Global Asset Allocation Perspectives

Q2 OUTLOOK

Scotia Global Asset Management®

Market recap

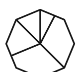
Global markets entered 2026 on constructive footing before being fundamentally reshaped by the outbreak of direct U.S.-Israeli military conflict with Iran on February 28. This led to Iran's partial blockade of the Strait of Hormuz, which removed ~25% of the world's energy supply from circulation and sent Brent crude surging over 70% in USD terms – the largest single-quarter spike since the Gulf War. Meanwhile, Gold's multi-year rally crossed the historic $5,000 USD threshold before a sharp reversal to close the quarter at $4,668 (up 8.07% YTD) – a volatile round-trip that is redefining gold's role as a safe-haven asset in an era of geopolitical-driven price swings. And with the VIX surging nearly 70%, growth and technology stocks bore the brunt – the S&P 500 fell 2.60%, weighed down by Information Technology's slump. Canada's resource-heavy S&P/TSX Composite, by contrast, gained 3.94%, led by the Energy sector's advance – **a powerful reminder that geographic, style, and sector diversification aren't just for theory; in Q1, they made the difference.**

Equities

- **Canada delivered exceptional relative performance for the quarter.** The S&P/TSX Composite gained 3.94%, led by Energy (+30.08%), Materials (+10.66%), and Utilities (+11.19%) as commodity prices surged. Value significantly outpaced growth – MSCI Canada Value returned 8.33% versus MSCI Canada Growth's -2.07%. Information Technology fell 22.52%, the steepest sectoral decline on the TSX, as the market rotated towards real assets and income-oriented names.
- **U.S. equities faced a meaningful valuation reset in Q1**, with the S&P 500 declining 2.60%. The growth-to-value rotation was decisive: S&P 500 Growth fell 6.44% versus S&P 500 Value's +1.84%. The equal-weighted S&P 500 returned 2.49% – outperforming the cap-weighted index by over 500 basis points and exposing the cost of mega-cap concentration. Every Magnificent 7 stock ended the quarter negatively, led by Microsoft (-21.88%), Tesla (-15.84%), and Meta (-11.68%). Even a 40.75% surge in Energy, the index's best-performing sector, was not enough to pull the overall market back into positive territory.
- **International and emerging markets demonstrated resilience relative to U.S. equities.** MSCI EAFE returned 0.67% with value significantly outpacing growth, as energy sector strength, European fiscal stimulus, and defense spending tailwinds offset broader uncertainty. MSCI EM returned 1.71%, with early AI-driven gains in Korea and Taiwan partially offset by China's continued economic headwinds, where sluggish domestic consumption and property sector drag tempered the AI and technology enthusiasm that buoyed other parts of the index.

Fixed income

- **Canadian bonds managed a slim 0.23% gain for the quarter**, while longer-duration bonds remained flat. The Bank of Canada held its policy rate at 2.25% for the third consecutive time in March, citing a 0.6% GDP contraction in Q4 2025, unemployment rising to 6.7%, and "highly uncertain" impacts from the Middle East conflict – even as Canadian CPI eased to 1.8% in February, offering the Bank little justification to tighten.
- **The U.S. 10-year Treasury yield closed Q1 at 4.3%** as energy-driven inflation fears compressed the case for rate cuts. The Federal Reserve kept rates unchanged, as U.S. CPI held at 2.4% in February (recorded before the Iran conflict's full energy price impact), while the March jobs report showed 178,000 payrolls added and unemployment at 4.3%. Markets abruptly shifted from pricing modest cuts to contemplating hikes, a reversal not seen since Liberation Day, due to worries that consumer prices could surge once energy costs fully filter through.
- **Bond market risk premiums rose in Q1**, though the degree of stress varied by credit quality. Investment-grade bonds saw spreads widen modestly, with software-as-a-service names under the most pressure as AI disruption clouded earnings visibility. High-yield bonds widened more sharply, reflecting their greater sensitivity to geopolitical shocks and rising energy costs. Despite the turbulence, overall default rates remained low, supported by solid corporate earnings and generally healthy balance sheets.



Alternatives

Private markets ended Q1 with improving fundamentals.

- **Private Equity:** Deal and exit momentum improved, led by mid-market buyouts, take-privates, and carve-outs. Meanwhile, software faces headwinds, as AI disrupts legacy SaaS models and energy uncertainty weighs on valuations, pushing investors to prioritize business moats and downside protection. Many managers are using this dislocation to acquire stronger assets at better entry prices.
- **Private Credit:** Yields continue to offer a compelling premium above public credit equivalents. Despite modest spread widening, defaults remain contained, supported by solid borrower earnings and conservative loan structures. Well-positioned managers leaning on tight documentation and senior security are well-placed to navigate cycle risk.
- **Real Assets:** Infrastructure remains a key growth engine, with capital flowing into digital networks as AI drives demand for data centres and reliable electricity. The Iran-driven energy shock has also strengthened the case for energy-transition projects that deliver more stable, lower-carbon power. Real estate is in an early-stage recovery, particularly rental housing, where fundamentals and rent growth are improving.

Market outlook

The backdrop for Q2 is one of solid fundamentals colliding with an unusually complex shock. Global GDP growth is projected around 2.9% for 2026, and S&P 500 earnings are forecast to grow ~17%, underscoring resilient corporate profitability even after the Q1 selloff. The key uncertainty is whether the Strait of Hormuz disruption persists long enough to force central banks to react to a supply-driven energy shock that monetary policy is poorly equipped to fix. For now, both the Federal Reserve and the Bank of Canada are expected to hold rates through Q2, with scope to cut later in 2026 if oil-related pressures fade as anticipated. **In this environment, selectivity, active management, and genuine diversification are critical – exactly where multi-asset portfolios are built to add value.**

Portfolio view

- **Maintain a modest equity overweight** relative to a traditional 60/40 benchmark; the expansion remains intact, earnings are broadening, and the Iran conflict is unlikely to permanently alter the global growth trajectory.
- **Increase exposure to European and emerging market equities** that sold off the most despite resilient fundamentals; we favour international markets at compelling valuations over adding further concentration in U.S. mega-cap growth.
- **Maintain a neutral credit stance;** favour higher quality government bonds over high yield at today's relatively tight spreads and rely on active security selection within corporate credit to distinguish energy sector winners from AI pressured software issuers.
- **Add duration in government bonds** as a portfolio anchor; starting yields are higher and policy is less accommodative than in 2022, making high-quality fixed income a more effective hedge against the equity risk premium today.
- **Broad global diversification and active risk management remain essential** – the quarter confirmed that concentrated, passive, benchmark-heavy portfolios are most exposed when correlations spike, while true diversification remains the most durable source of resilience.

Risks and opportunities

- **Iran conflict trajectory:** A ceasefire could swiftly reverse the commodity shock and restore central bank rate-cut optionality; escalation or long-term closure of the Strait of Hormuz would materially alter the inflation and growth outlook.
- **U.S. CPI peak:** Core inflation is expected to reach ~3% in Q2 from combined energy and tariff pass-through effects; confirmation of a peak would reopen the rate-cut path for H2 2026.
- **Fed leadership transition:** The anticipated confirmation of Kevin Warsh as Fed Chair introduces policy uncertainty at a particularly sensitive moment with the U.S. economy sending mixed signals.
- **AI earnings delivery:** With the Magnificent 7 collectively committing ~$650 billion in AI infrastructure, Q1 earnings season (beginning April) will test whether that investment is producing revenue and margin expansion – or just cost inflation.
- **BoC policy optionality:** With domestic inflation at 1.8% and GDP having contracted in Q4 2025, markets pricing a potential rate hike appear to be overreacting; a fading energy shock could reset expectations and create a meaningful tailwind for Canadian fixed income.
- **Canadian household leverage:** Canada's household debt-to-income ratio has climbed back over 175% – the highest in the G7, even as the debt-service ratio has eased after earlier rate cuts. This leaves consumers highly sensitive to further rate or energy shocks, but also positioned to benefit disproportionately if monetary policy eventually eases.
- **European fiscal momentum:** Germany's multi-year infrastructure and defence package and France's accelerated military and infrastructure spending, alongside a 20% jump in European NATO defence represent a structural fiscal shift that could sustain European equity outperformance well into H2 2026.
- **China and EM growth dispersion:** China continues to grapple with property-sector deleveraging and softer domestic demand, while many other emerging markets benefit from near-shoring, commodity exports, and AI-driven semiconductor demand. This widening divergence raises idiosyncratic risk in emerging markets but also strengthens the case for active, country-selective exposure rather than broad beta.

> *"The first quarter reminded us that diversification isn't a hedge against missing out… it's how you stay in the game. Fundamentals haven't broken. Earnings remain strong. Valuations are more compelling than they've been in years. Q2 will likely reward discipline, selectivity, and a willingness to lean into dislocation."*
>
> \- Craig Maddock, VP & Senior Portfolio Manager, Head of Multi-Asset Management

Market forecast

Fixed Income	Outlook	Comments
Overall	−	Since the onset of the US and Iran war, energy driven yield moves echo early 2022. Nonetheless today's starting yields are higher and policy far less accommodative, making energy shocks less likely to entrench inflation and improving the case for bonds. We are adding duration in government bonds, but with growth expected to remain positive we continue to use fixed income as a funding source for our equity overweight.
Rates		
Canada and U.S.	+	The market has rapidly priced out near term Fed cuts, pushing Treasury yields higher. We expect some retracement as the Fed resists reacting too hawkishly to energy driven supply shocks it cannot control. Target a net long duration position in the US, while holding a yield curve steepener should term premium keep 10Y yields higher.
Global	+	European yields have moved materially higher given the region's greater sensitivity to oil price shocks as net energy importers. We believe this move has overshot fundamentals, with the inflation impulse likely to prove temporary and limiting scope for significantly more hawkish policy from the ECB and Bank of England over the coming quarters. Against this backdrop, we see an opportunity to add long duration exposure in the UK and Germany.
Credit		
Investment Grade	O	Investment-grade credit spreads have widened as war related risk premia increased, with already weak sectors such as software under further pressure, while energy has benefited. In this environment, we take a neutral stance overall and emphasize active security selection to exploit dispersion.
High-Yield	O	High-yield spreads have moved wider on elevated geopolitical risk to a great degree than Investment Grade peers. We hold a neutral overall stance due to heightened spread volatility and prefer to target duration through government bonds.
Equities	**Outlook**	**Comments**
Overall	+	We are using the recent selloff sparked by the Iran war to add selectively to opportunities, rather than de-risking into fear. The conflict has pushed oil higher and driven a rare combination of falling stocks and rising bond yields, yet in our view markets are now pricing in a very negative scenario that may prove temporary, while the long-term cash-flow outlook for many companies and governments is largely unchanged. We are increasing exposure to European and emerging market equities that have sold off the most despite resilient underlying fundamentals, and remain positioned bullishly with an overweight allocated proportionally across global equities.
Region		
Canada	O	We continue to have a neutral view to Canadian equities relative to other equity markets. Canadian equities are supported by strong earnings growth in the gold and banking sectors, underpinned by higher commodity prices and a steeper domestic yield curve. Higher gold prices enhance cash flows and profitability for Canadian miners, while a steeper curve supports bank net interest margins and earnings resilience. At the same time, elevated gold prices introduce additional cyclicality and valuation risk should the metal correct. Overall, these dynamics provide a solid but more volatile fundamental backdrop for Canada's equity market and help differentiate it from other developed markets more exposed to weaker consumption or less favourable commodity mixes.
U.S.	O	We continue to have a neutral view to US equities relative to other equity markets. U.S. equities remain supported by strong earnings growth and ongoing fiscal expansion, supported by another strong earnings season in Q4. Valuations for many of the market's leading innovation driven companies have come down and are now much more reasonable, even as the index remains highly concentrated in a small group of mega cap tech names. Still, sentiment toward specific subsectors can sour quickly, as illustrated by the sharp selloff in software as a service companies in the first quarter amid fears of AI driven disruption. With our overall equity overweight already delivering substantial U.S. exposure, we see limited justification for adding further to this concentration.
International	O	We continue to have a neutral view to international equities relative to other equity markets. We favour more cyclical international markets, particularly in Europe. France, Italy, and Spain offer stronger earnings momentum and better sentiment at cheaper valuations relative to more defensive markets like Switzerland, while remaining closely linked to key drivers of Eurozone growth. A politically stabilizing France, Spain's role as the Eurozone's standout grower, and Italy's improving government finances and better fiscal dynamics all support this tilt.
Emerging Markets	O	We have added to emerging markets within our broader equity overweight, taking advantage of the recent selloff. In our view, the pullback has pushed valuations below what underlying fundamentals justify, particularly in technology oriented names that should be less sensitive to an energy driven shock than more traditional, commodity intensive sectors. This creates an opportunity to gain exposure to structural growth and innovation in EM at more attractive entry points, while still acknowledging near term macro uncertainty.

Legend: ++ Overweight + Neutral-overweight O Neutral − Neutral-underweight −− Underweight

Market performance

Fixed Income						
Bonds	**3-mth**	**6-mth**	**YTD**	**1-yr**	**3-yr CAGR**	**5-yr CAGR**
FTSE Canada Universe Bond C$	0.23%	-0.09%	0.23%	0.84%	3.49%	0.73%
Universe Canada All Corporate C$	0.14%	0.48%	0.14%	2.77%	5.67%	2.25%
Morningstar CAN High-Yield Fixed Inc C$	0.22%	1.38%	0.22%	5.66%	8.29%	4.50%
ICE BofAML U.S. Corporate C$	-0.89%	-0.61%	-0.89%	1.19%	3.48%	-0.05%
ICE BofAML U.S. High Yield C$	1.19%	1.00%	1.19%	2.88%	9.51%	6.33%
Bloomberg U.S. Aggregate Bond U$	-0.05%	1.05%	-0.05%	4.35%	3.63%	0.31%
Bloomberg Global Aggregate U$	-0.54%	0.30%	-0.54%	4.78%	4.70%	0.76%
Equities						
Canadian Equities	**3-mth**	**6-mth**	**YTD**	**1-yr**	**3-yr CAGR**	**5-yr CAGR**
S&P/TSX Composite C$	3.94%	10.43%	3.94%	34.83%	21.18%	15.19%
U.S. Equities						
S&P 500 C$	-2.60%	-1.50%	-2.60%	14.23%	19.53%	14.44%
Dow Jones Industrial Avg C$	-1.44%	1.01%	-1.44%	8.82%	14.94%	11.41%
NASDAQ C$	-5.42%	-4.44%	-5.42%	21.02%	22.13%	12.60%
Global Equities						
MSCI World C$	-1.83%	-0.27%	-1.83%	15.29%	17.97%	12.60%
MSCI Asia Pacific ex-Japan C$	4.42%	6.35%	4.42%	32.65%	16.63%	6.28%
MSCI Japan C$	3.35%	5.13%	3.35%	22.47%	17.33%	9.21%
MSCI Europe C$	-0.92%	3.72%	-0.92%	16.21%	15.13%	11.79%
MSCI Emerging Markets C$	1.71%	4.99%	1.71%	26.35%	16.60%	6.37%

Sources: Bloomberg, Morningstar. All returns as at March 31, 2025.

Multi-Asset Management Team

Craig Maddock
VP & Sr. Portfolio Manager,
Head of Multi-Asset Management

Adam Bomers
VP & Portfolio Manager

Yuko Girard
VP & Portfolio Manager

Jenny Wang
Portfolio Manager

Wesley Blight
VP & Portfolio Manager

Ian Taylor
VP & Portfolio Manager

Mark Fairbairn
VP & Portfolio Manager

Richard Schmidt
Portfolio Manager

In collaboration with:
2 Associate Portfolio Managers | 8 Analysts
1 Trader & Portfolio Manager | 2 Portfolio Specialists

As Portfolio Managers for ScotiaFunds and Dynamic Funds managed-asset programs, the Multi-Asset Management Team oversees over **$140 billion*** in multi-asset solutions. The Team is responsible for portfolio construction, asset allocation policy, and investment strategy research and selection. The Team is also involved in the due diligence and day-to-day management of all portfolio solutions.

*As at December 31, 2025.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed or insured by the Canada Deposit Insurance Corporation or any other government deposit insurer, their values change frequently and past performance may not be repeated. The information provided in this document is not intended to be investment advice. Investors should consult their own professional advisor for specific investment and/or tax advice tailored to their needs when planning to implement an investment strategy to ensure that individual circumstances are considered properly and action is taken based on the latest available information. Information contained in this document, including information relating to interest rates, market conditions, portfolio positioning and other factors, are subject to change without notice. Scotia Global Asset Management is not responsible for updating the information and views expressed. To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but Scotia Global Asset Management does not guarantee its accuracy or reliability. The information provided is not intended to be investment advice.

ScotiaFunds® and Dynamic Funds® are managed by Scotia Global Asset Management, a limited partnership the general partner of which is wholly owned by The Bank of Nova Scotia. ScotiaFunds and Dynamic Funds are available through Scotia Securities Inc. and from other dealers and advisors. Scotia Securities Inc. is wholly owned by The Bank of Nova Scotia and is a member of the Canadian Investment Regulatory Organization. Scotiabank® includes The Bank of Nova Scotia and its subsidiaries and affiliates, including 1832 Asset Management L.P. and Scotia Securities Inc. Scotia Global Asset Management® is a business name used by 1832 Asset Management L.P., a limited partnership, the general partner of which is wholly owned by Scotiabank. ® Registered trademarks of The Bank of Nova Scotia, used under license. © Copyright 2026 The Bank of Nova Scotia. All rights reserved.

PS00080 2026 03_SGAM_GlobalAssetAlloc__EN_V1