



1st Quarter North American Market Commentary – 2026

Key Take-aways:

- In March, U.S. Headline CPI rose +3.26% YoY, marking a +58basis point sequential acceleration from December. Core CPI was reported at +2.60% YoY, representing a -4basis point sequential deceleration from December.
- The US economy posted +0.7% GDP in Q4, reflecting downward revisions to exports, consumer spending, government spending, and investment.
- The U.S. unemployment rate sits at 4.4%. The number of unemployed sits at 7.6million and the employment-population ratio at 59.3%. Payrolls aren't collapsing, but unemployment and underemployment are rising.
- Neither the FED nor the Bank of Canada made changes to key benchmark rates at any of its meetings in Q1. In Canada, the unemployment rate sits at an alarming 6.7%. The next interest rate announcement for both central banks is scheduled for April 29th.
- A quarter ago, equity markets were debating whether the FED would cut rates this year. Now the labor market is contracting, oil is spiking toward triple digits, and the inflation picture is getting more complicated. CPI releases tick up while employment deteriorates, that's stagflation (growth slowdown and accelerating inflation). The FED likely does nothing in the near term.

Positioning:

- S&P 500 down -4.36% for the quarter, Nasdaq down -5.9% and the TSX managed a +3.93% return in the quarter. Global equity markets are trading on elevated anxiety amid war and repercussions involving Iran. The CBOE Volatility Index (VIX) remained elevated at 25, WTI Oil up +76.7%, Gold near \$5,000/oz, and Bitcoin near \$76,000. Risk is ever-present, even when it is not immediately visible.
- Systematic Strategies, including Vol Control, CTA, and Risk Parity strategies, collectively representing more than \$20 trillion, or roughly half of the investable market. These strategies have a reflexive response to changes in volatility, increasing exposure to equities when volatility falls and decreasing exposure when volatility rises. When triggered, this reflexive behavior can generate strong directional moves in the market.
- For Q2 2026 positioning will remain dynamic as the situation in Iran continues to evolve. As of the date of writing, April 17th, our positioning is defined by higher oil, higher inflation pressure, and moderate volatility. The prospect of an energy crisis that could persist for months remains a market risk. In this environment, prioritizing robust risk management focusing on investable volatility, is crucial.



1st Quarter North American Market Commentary – 2026

In the U.S., the March Headline CPI was reported at +3.26% YoY, representing a +85basis point sequential acceleration from February and +58basis points acceleration from December representing a meaningful reversal of the recent disinflation trend. Unsurprisingly, WTI moving from about \$64 a month ago to \$90 range, while Brent pushed into the mid \$90s absolutely matters for headline inflation, freight, insurance, and consumer psychology. Headline CPI measures the total change in the cost of all goods and services purchased by households. In contrast, reported Core CPI excludes food and energy prices. Core CPI was reported at +2.60% YoY in March, representing a +14basis point sequential acceleration from February and negative 4basis points deceleration from December. Whichever measure is used we argue is flawed. **CPI is chronically understated** as it is based on average spending patterns, not the spending patterns of those who are most exposed. As prices of chosen inputs rise, people are inevitably forced to seek cheaper alternatives. Buoyed by disruptions from the Iran War, energy commodities remain poised to overwhelm any prior disinflationary tailwinds. The Bond Market continues to signal March's inflationary surge has carried over into April and expected to persist.

In our view, **inflation is cumulative** and should be attributed to expansive monetary policies and the printing of fiat currencies. We argue CPI, as its currently defined, makes

the extent of price increases and currency debasement less obvious. Cumulative inflation reflects the total percentage increase in prices over a period, accounting for compounding effects. In the U.S., cumulative inflation since the beginning of 2000 now approximates 95.62%. This means that today's prices are 1.9562 times as high as average prices since 1999. In Canada, cumulative inflation since the beginning of 2000 is 81.11%. This means that today's prices are 1.8111 times as high as average prices since 1999. The further back you go the more alarming cost inflation is. Inflation is a regressive tax, impacting households regardless of income, yet doing so with varying degrees of relative magnitude, is gradual and cumulative. The inflation impact is highly regressive, individualized and cumulative with lower-income households facing a disproportionate squeeze as energy costs rise into a slowing labor market with minimal income cushion and particularly for households with limited asset exposure.

Central banks and governments may spin up new narratives; **inflation is an actual policy and is intentional**. Since 1999, the U.S. money supply has grown at an annual rate of 6.25%. The extent of currency debasement globally since 1999 is remarkable. The further back you go the more alarming the results. While the U.S. has seen a 78% debasement of the dollar, averaging 6.25% annually since 1999, it is not the most extreme case. Canada has experienced an even greater erosion, with an 82% reduction



1st Quarter North American Market Commentary – 2026

in purchasing power and a 7.2% annual increase in its money supply since 1999. Historical YoY money supply growth has averaged 6-8% over many decades, and as such, in this environment, financial resilience increasingly depends on holding assets that appreciate faster than this true rate of inflation. It is unsurprising that market participants are increasingly seeking refuge in alternative assets like Gold, Bitcoin, and Real Estate. Gold and Bitcoin does not impose wealth confiscation through inflation. Unlike Bitcoin's predictability and declining rate of supply growth, and bullion's steady 1-2% growth rate, fiat currency's annual growth rate is highly variable and at times uncontrolled by profligate government spending. Real estate, if bought at the right price, also delivers rental growth and price appreciation that tends to track the real inflation rate.

Gold is now trading near US\$5,000 oz and has overtaken the Euro as the second largest asset after the US dollar in global central banks. At \$76,000, the price of a Bitcoin may be volatile, but it is hardly worthless. Real estate, which has underperformed since rates began rising in 2022, looks to benefit as the FED eventually takes on a more dovish stance. These alternative assets are not in competition with each other, but rather they serve as a team in the fight against continued currency debasement. When inflation is running above 3% and money supply is growing ~6-8% annually, cash is a melting ice cube.

Canada's economy remains under strain. Growth has been weak and uneven, with recent activity constrained by trade frictions, subdued exports, slower population growth, and persistently soft business investment. Household spending is still being squeezed by higher mortgage payments as renewals transmit past rate hikes into budgets, even though lower rates have recently provided some relief. Business confidence also remains fragile, and manufacturers and non-resource exporters continue to face competitiveness pressures.

Canada's labor market mirrors this fragility: unemployment is at an alarming 6.7% as of March, remaining a concerning statistic this current government must seriously address. Notably, unemployment has hovered near the highest since 2020 and job growth has been trendless. The Canadian labor force participation rate remains below pre-pandemic peaks, and youth unemployment ticked higher. These are signs of an economy operating below potential, with slack persisting. Until these fundamental issues are resolved, the outlook for the Canadian economy and the Canadian dollar are expected to remain subdued.

This quarter's major macro event occurred on February 28th when the U.S. and Israel launched coordinated strikes on Iran in what the Pentagon called "Operation Epic Fury." It was at that moment most economic indicators became nearly unreliable. Asset pricing became more erratic and



1st Quarter North American Market Commentary – 2026

unpredictable. WTI crude surged above \$100 per barrel, VIX rose from 19 to 34, the S&P 500 fell 8% from its highs, reported and anticipated inflation rose, bond yields experienced significant acceleration with, the 10YR yield moving toward the break level of 4.50%, alongside CPI revisions putting upward pressure on mortgage rates, private credit, and other forms of leverage, all the while serious stagflation risks surfaced. Stagflation has historically been most damaging for risk assets and a scenario the FED is least equipped to address. We're now more than 7 weeks into the war and the Strait of Hormuz remains mostly closed. The supply disruption centered on the Strait of Hormuz is historically large, impacting not just oil but fertilizers, plastics, and transportation costs across the global economy. This energy shock is driving a sharp re-acceleration in inflation, with CPI now rising again and expected to approach ~4% as secondary commodity effects begin to flow through. Markets might be seriously underestimating both the magnitude and duration of the disruption.

Then on April 7th Iran/Israel/USA announced a double-sided ceasefire, a two-week suspension of attacks, and the beginning of a longer peace framework. It implies the Strait of Hormuz reopens, oil flows normalize, and the war begins shifting from missiles and drones to negotiation. The issue is major disagreements are still alive and thus the ceasefire appears conditional. One

disputed incident or one claim of noncompliance can fracture this ceasefire.

Geopolitical risk remains elevated, with the U.S.–Iran conflict serving as a reminder of how quickly market narratives can shift in the current environment. The situation has swung repeatedly between escalation and de escalation, with policy signals, diplomatic efforts, and regional responses changing on a near daily basis. As a result, attempting to anchor portfolio decisions to the status of the conflict at any given moment is unlikely to be productive. What matters more for investors is the persistence of uncertainty itself: headline driven volatility, episodic risk premium repricing, and sensitivity across energy, rates, and risk assets. Until a more durable resolution emerges, this remains a background risk best approached through disciplined positioning, liquidity, and diversification as opposed to reactive, event driven adjustments.

The FED next meets on April 28th/29th. The FED raising rates to counter a short-term energy shock would be incorrect. Energy prices that rose due to war will not fall due to rate hikes and would only be counter productive in an environment where most are struggling to manage their existing finances and navigate through an uncertain employment scenario. Having said that, the FED is not in a position to cut rates either. With serious stagflation risks rising (inflation surprising to the upside while growth surprising to the downside), the FED faces



1st Quarter North American Market Commentary – 2026

the choice of fighting inflation at the cost of growth or supporting growth at the cost of allowing inflation to run. Neither is a good option. FED Fund Futures now imply only one rate cut in July 2026. Although if either the US Treasury market run into severe liquidity problems, the FED will provide liquidity regardless of what inflation levels or growth outlook are at the time. Outside of that scenario, the FED likely does nothing in the near term.

Markets should be recognized for their complexity, dynamism, and unpredictability, with volatility fluctuating and often behaving unexpectedly over time. Risk is ever-present, even when it is not immediately visible. This remains an exceptionally headline-driven market. Global equity markets are trading on elevated anxiety amid uncertainty around Iran and broader geopolitical tensions. The US economy continues to show signs of stagflation. US consumer sentiment in March dipped to a record low. This really shouldn't be surprising given Americans are the most indebted than they ever have been. While the economy is not bleeding jobs, it's not adding them either. People are facing a rather harsh combination of weak income growth, a weak job market, high cost of living, a sudden surge in energy inflation, and broad concerns that rapid advancements in artificial intelligence will devalue the income potential of many college degrees for debt-laden graduates.

On the labour front, U.S. unemployment rate sits at 4.4%; labor force participation sits at 61.9%; and the number of unemployed sits at 7.6 million with the employment-population ratio down to 59.3%. The labor market is still working, but the quality of work is deteriorating. People are taking on 2nd jobs which is sitting near record highs at around 9 million people, roughly 5.4% of the workforce. The labour market slow deterioration has been on the mind of FED officials since September of 2025 but has only worsened. The average duration of unemployment in the US jumped +2 weeks in March, to 25.7 weeks, a 4-year high. Unemployment duration has risen +6.3 weeks since October 2023, the fastest pace since 2020-2021. This is now well above 2018-2019 pre-pandemic levels. The data represents persistent and growing weakness we are seeing in the labor market. Payrolls aren't collapsing, but unemployment and underemployment are rising.

The bond market is telling us we may have a problem and Washington, with Treasury Bessent, is paying close attention to it. Oil prices remain uncomfortable, but investors suspect President Trump would once again intervene if oil prices surged back toward \$120/barrel. From our point of view, the biggest issue is now the bond market, specifically the 10YR yield acceleration, and what is rapidly evolving into the global economy's biggest headwind. The US 10YR Yield has now risen from ~3.92% to 4.29% since the Iran War began. What we do



1st Quarter North American Market Commentary – 2026

understand is general weakness in equities will accelerate as the 10YR Yield rises further. President Trump, the FED, and Treasury Secretary Bessent in particular, all know that the US labor market is not in a position to handle higher long-term interest rates for longer. Simply said, the US economy wobbles when the 10YR Yield nears 4.50%. The 10YR comes down in a lasting way only when the Strait of Hormuz reopens and the oil premium collapses, or growth breaks hard enough that real yields roll over and the market starts pricing a much more aggressive FED response. With midterm elections now just 8 months away, we maintain our view that a prolonged war with higher energy prices, rising interest rates, and prolonged instability is not President Trump's objective.

Throughout 2025 we've been emphasizing the growing risks in the systematic fund space, as equity exposure from structural flows has climbed to their respective five-year highs. While there are several moving parts to tracking structural flows, we broadly break them down into three main subgroups: passive funds, the options markets, and systematic strategies. While most investors have at least some awareness of these categories, many are still surprised by how large they've become, collectively representing more than \$20 trillion, or roughly half of the investable market. The key thing to remember about structural, non-discretionary flows is that they have virtually zero connection to fundamental,

sentiment, or macroeconomic analysis. For these strategies, fundamentals simply aren't part of the algorithm. These strategies have a reflexive response to changes in volatility, increasing exposure to equities when volatility falls and decreasing exposure when volatility rises. When triggered, this reflexive behavior can generate strong directional moves in the market. When volatility jumped in March, volatility-control funds and risk-parity strategies had to deleverage. Their selling accelerating the decline until a new equilibrium was reached. Conversely, as volatility peaked and began receding, those same participants started mechanically adding exposure, aiding the post-quarter bounce. Markets can overshoot in both directions, and it tends to make reversals abrupt. As of today, 1-month and 3-month volatility continues to be suppressed supportive of risk assets globally. However, upside volatility remains structurally destabilizing for many strategies that systematically manage risk across the marketplace. For now, we remain cautiously Risk-On while monitoring for sustained improvement in positioning, market sentiment, and direction.

The quarter's events reinforced core tenets of our philosophy. Inflation is cumulative and a policy choice and currency debasement will continue, arguing for assets that protect real purchasing power. Inflation positioning is to remain long inflation for the next quarter. Global oil supply constraints are likely to last longer than markets are



1st Quarter North American Market Commentary – 2026

discounting. Demand destruction remains the key downside risk; otherwise, setup remains constructive for energy and pipeline equities. We prefer assets with the potential for real cash flow growth. Technology and industrial equities of companies with pricing power can provide that even if multiples compress, their earnings can rise. We remain cautious but also opportunistic. The Iran turmoil has not shaken our long-term conviction that we are in a decade defined by financial repression, persistent inflation, and higher volatility. We maintain a defensive stance with respect to interest rate risk, given that even if central banks pause, the risks remain skewed toward higher inflation or financial repression. Upside volatility can be destabilizing for the broader market. Still, there are some mechanical reasons to maintain a bias higher, particularly if realized volatility continues to underperform. Corrections still occur; they just seem to not last as long. Current VIX is at a critical level where a sustained break below 20 could signal a further bullish trend in equities. All else

being equal and accounting for the record snap back performance in April, if we do not see further expansion of war activities with Iran, volatility suppression should allow passive funds to continue rebuilding their equity exposure, while generating a mechanical tailwind in the process.

As always, we encourage our clients to maintain a long-term perspective amid the short-term turbulence. The coming quarters will no doubt present new challenges and opportunities as the cycle progresses and the world adjusts to its new realities. We will continue to communicate our thoughts and positioning as conditions evolve. Everyday feels like we are navigating unprecedented circumstances, and patience continues to be a key component of our investment strategy.

“Achieving economic development is no mystery. It merely requires peace, sound money, and the freedom of citizens to work, own property, accumulate capital, and trade freely.”

Saifedean Ammous, The Fiat Standard



1st Quarter North American Market Commentary – 2026

At Faircourt Asset Management Inc, we offer portfolio management services to individuals, families and foundations with \$1 million in investable assets. Each client is unique, each portfolio that we manage has its own unique objectives. That's why we don't offer one portfolio for all clients. We believe that managing your wealth involves customizing a solution to meet your objectives.

If markets are keeping you up at night and you would like a fresh approach, give us a call at 1-800-831-0304 or 416-364-8989.

Sincerely,

Christopher Panagopoulos, CPA, CA, CFA

The Portfolio Management Team

This post is presented for discussion purposes only. It is not intended to provide investment advice and does not consider unique objectives, constraints or financial needs. Our quarterly reviews provide information with respect to equity securities. The companies mentioned are used to illustrate Faircourt's investment philosophy. Investors are advised that equity investments are not guaranteed, values change frequently and past returns don't indicate future performance. This post is not intended as an offer to invest in any investment presented by Faircourt. The information contained in this post is the opinion of Faircourt Asset Management as of the date of the post and is subject to change without notice.