GLOBAL
Insight

March 2026

Perspectives from the Global Portfolio Advisory Committee

A renewed Middle East conflict

How long and how great a disruption?

Oil prices threaten $100+ per barrel while S&P 500 valuations face mounting pressure. RBC Capital Markets examines conflict duration scenarios, energy market disruptions, and equity implications.

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Insight

March 2026

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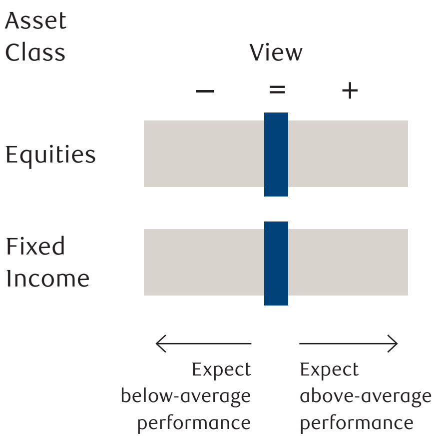

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ **Overweight** implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= **Market Weight** implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

– **Underweight** implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

Equities

- We expect global stock markets to set more new highs over the remainder of this year. In the U.S., outsized tax refunds and a steady employment picture should underpin GDP growth. We think the selloff in software shares may be overdone for now just as so-called "hyperscalers" seem positioned to regain some upward momentum. Most other developed markets should benefit from fiscal easing. Market breadth remains in gear, both in the U.S. and other major equity markets.
- We also think it's prudent to expect some potentially unnerving volatility along the way as has typically occurred during U.S. mid-term election years. The Middle East crisis could stoke volatility as well.
- We think portfolios should remain committed to equities up to but not beyond an investor's long-term targeted exposure, at the Market Weight level.

Fixed income

- Despite seemingly broad levels of uncertainty, global bond yields have held steady in tight trading ranges, though with brief bouts of volatility. Near term, the trajectory has been toward lower yields as fiscal risks in Japan appear to have dissipated, in our view. Globally, economic data surprises have been to the upside, and U.S. economic momentum has been building, supporting our ongoing view that 2026 could see a trend of gradually higher sovereign bond yields.
- We remain Underweight U.S. Treasuries and have shortened duration exposure on the potential of modestly higher long-term bond yields. Credit valuations are still rich globally, in our view. In the U.S., a solid economic growth backdrop should at least support credit markets, justifying a modest Overweight for corporate bonds. However, different central banks and economic trajectories have us pursuing different allocations between government and corporate bonds across certain regions.

MONTHLY

Focus

A renewed Middle East conflict

How long and how great a disruption?

The Global Portfolio Advisory Committee

Oil prices threaten $100+ per barrel while S&P 500 valuations face mounting pressure. RBC Capital Markets examines conflict duration scenarios, energy market disruptions, and equity implications.

The renewed crisis in the Middle East—the largest in scale since the U.S. military interventions in Iraq and much wider in scope—has already impacted global energy markets and precious metals prices and threatens equity markets.

While the situation is extremely fluid just days into the conflict, we are assessing developments very closely along with our RBC Capital Markets partners.

Following are key excerpts from multiple reports that two important RBC Capital Markets experts have written in recent days about the crisis, with an emphasis on global energy markets and the U.S. equity market.

Helima Croft | Head of Global Commodity Strategy, RBC Capital Markets LLC

Potential impact on energy prices: Conflict duration is key

- The ultimate energy price trajectory will hinge on the duration and degree of disruption emanating from this conflict. Certainly, if the war is over in a few days, the oil risk premium will likely recede.
- In a prolonged conflict scenario, we see oil prices reaching into the $100s per barrel, as we and regional experts warned, and global [natural] gas prices could at least hit their highest since the first quarter of 2023.
- It is our understanding that regional leaders warned Washington about the contagion risks of another confrontation with Iran and indicated that $100+/barrel of oil was a clear and present danger. With Washington having declared a maximalist regime change goal [in the initial phase of the operation], the Islamic Revolutionary Guard Corps (IRGC) may believe it can prevail in a war of attrition if President Donald Trump is not prepared to commit ground forces. Some military planners have warned that air power alone has rarely yielded a complete regime change outcome, even if decapitation of the top layer of leadership is achievable without boots on the ground.
- We also think officials in Washington could come to regret not refilling the Strategic Petroleum Reserve (SPR) if this proves to be a longer duration conflict. China, by contrast, has been aggressively filling its strategic reserves, potentially due to supply disruption concerns. Again, if this proves to be a short exchange of fire, any oil price increase

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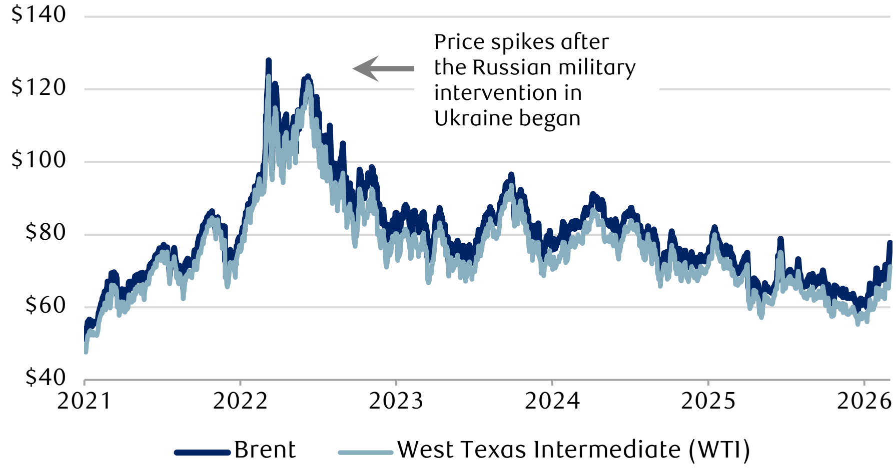
will likely prove fleeting, and market participants will refocus on the fundamentals. On the other hand, prices will likely move materially higher if this conflict extends beyond a few days and if the IRGC pursues a survival strategy predicated on exploiting President Trump's economic pain points.

Amid the Middle East crisis, oil prices have bounced off of low levels recently

Crude oil futures prices per barrel in U.S. dollars



Source - RBC Wealth Management, Bloomberg; data through 3/2/26

Disrupted: Strait of Hormuz oil and LNG transit

- While Iran has not yet officially stated its aim to close the Strait of Hormuz, tanker traffic through the all-important waterway has already been significantly curtailed following the recent targeting of vessels in the strait and in the Gulf of Oman. Flows on Sunday [March 1] reportedly were reduced to a mere seven tankers and one gas carrier, with three shadow fleet tankers included in that figure, whereas Friday [February 27, before the initial strikes] saw 56 tankers navigate the strait. Though the IRGC may not be able to physically close the Strait of Hormuz, we maintain that they are able to adequately deploy small boats, mines, drones, and missiles to ensure insurers and shipping companies continue to avoid the waterway until the cessation of hostilities. Most major insurers will reportedly officially terminate war risk coverage for the waterway on March 5 at midnight London time.

- There have been conflicting reports from the White House about overall strategy. Some administration statements suggest a desire to restart negotiations, while others point to a willingness to undertake a multi-week military campaign. The latter would increase the likelihood of a much higher [energy] price scenario if there is no viable plan to ensure the freedom of navigation through the Strait of Hormuz. Above all, we would caution against recency bias. Working off the June 2025 script [when the previous military clash between the Israel/U.S. and Iran occurred], some market participants may have misjudged Iran's

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willingness to use asymmetric tactics to internationalize the costs of the joint Israeli/U.S. military action and ensure regime preservation.

- It has already been reported that Iraq's Foreign Minister Fuad Hussein spoke with his Saudi counterpart about the risks of the strait remaining closed. Faced with material storage limitations, Iraq would likely have to start shutting in production if it cannot utilize the waterway for its 3.5 mb/d of southern exports.

The European natural gas index has been highly sensitive to previous supply constraints

Dutch TTF Natural Gas Futures per megawatt-hour (MWh) in euros

Source - RBC Wealth Management, Bloomberg; data through 3/2/26

What about other energy transit routes in the region?

- Though there are some oil pipeline outlets that could theoretically moderate the full impact of the closure of the Strait of Hormuz, such as Saudi's East-West pipeline (7 mb/d capacity) and UAE's Abu Dhabi Crude Oil Pipeline (ADCOP) pipeline (1.5 mb/d capacity), by a few million barrels a day taking into account current operating rates, significant risks and limiting factors exist. We would emphasize that both assets remain at serious risk of being caught in the crosshairs of the conflict themselves, in which case damage could eliminate this option entirely. There is precedent for such attacks, as we saw in the 2019 targeting of the East-West pipeline by Houthi drones, which damaged two pumping stations and temporarily downed crude flows through the route. Furthermore, rerouted exports via the Red Sea would similarly be vulnerable. We would also note that some regional producers lack any potential alternative routes, such as Kuwait and southern Iraq.

Why OPEC production increases could be a moot point

- Moreover, the absence of serviceable sea lanes essentially renders any production increase an entirely moot point, as the lion's share of OPEC barrels in the region could essentially become stranded assets in an extended war scenario.

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- In our view, every OPEC+ producer is essentially maxed out with the sole exception of Saudi Arabia. Hence, the barrel impact of any headline OPEC+ increase will be limited by the lack of actual production capabilities. Moreover, any surge above levels produced in the April 2020 price war peak would likely necessitate tapping storage. Even then, the utilization of any spare barrels will be severely limited if critical waterways are rendered inoperable. Spare barrels serve little purpose if there are no serviceable sea lanes.

Iranian military strike capabilities

- While there has been considerable focus on Iran's missile stockpile, we believe that the country's extensive unmanned aerial vehicle (UAV) capabilities may provide it bandwidth to continue asymmetric attacks and move the conflict up the escalation ladder. Some leading military experts are already drawing comparisons to the Russia-Ukraine conflict, with both sides deploying UAVs to conduct disruptive infrastructure attacks and to make up for missile stockpile shortfalls. Tehran has already launched its cheap and domestically produced Shahed family of one-way drones against a variety of targets across the Middle East this weekend [February 28–March 1], including U.S. bases and civilian sites in Bahrain, Iraq, Kuwait, Qatar, and the UAE.

Lori Calvasina | Head of U.S. Equity Strategy, RBC Capital Markets LLC

For the U.S. stock market, it all may come down to the oil market

- When it comes to stocks, it still may mostly come down to the oil market. We'll leave the oil price forecasting to our colleagues in Commodity Strategy & MENA Research who are monitoring the situation with the Strait of Hormuz [see above] … we've been constructive on U.S. equities in 2026 and that remains our view today. But we do think it's important to keep a close eye on oil market dynamics given that there has been an inverse correlation of -40% between the S&P 500 and oil prices since COVID [beginning in the first quarter of 2020]. In our view, the key issue is not whether there is a short-term spike in oil prices. What's more relevant to stocks, in our opinion, is whether a sustained impact to oil prices is seen, which is what we think would have more of a potential to damage confidence at various levels.

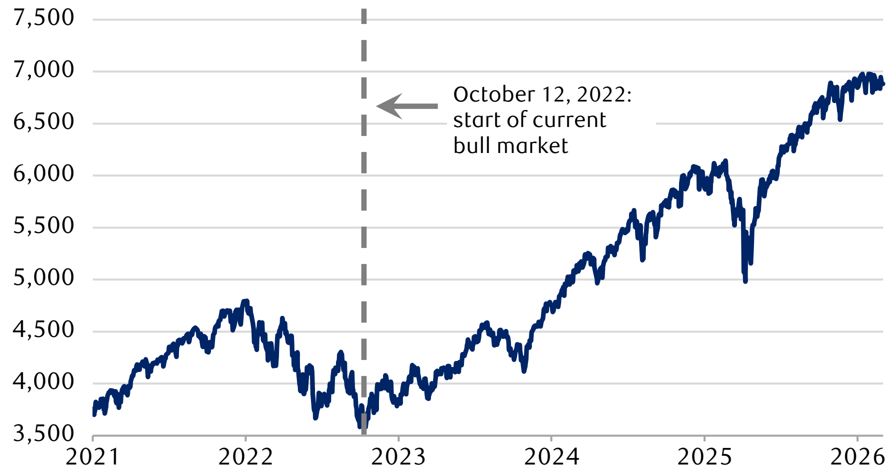
Equities started to reflect the risks ahead of the actual beginning of the conflict

- The U.S. equity market was already starting to digest the escalation in the region coming into the weekend [February 28–March 1]. The S&P 500 has moved sideways so far in early 2026, reined in by a fairly long list of concerns—AI fears, private markets concerns, an underwhelming reporting season, extended valuations, and an increase in a few different flavors of geopolitical risk … we think it's fair to say that both the choppiness in the S&P 500 this year and the outperformance of

A RENEWED MIDDLE EAST CONFLICT

The U.S. stock market has been consolidating recently at lofty levels following a big bull market rally

S&P 500 Index



Source - RBC Wealth Management, Bloomberg; data through 3/2/26

the Energy sector were reflecting heightened geopolitical risk to some degree.

Valuations could come under pressure

- Elevated geopolitical uncertainty isn't good for S&P 500 price-to-earnings (P/E) multiples broadly, which have already been under pressure. Whenever geopolitical uncertainty spikes, the first thing that usually jumps into our mind is that forward P/E multiples tend to come under pressure for the S&P 500. This speaks to one of the transmission mechanisms of geopolitical conflicts and risks to equities … in recent years we've seen some deterioration in S&P 500 median P/Es when uncertainty regarding national security has spiked in the spring of 2025 (Liberation Day tariffs), the first quarter of 2022 (Russia's invasion of Ukraine), and the first quarter of 2020 (COVID). This is something we also saw in early 2003 as the U.S. was preparing to invade Iraq.

Keeping an eye on corporate and consumer sentiment

- Elevated geopolitical uncertainty/risk has become a feature of the post-COVID environment, but could weigh on sentiment. We are primarily thinking about the read-through of geopolitics to corporate sentiment (where uncertainty has improved but remains elevated), given that references to geopolitics on public company earnings calls have been extremely high in recent years relative to their pre-COVID history … but for now expect the "manage through" messaging to persist [meaning, corporate leaders have previously, repeatedly indicated they are managing through external challenges]. Putting corporates aside for the moment, we will also be monitoring how these latest developments in U.S. foreign policy impact consumer confidence/sentiment (which has been stabilizing around extremely low levels in both the Conference Board and University of Michigan surveys) as well as public opinion polls (where voter approval on foreign policy has been low).

A RENEWED MIDDLE EAST CONFLICT

Be careful with historical stock market performance studies

- We'd be careful paying too much attention to historical studies that suggest always buying stocks on bad geopolitical news. Note that we are constructive on the U.S. equity market this year, but [our study of prior episodes] reminds us that it is very difficult to look at geopolitical events in isolation when it comes to the stock market. What's happening with geopolitics is usually a piece of a larger puzzle.

GLOBAL

Equity

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Equity views

Region	Current
Global	=
United States	=
Canada	=
Continental Europe	=
United Kingdom	=
Asia (ex Japan)	=
Japan	=

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

It's never easy

Key points

- **Stock markets have mostly been powering to new highs over the past four months, while the S&P 500 has lagged badly, encumbered by a deep correction within the important software group.**
- **A resilient consumer, easy monetary conditions, more stimulative fiscal policy, an encouraging corporate profit outlook, and the corporate sector's avowed intentions to increase capital spending taken together represent a set of conditions that could normally be expected to reignite a renewed upleg for the U.S. equity market.**
- **However, the growing possibility the Iran conflict will demand a longer, deeper U.S. military commitment as well as the unfortunate history of stock market corrections typically occurring during U.S. midterm election years suggest that some more extended market pullback may turn out to be part of the roadmap to eventual higher ground.**

Since late October, most major developed equity markets—in Europe, Japan, the UK, and Canada—have forged steep upward paths to a succession of new all-time highs. The S&P 500 has also posted several new highs over that stretch but in a much more subdued fashion—the high set on Oct. 28 was 6920; four highs later, on Jan. 28, the index was only 1.3% higher at 7002. It currently sits at 6880. Over the period from October to today the S&P 500 has backed and filled mostly within a 100-point trading range. This has left investors wondering whether this is "the pause that refreshes" before the U.S. index resumes a more energetic climb higher or, instead, might this be a slow-motion rollover into a challenging downturn. A case can be made for either.

The case for this consolidation of the S&P 500 to resolve to the upside

- Q4 U.S. GDP growth was stunted by policy uncertainty (the government shutdown) while severe winter weather has likely taken a toll on Q1 spending. But so far, the consumer has shown no signs of running for cover and is likely to be back to form in Q2, in our view, aided by outsized tax refunds, a steady employment picture, and spending by high-income earners. Construction spending and other capital outlays should also bounce back from any weather-related slowdowns. Meanwhile, policy uncertainty is receding as the tariff picture looks likely to be largely fixed at post-Supreme Court ruling levels out perhaps beyond the midterm elections. Consensus GDP growth estimates are now sitting comfortably in the 2% to 3% range, a pace of economic growth which has typically delivered low double-digit S&P 500 returns.
- The collapse of software shares, under threat from recent advances in AI, has accounted for much of the performance divergence between the S&P 500 and other major global equity indexes. (More on this below.) We think that selloff may be overdone for now, opening the way for some partial recovery in the important software subsector. At the same time, the high-value AI hyperscalers (i.e., data centre builders/operators) appear to have the potential to regain some of their upward momentum, in our view.
- Market internals are pointing in the right direction. The unweighted version of the S&P 500 has been hitting new highs and outperforming the more closely watched capitalization-weighted

GLOBAL EQUITY

index. So has the advance-decline line, which tracks the number of stocks rising minus the number falling each day. Also, the S&P small-cap and midcap indexes, after underperforming the large-cap S&P 500 for several years, are both now outperforming and have gone to new cycle highs.

And the downside argument

While we see a real possibility the U.S. equity market could lurch into a more worrying downturn and carry other global equity markets with it, we don't expect the U.S. economy would be the cause. We believe the positive impulse of the 175 basis points (bps) of U.S. Federal Reserve rate cuts over the past 17 months will go on providing useful stimulus for some months to come, as will the estimated $50 billion of additional tax refunds arriving this spring. Meanwhile, large and small businesses indicate in surveys they plan to hire more, pay more, and boost capital spending.

We don't see any looming economic weakness that would turn bullish investors into bearish ones. In our view, to get a significant market retrenchment would take a big dislocation from somewhere other than the economic table as it is currently set.

Debt market concerns

Challenges for the equity markets very often appear first as dislocations in the debt markets. Over the past year, many observers have been worrying out loud about the potential for financial market shocks that might emanate from the fast-rising levels of corporate debt. Recently, a lot of press and investor attention has focused on the newest investment category: private credit. Concerns have been raised about the perceived lack of transparency around the holdings of private credit funds; around the mark-to-market pricing of those holdings; and the steady weakening of covenants on the loans these funds are providing, often to unseasoned businesses. Some recent high-profile bankruptcies and alleged frauds on the part of a few borrowers have added to the general investor angst about corporate debt. Because private credit funds typically use a heavy dose of leverage, it is argued, the liquidity problems of any one fund or class of funds could threaten contagion among others and potentially for all risk assets including equities.

Despite these heightened investor worries, the corporate debt market itself is showing few if any signs of stress: Moody's Baa corporate bond yield sits at 5.75%, 60 bps below where it was last spring and only 13 bps above its recent low; meanwhile, the effective yield on the ICE BofA High Yield Bond Index at 6.65% is 185 bps lower than last spring and 10 bps above its recent low.

So, to date at least, we see no market signs from this quarter of impending financial market trouble ahead.

Geopolitics, always a threat

In our view, geopolitics is realistically a potential source of trouble for equity markets. While investors remained intensely concerned for only a brief interval by the Russia-Ukraine conflict, the war in Gaza, the joint Israeli-U.S. air strikes on Iran back in June 2025, and not at all by the U.S. action in Venezuela, we think a broader Iran-U.S. confrontation could be a different story.

Iran has twice the population of Iraq and four times the land area. The lead-up to the First Gulf War in 1991 was associated with a significant crude oil rally and equity market downturn, and the equity market also traded lower in the run-up to the Second Gulf War in 2003, although more moderately so. If the current bombing campaign threatens to turn into a major, multiyear commitment of American forces to an Iranian conflict, we think it could produce an unsettling financial market outcome, potentially more akin to the First Gulf War if the crude oil market is meaningfully impacted.

GLOBAL EQUITY

U.S. midterm elections: Will it be 24th time lucky?

As we've noted here before, the historical record for stock market performance in midterm election years does not make for encouraging reading. In the 23 midterm years since 1934, markets have experienced a noteworthy downturn with an average peak-to-trough drop of just over 20%—typically followed, it must be said, by a robust rebound that usually went on to set new highs.

* * *

On balance, we would be more concerned about the prospect for a market downturn in the coming months if the economy was weakening and a recession threatening. However, easing monetary conditions, steady employment prospects, the continuing flow of largesse from the One Big Beautiful Bill Act, and solid capital expenditure plans suggest to us that any profound economic weakness is unlikely to materialize over the coming year.

This picture is corroborated by the continued climb to new highs on the part of breadth measures like the advance-decline line and the equal-weighted version of not just the S&P 500 but for all the major equity indexes in the developed countries. In the case of the U.S., these breadth indicators have typically rolled over into downtrends months before the S&P 500 itself reaches its bull market peak and even longer before any recession gets underway.

Software selloff

In a five-month stretch where the S&P 500 has meandered along with a slight upward bias, shares in the software space have come under heavy pressure. This has been mostly attributed to recent developments in AI that, by putting easy-to-use software development tools in the hands of the end customer, are threatening, in the minds of many, to severely impair the future revenue growth and profitability of the software developers and service providers.

This is an unwelcome prospect for this group of companies, some of whose shares were trading at more than 40x consensus earnings estimates at the high-water mark for the group last fall. The S&P software sub-index has dropped by 30% since its peak in October. However, to add some context to the picture, in the six months prior to its peak the index had surged higher by 41%. It has given all that back. Some companies' shares have had an even wilder ride. Oracle, among the world's largest software companies, saw its shares more than double, climbing by a startling 140% in just six months from April to October. It has since fallen by 54% but remains 10% above the April starting point.

The software bears don't appear to be calling into question the group's near-term prospects for revenue, earnings, and cash flows. Rather, their argument seems to be that, in the long term, the group's perennially very high operating margins and the outright existence of many firms in this space will succumb to the software development capabilities delivered to everyone by AI.

Possibly, but conjecture about where the industry will be in 10 years' time seem highly speculative to us. A study published by the Massachusetts Institute of Technology last summer surveyed a large group of companies, all of which had made serious efforts at engaging AI in their businesses. Leaving aside the well-known, megacap hyperscalers—a small percentage of the companies surveyed—the study found that 95% of the organizations were getting zero return. A majority of the projects had been initiated, designed, and undertaken by the surveyed firms' own in-house IT departments. However, the survey revealed that projects "built via strategic partnerships were twice as likely to reach full deployment as those built internally." We think many software

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developers are well positioned to be those strategic partners.

Very few non-tech businesses would rate software development as one of their core competencies. We expect corporate boards in various industries will continue to seek sustainable operational results while closely managing risk by engaging outside expertise for the preponderance of AI integration efforts.

Invested but watchful

We currently expect global stock markets to set more new highs over the remainder of this year. We also think it's prudent to expect some potentially unnerving volatility along the way as has typically occurred during U.S. midterm election years.

For our part, we think portfolios should remain committed to equities up to but not beyond an investor's long-term targeted exposure.

GLOBAL

Fixed income

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Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	–	+	3–7
Canada	+	–	3–7
Continental Europe	–	=	3–7
United Kingdom	=	=	3–7

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

Global bonds nearing decision points

Despite all the perceived global economic, central bank, and geopolitical uncertainty, global bond markets have largely been a sea of relative calm.

Of course there have been bouts of volatility, but few episodes have had staying power. Japanese bond yields were just the latest example of that as a sharp spike higher in January, which spooked markets, now appears to have dissipated as quickly as it appeared with yields falling back to 2025 levels.

As the chart shows, yields globally have been stuck in a range around roughly 2.8% since August 2024, and in the U.S., yields have held around 4.2% since last fall—where measures of each currently stand at the time of this writing.

But in the U.S., that 4.2% yield appears on the precipice of multiyear lows ahead of a key Fed meeting this month. While we fully expect the Fed to keep rates unchanged at a 3.50%–3.75% target range for the second meeting in a row, the first update to economic and rate projections of 2026 could set the stage for the rest of the year.

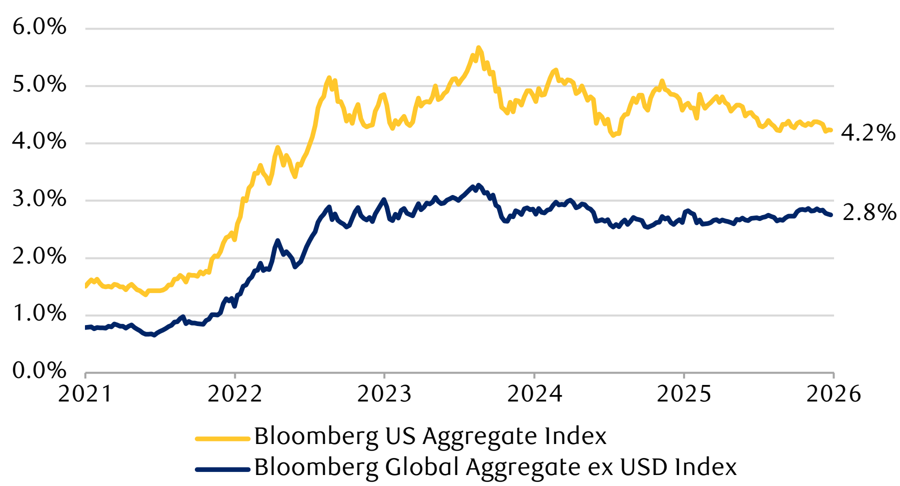
Underpinning what we believe will be a slightly improved economic outlook—and perhaps slightly less impetus for further rate cuts this year—has been recent stabilization in labor markets. While we think the median Fed forecast will continue to show one more 25 basis points rate cut this year, we maintain our view that the Fed is more likely than not to keep rates steady in 2026.

However, the minutes of the Fed's last meeting showed there were "several" policymakers who would have supported a change in wording to the official policy statement to signal that the risks were "two-sided," or that rate hikes were also as possible as rate cuts depending on how economic and labor market data develops.

For investors, the bar for rate hikes from most developed market central banks remains extraordinarily high, in our view, and so the bias should remain toward bond yields holding around current levels, if not slightly lower. That said, the Reserve Bank

Global bond yields nearing inflection points?

Benchmark bond index yields are near the low end of post-2022 levels



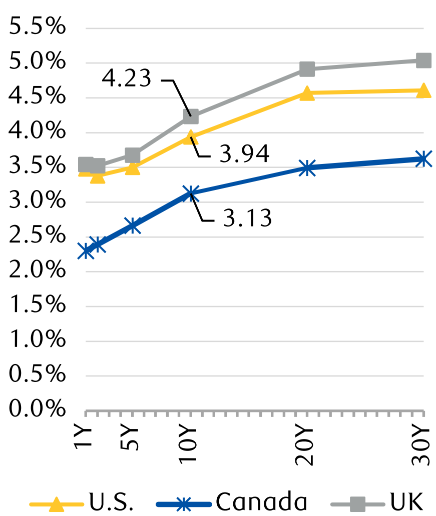
Source - RBC Wealth Management, Bloomberg

GLOBAL FIXED INCOME

of Australia (RBA) was the first to break from the pack with the first rate increase since 2023 amid renewed inflation pressures.

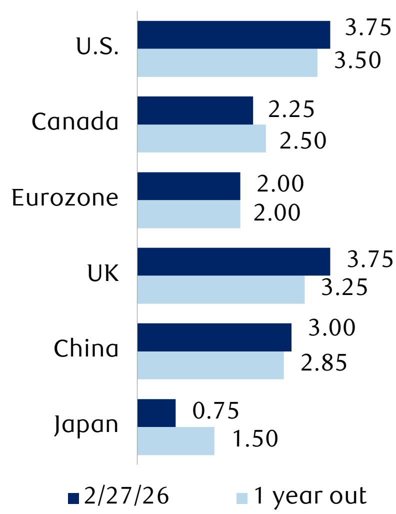
While we don't necessarily see the RBA's move as a leading indicator for other central banks, at a minimum it highlights what could be "two-sided" risks for bond markets this year, something that may not be fully reflected in recent bond market stability.

Sovereign yield curves



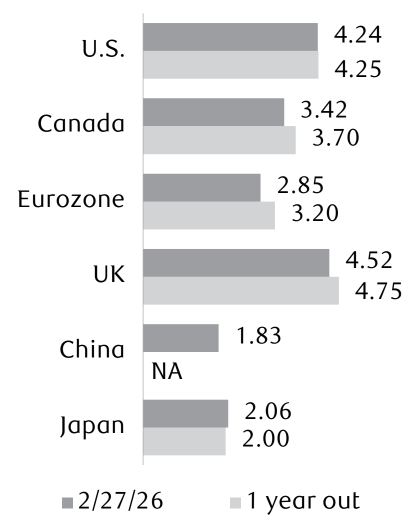
Source - Bloomberg; data through 2/28/26

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

10-year rates (%)

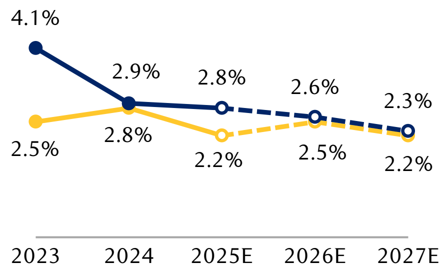


Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

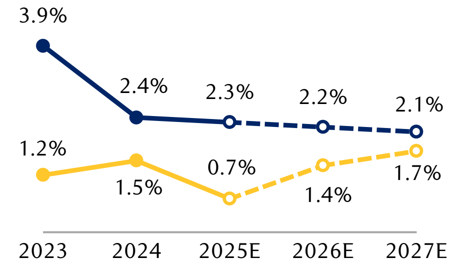
KEY

Forecasts

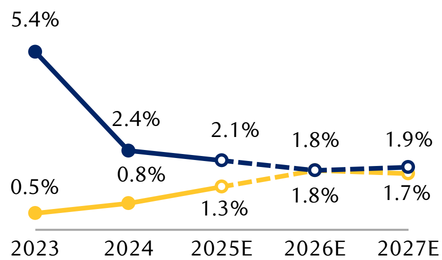
United States



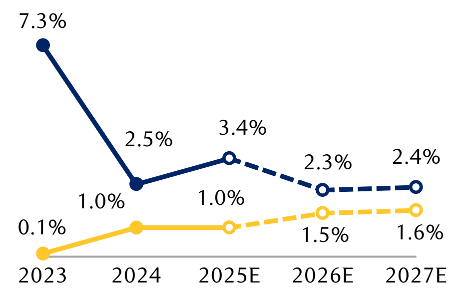
Canada



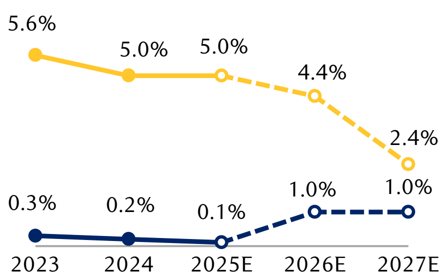
Eurozone



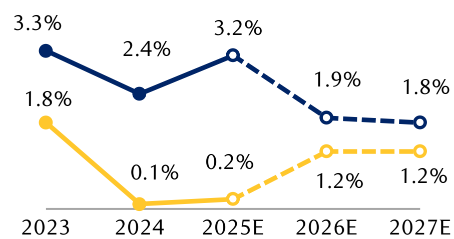
United Kingdom



China



Japan



Real GDP growth

Inflation rate

Source - RBC Global Asset Management, RBC Wealth Management Global Portfolio Advisory Committee

Research resources

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As of December 31, 2025

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