MONTHLY

Portfolio Pulse

Dan Phillips, CFA
Chief Investment Officer

Negotiation Period

With the recent ceasefire, we have entered the negotiation period of the conflict – a phase which will most likely take time to fully flesh out. Nevertheless, equity markets around the world staged an impressive comeback last week as investors began to see the light at the end of the geopolitical-risk tunnel. In order for this equity-market relief rally to turn into a resumed equity bull market, investors will likely need to see a sustained drop in oil prices and greater certainty that they won't spike again. Thus far, we have gotten some of the former – but are still waiting for concrete signs of the latter. We have maintained our tactical equity-overweight recommendation and are looking for opportunities to further that overweight, with a focus on U.S. equity markets.

It's a process. The ceasefire was not implemented at the flip of a switch – Iranian missile launches continued for a period of time after announcement (possibly due to fractured IRGC communications) and Israel continued its campaign against Lebanon (which Israel insisted was not part of the ceasefire). We should expect the negotiation period to be similarly messy. After a marathon 21-hour session this past Saturday, the U.S.-Iran talks did not yield an agreement that would end the conflict. Instead, the two sides effectively agreed that they would *both* keep the Strait closed – with Iran continuing to control ship passage and the U.S. announcing a naval blockade to stop any ships Iran lets through. Despite the failed round-one talks, the ceasefire continues to hold. Our base case calls for an extended negotiation period – though, for the time being, those "negotiations" can best be described as a staring contest to see who blinks first.

Riding the ceasefire momentum. With the conflict stopped, the bar is higher for the fighting to resume. For the Trump administration, it's politically unpalatable to restart a conflict that's already unpopular at home – with gas prices up over a dollar two months before peak driving season and seven months before the midterm elections. Meanwhile, the IRGC – with military capabilities severely degraded – could desperately use some recovery time. For now, investors are seeing an end to the equity-market drawdown. After a peak-to-trough fall of 9.2%, global equities (MSCI ACWI) have gained 7.8% over the past nine days. We expect continued market volatility during this ongoing staring contest, but we believe the worst has passed.

Red and Strait lines. Current negotiations are primarily defined by two U.S. demands that, thus far, the Iranians are unwilling to accept – a dismantled nuclear program and relinquished control of the Strait. Both have major ramifications for the investment landscape. The former would structurally reduce long-term geopolitical risk. The latter would be instrumental in furthering the nascent equity-market rally. They are also intrinsically linked to each other. In losing control of the Strait, Iran would give up last card in their hand. A reopened Strait would take much of the economic and political pressure off the Trump administration, allowing them the time to systematically force Iran into submission on the nuclear red line. As such, getting Iran to concede the Strait will not be quick nor easy – but achievable with continued (and now global) diplomatic pressure.

The spoiled economies of war. We see better days ahead, but some economies will have better days (and years) than others. Europe may struggle given structural energy issues and lingering geopolitical strains. Meanwhile, the U.S. looks best positioned – its technology sector unfazed (with insatiable AI demand) and its energy sector boosted (increasing post-strike oil exports by ~25%). When seeking out investment opportunities, the U.S. is likely the best place to look.

Exhibit 1: Gaming ceasefire outcomes

We see a 70% chance that the current ceasefire ends productively, with a 30% chance we go right back to where we were.

Downside Risk Case: **Deal Disruption**	Base Case: **Negotiation Period**	Upside Risk Case: **Deal Consummation**
30% Probability	*50% Probability*	*20% Probability*
The fragile ceasefire falls apart, throwing the global economy back into a period of heightened geopolitical uncertainty. High near-term inflation reports put further pressure on the global economy and end the nascent equity relief rally.	The ceasefire holds and the Strait is reopened as negotiations are held, possibly with announced extensions. Six weeks of elevated oil prices fails to derail the global economy, with the U.S. economy faring better than most.	A deal is reached in the two-week negotiation period, offering concrete clarity to financial markets. Equity markets are boosted by a combination of strong fundamentals and reduced geopolitical risks.

Macro Outlook

Growth

The U.S. economy added 178,000 jobs in March (186,000 gained in the private sector and 8,000 jobs lost in government). It was a solid report – well above the 60,000 consensus – but continues the on-again/off-again labor market, which has not shown consecutive months of job growth in over a year. That said, the unemployment rate remains low (4.3%) thanks to a falling labor-force participation (now at 61.9%, its lowest since the pandemic era) Meanwhile, initial unemployment claims continue to hover near historical lows, reflecting the ongoing low hiring/low firing labor-market dynamics.

With near-full employment and tax refunds, we believe the U.S. economy can see its way through recently elevated oil prices. Gas prices are up over a dollar, but the timing of the increase has been somewhat fortuitous, given we are in tax-refund season and still two months from driving season. For perspective, the anticipated ~$100 billion increase in tax refunds this year is four times the extra ~$25 billion drivers will pay at the pump in March and April.

Inflation

Wage growth fell to 3.5% on a year-over-year basis – the lowest level in the post-pandemic period. This represents an important milestone – as wage-growth levels below 3.5% are historically correlated with in-check inflation. The underlying logic is that the first 2% of wage growth aligns with the target inflation level and the other 1.5% of wage growth can generally be offset by productivity (workers earn more because they are producing more). We believe this logic especially holds true today, given the ongoing productivity surge.

Wage growth represents one of the key structural drivers of inflation – with high inflationary periods often associated with wage-price spirals (workers demand higher wages because of higher prices, forcing companies to further raise prices – on and on). The reverse is also true – falling wage growth (such as we have currently) can exert a downward force on overall inflation. Increased gas prices will push near-term inflation higher, but we expect this to be only temporary – eventually giving way to the structural forces above.

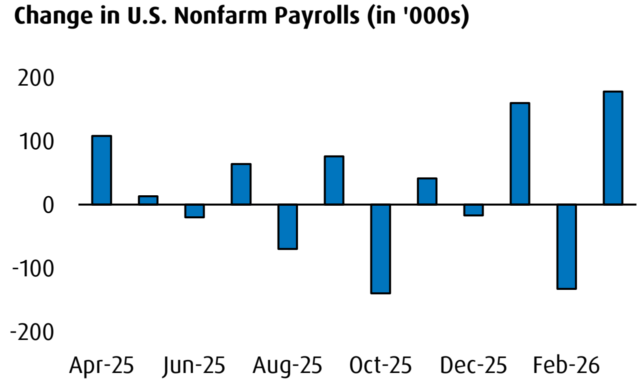
Monetary Policy

The recent spike in oil prices has prompted investors to lower their Fed rate-cut expectations. Market-implied odds of even one 0.25% rate cut by the end of the year sit at just at just 26%. Prior to the Iran strike, markets were expecting at least two 0.25% cuts and were pricing in a 43% chance of a third. History does not support less cuts. In four of the past five oil-related geopolitical events, the Fed funds rate was ultimately lower a year later – with the one exception being the Russian invasion of Ukraine, where the global economy was dealing with supply-chain issues well before oil prices jumped.

We still expect we will get at least one-to-two Fed rate cuts by the end of the year – as transitory energy-price inflation gives way to structural dampeners (via falling wage growth and increasing productivity). That said, we're unlikely to get any clarity on future Fed cuts over the next couple months as we wait for the Iran conflict to end and Kevin Warsh's tenure as the latest Fed Chair to start.

Exhibit 2: The zig (zag) economy

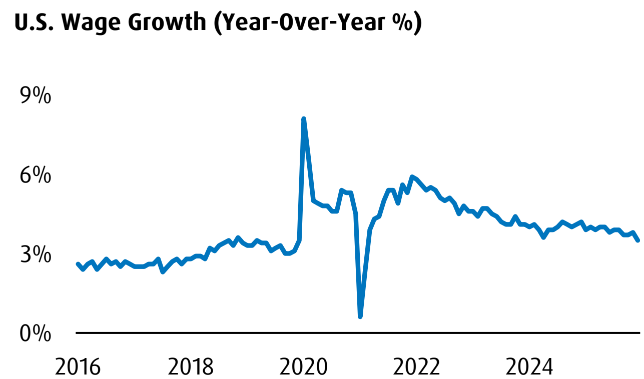
The labor market hasn't grown in consecutive months in over a year.



Source: Bloomberg L.P. (2026). Data through March 2026.

Exhibit 3: Earning their wages

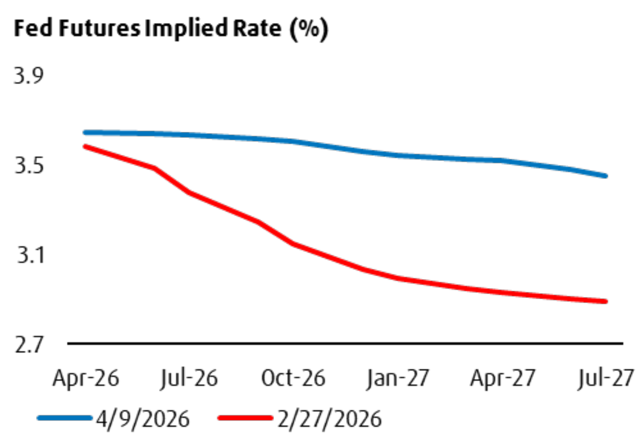
Current wage growth is aligned with currently elevated productivity.



Source: Bloomberg L.P. (2026). Data through March 2026.

Exhibit 4: Lost hope

Investors have removed all expectations for 2026 Fed rate cuts.



Source: Bloomberg L.P. (2026). As of April 9, 2026.

Market Outlook

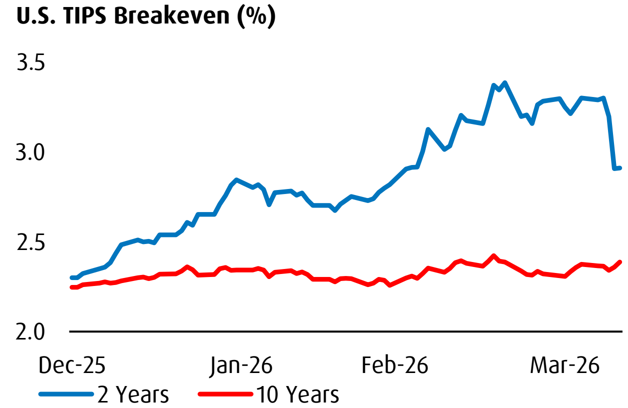
Fixed Income

One reason we expect oil-price related inflation to be transitory is that investors expect it as well. Inflation expectations often serve as a self-fulling prophecy – actual higher inflation can come from expecting higher inflation. But we have not seen that thus far. While near-term (two-year) inflation expectations recently reached as high as 3.4% (before recently moving back down to 2.9%), longer-term (10-year) inflation expectations have barely budged – moving just 0.1% to 2.4% since the Iran strike.

Against this backdrop, the knee-jerk move higher in interest rates has calmed more recently. After reaching as high as 4.43%, the 10-year Treasury yield has moved back towards the upper end of its recent range – currently sitting at ~4.3%. We continue to expect the central tendency for the 10-year yield to be around 4.25% – with the potential for lower yields towards the end of the year should current inflation pressures prove transitory and the markets re-price in Fed rate cuts. But we expect stable rates will do more for Equities, which we currently prefer to Fixed Income.

Exhibit 5: Long-term perspective

Longer-term inflation expectations have remained steady.



Source: Bloomberg L.P. (2026). Data through 4/6/2026.

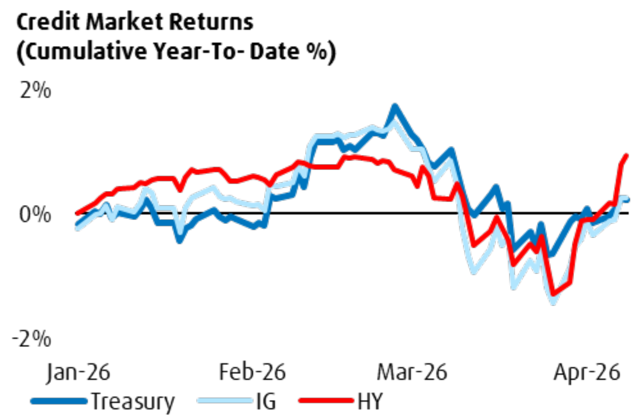
Credit Markets

Public credit markets have remained remarkably stable despite tensions around the Iran conflict and ongoing concerns related to private credit. Risks around a potential maturity wall in software and other private-credit exposures have not translated into any meaningful spillover into public markets. In fact, public credit spreads have tightened since the end of March – supported by improving sentiment and increasing expectations of an end to the Iran conflict. Notably, High Yield has been more resilient and less volatile than Investment Grade (IG) and Treasurys – showing both a lower max drawdown and a higher year-to-date return.

We continue to view the current ~7.2% yield on the high-yield index as attractive. While credit spreads are historically tight, all-in yields remain above their 10-year average. That said, and like Fixed Income, we believe our expectation for well-behaved credit markets will be a bigger benefit to Equities. We continue to recommend a slight tactical underweight to Credit Sensitive Fixed Income – and would look to the asset class as a potential source of funds should we decide to take on more equity risk.

Exhibit 6: Don't call me junk

High Yield has fared better than other bond investments of late.



Source: Bloomberg L.P. (2026). Data through 4/6/2026.

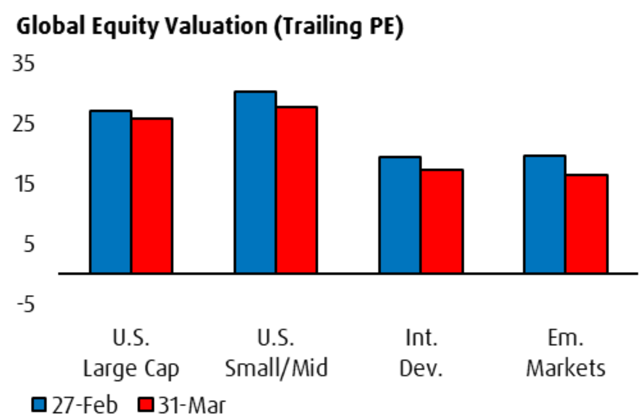
Equities

Global equity valuations have moderated since the onset of the Iran conflict in late February, reflecting heightened uncertainty and macro risk. U.S. equity valuations have declined from their recent highs, but the valuation adjustment has been more acute in emerging markets due to greater sensitivity to macro shocks, energy-driven inflation pressures and a stronger dollar. International developed equities are also exposed given their energy dependence and exposure to global trade, while U.S. Small/Mid Cap also has heightened macro sensitivity.

Market corrections always provide opportunities to rebalance or reposition the equity portfolio. In this case, the key questions are how long the oil-price spike lasts and how much fundamental damage will it cause across economic regions. We believe we are closer to the end of this conflict than the beginning – and believe the U.S. is best positioned for the other side. We didn't make any changes to our current equity positioning – but have a bias to increase equity risk, with a focus on U.S. markets.

Exhibit 7: On sale

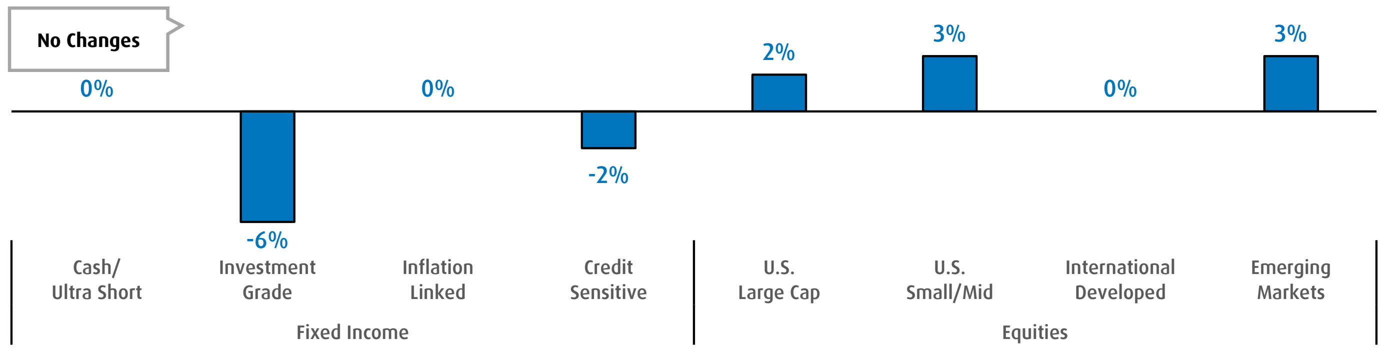
Falling equity prices amid still-strong fundamentals offer opportunities.



Source: Bloomberg L.P. (2026).

Exhibit 8: Looking for opportunities

We made no changes in our tactical recommendations – but have a bias to increase equity risk, focused on U.S. markets.



Tactical positioning represents BMO Investment Strategy policy-level recommendations as of 4/13/2026 and are subject to individual client situations.

Index Definitions

Bloomberg US Treasury Bill: 1-3 Months Index (Cash/Ultra Short) tracks the market for treasury bills with 1 to 2.9999 months to maturity issued by the US government. **Bloomberg U.S. Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. **Bloomberg U.S. Aggregate Bond (Investment Grade)** is a broad-based, market capitalization-weighted index that represents the investment-grade, U.S. dollar-denominated fixed-rate taxable bond market. **Bloomberg US Treasury Inflation-Linked Bond Index (Inflation Linked)** measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. **The Bloomberg U.S. Municipal Index (Muni)** covers the USD-denominated long-term tax-exempt bond market. **Bloomberg U.S. Corporate High-Yield Bond Index (Credit Sensitive)** is an unmanaged index that covers the U.S.D-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. **S&P 500® Index (U.S. Large Cap)** is an unmanaged index of large-cap common stocks. **Russell 2500 Index (U.S. Small/Mid)** is a market-cap-weighted index that tracks the performance of approximately 2,500 small to mid-cap companies in the U.S. equity market. **MSCI EAFE Index (International Developed)** — MSCI EAFE Index Europe, Australasia, and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. **MSCI Emerging Markets Index (Emerging Markets)** is a market capitalization weighted index representative of the market structure of the emerging markets in Europe, Latin America, Africa, Middle East and Asia. **The MSCI ACWI** captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index covers approximately 85% of the global investable equity opportunity set.

Disclosures

The market data provided above is from Bloomberg L.P. (2026) unless otherwise stated and is as of 4/10/26 unless otherwise noted.