imply easing wage pressure over time. **Importantly, slack is increasing through weaker hiring rather than rising layoffs.** From a single-report perspective, reduced wage pressure would provide a dovish signal to the Fed, but if wages fall behind rising headline inflation due to increasing fuel prices, consumer purchasing power would shrink, particularly if hiring weakness becomes more broadly based.

U.S. Regional Fed manufacturing report hints at delicate sledding in the manufacturing sector – The Dallas Federal Reserve's March Texas Manufacturing Outlook Survey suggests factory activity is still expanding; however, the backdrop is becoming less constructive. Growth in new orders, shipments and capacity utilization slowed in March. Business optimism had continued to improve coming into the new year, but the Iran conflict and ongoing tariff uncertainty have now clouded the picture again. The near-term outlook slipped into negative territory, while uncertainty rose to its highest level since April 2025. These dynamics appear to have weighed on hiring activity. Inflationary pressures persist and seem to be accelerating; respondents cited increased energy, freight and raw material costs, plus prices received also moving upward. Taken together, the survey data point to a regional industrial economy that is still growing. Nevertheless, renewed economic and geopolitical concerns, persistent inflationary pressures and moderating demand are all becoming important watch points for Fed officials and investors.

Global inflation estimates nudge upward – The Organization for Economic Cooperation and Development (OECD) released an interim economic report that incorporates the potential impact of the conflict involving the U.S., Israel and Iran. Economic growth is expected to remain resilient, although fortunes differ by region and country. Global GDP growth is forecast at 2.9%, unchanged from the December estimate, but the OECD says data prior to the war had suggested a 0.3 percentage point upward revision was likely. The U.S. benefits from its net-energy-exporter status, relatively lower natural gas prices, and continued outsized investment in AI and data center infrastructure. On the flip side, more expensive energy prices will likely reduce consumer spending. A broad reprieve from Trump administration tariffs imposed under the International Emergency Economic Powers Act (IEEPA) is directionally supportive for growth in the rest of the world near term, but Section 301 tariffs remain in the pipeline. Logistical challenges for supply chains across energy, fertilizer, chemicals, aluminum, sulfur and helium created by the closure of the Strait of Hormuz will likely create a significant inflationary headwind. The OECD raised its 2026 G20 headline inflation forecast by 1.2 percentage points to 4.0%. The OECD currently

assumes the energy shock will begin to moderate from mid-2026. However, renewed inflationary pressures could force central banks to increase policy rates. The final impact of the Iran war on the global economy will be determined by the duration of the conflict and the extent of damage to infrastructure in the region. Yet, on balance, the OECD sees risks to growth skewed to the downside while inflation risk is skewed to the upside.

Canadian inflation picking up – Canadian gasoline prices are poised to jump by about 21% in March, which is the largest monthly percentage rise on records dating back to 1950. The standing record was a 19% jump in June 1983; prices rose by about that much in the combined Feb/March period in 2022 when Russia invaded Ukraine. Thanks to a weight of 3.2% in the CPI, this factor alone will kick up March consumer prices by almost 0.7 percentage points. And that's before any spillovers into prices for fuel oil, diesel, fertilizer and, ultimately, food. After oil prices ended March on a high, don't look for fast relief in April even if there is a favourable turn in the conflict.

Canada's GDP prints stronger than expected – Real GDP was firmer than expected in the first two months of the year despite a seemingly endless winter and a slew of weak headline results from manufacturing and employment early in 2026. GDP nudged up 0.1% month over month in January (better than the 0.0% flash), and the initial reading on February points to a surprisingly sturdy +0.2%. Of course, this decent performance preceded the conflict in Iran and the consequent spike in gasoline and other fuel prices, but it suggests the economy was in somewhat better shape than anticipated heading into the turmoil. BMO Economics is upgrading its Canadian GDP estimate for Q1 to 1.5% (from 0.8%). However, the upswing in fuel prices may weigh on consumer sentiment and take a bite out of spending in the coming months; look for growth to ebb to 1.0% in Q2.

Next week

A bit of meaty eco data to start the month, including wholesale sales and CFIB Business barometer inputs in Canada. Inflation readings (CPI and the Fed's preferred measure, PCE) are on the U.S. calendar. The Fed's last meeting notes, released Wednesday, are likely to be under the microscope – at least for prediction and futures markets trying to game out when or if any cuts are in store for later this year. The mood of the all-important U.S. consumer will be the topic of conversation on Friday.

Monday 4/6 – U.S. ISM Services | Canada Building permits

Tuesday 4/7 – U.S. Durable goods | Canada Wholesale sales

Wednesday 4/8 – U.S. May FOMC Minutes released | Canada Manufacturing sales

Thursday 4/9 – U.S. Initial jobless claims, PCE, GDP (2nd revision), wholesale inventories

Friday 4/10 – U.S. CPI, Factory orders, Consumer sentiment | Canada CFIB Business barometer, housing starts, Foreign security purchases

Data scorecard as of April 1, 2026

| Equity Market Total Returns | | | | | | |
|-----------------------------|----------------|----------------|------------------|--------|--------|----------------|
| | 4/1/2026 Level | WTD | YTD | 2025 | 2024 | 5-Year* |
| S&P 500 | 6,575 | 3.3% | -3.7% | 17.9% | 25.0% | 14.4% |
| NASDAQ | 21,841 | 4.3% | -5.9% | 21.2% | 29.6% | 13.4% |
| DOW | 46,566 | 3.1% | -2.7% | 14.9% | 15.0% | 11.6% |
| Russell 2500 | 4,429 | 3.1% | 3.0% | 11.9% | 12.0% | 7.3% |
| S&P/TSX | 32,958 | 3.2% | 4.6% | 31.7% | 21.7% | 16.1% |
| MSCI EAFE | 10,871 | 4.0% | 2.5% | 31.2% | 3.8% | 8.9% |
| MSCI EM | 798 | 1.5% | 4.2% | 33.6% | 7.5% | 4.2% |
| Bond Market Total Returns | | | | | | |
| | | WTD | YTD | 2025 | 2024 | 5-Year* |
| Bloomberg U.S. Aggregate | | 0.8% | 0.0% | 7.3% | 1.3% | -0.4% |
| Bloomberg U.S. Treasury | | 0.6% | -0.1% | 6.3% | 0.6% | -1.0% |
| Bloomberg U.S. Corporate | | 1.0% | -0.4% | 7.8% | 2.1% | -0.1% |
| Bloomberg U.S. High Yield | | 1.2% | -0.1% | 8.6% | 8.2% | 4.5% |
| Bloomberg 1-10 Year Munis | | 0.4% | -0.1% | 5.1% | 0.9% | 1.2% |
| Bloomberg Canada Aggregate | | 0.5% | -0.1% | 2.4% | 4.0% | -0.4% |
| Bloomberg Canada Treasury | | 0.4% | 0.1% | 1.4% | 2.9% | -0.8% |
| Bloomberg Canada Corporate | | 0.4% | 0.0% | 4.4% | 6.9% | 1.5% |
| Government Bond Yields | | | | | | |
| | 4/1/2026 | Last Month End | Last Quarter End | 2025 | 2024 | 5-Year Average |
| U.S. 10-Year Treasury | 4.32% | 4.32% | 4.32% | 4.17% | 4.57% | 3.37% |
| Canada 10-Year Government | 3.50% | 3.47% | 3.47% | 3.43% | 3.23% | 2.81% |
| U.K. 10-Year Gilt | 4.83% | 4.91% | 4.91% | 4.48% | 4.56% | 3.16% |
| German 10-Year Bund | 2.98% | 3.00% | 3.00% | 2.85% | 2.36% | 1.66% |
| Japan 10-Year Government | 2.30% | 2.35% | 2.35% | 2.06% | 1.09% | 0.65% |
| Currencies & Real Assets | | | | | | |
| | 4/1/2026 Level | WTD | YTD | 2025 | 2024 | 5-Year* |
| USD Index | 99.65 | -0.5% | 1.4% | -9.4% | 7.1% | 1.8% |
| CAD:USD | \$0.72 | 0.1% | -1.1% | 4.8% | -7.9% | -1.5% |
| Bitcoin | \$68,174.82 | 3.3% | -22.2% | -6.5% | 120.5% | 24.8% |
| Gold | \$4,758.57 | 5.9% | 10.2% | 64.6% | 27.2% | 17.9% |
| Oil (WTI) | \$100.12 | 0.5% | 74.4% | -19.9% | 0.1% | 3.4% |

*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



Disclosure

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Precious metal investing involves greater fluctuation and potential for losses.

¹ These comments relate to individual bonds. Bond funds are pools of individual bonds and have attributes that are a bit different. Though their yields and prices will fluctuate similar to an individual bond, for the fund holder there is not set date when a return of par value will occur.