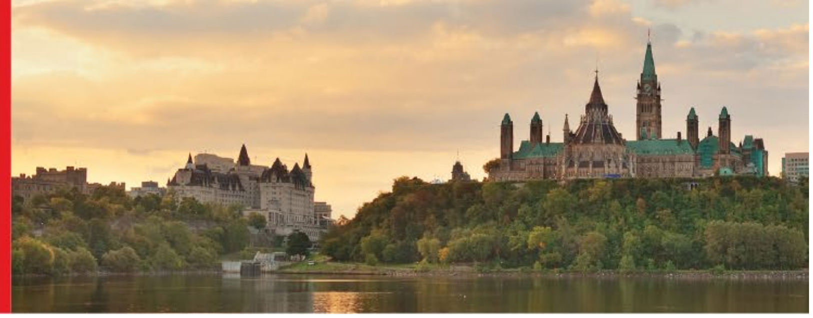
Financial HARTbeat

Iran
Mar 31st 2026



Good Morning,

While the world waits and watches…USA/Iran conflict continues…the longer this continues the increased risk to global security rises as does global economic risks…

NATO hangs in the balance and looks to be headed towards dismantling…

Taiwan…while nobody watching could be targeted with the USA occupied elsewhere…

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Also, catch the playback of our Annual Outlook ***Click here***

Chart of the Day: war drag…

War Drag Decomposition

	Contributions to GDP Growth
Total	**-0.60**
Oil Prices	-0.06
Financial Conditions	-0.16
Investment (Net)	-0.20
Foreign Growth	-0.18

Source: Evercore ISI

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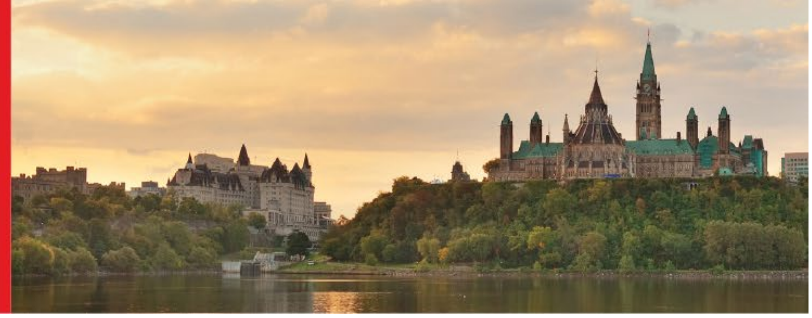

Top News

U.S. stock index futures gained this morning, as markets welcomed a report signaling potential de-escalation in the Middle East conflict. The Wall Street Journal reported that U.S. President Donald Trump told aides he was willing to end the military campaign against Iran even if the Strait of Hormuz remained largely closed. The report soothed some investor nerves after a month-long conflict that has battered global markets and left the S&P 500 and the Dow on track for their largest monthly falls since September 2022. Oil prices are headed for their largest monthly gain in volatile trading today, as investors weighed the supply shocks from a prolonged closure of the Strait of Hormuz.

Front-month Brent futures were set for an all-time record monthly gain of 58% according to LSEG data that stretches back to June 1988. The S&P 500 energy index has gained more than 11% so far in March, the only sector set to end the month in positive territory.

If the disruption persists, feeding through into higher costs, tighter financial conditions, and weaker growth, the market risk transitioning from a technical reset into a more prolonged adjustment. Today, comments from Fed policymakers, including Austan Goolsbee and Michelle Bowman, will be parsed by investors for any clues on the Federal Reserve's monetary policy path after Chair Jerome Powell said yesterday the Fed can wait to assess the impact from the war.

In addition, they will also look out for the job openings and labor turnover survey (JOLTS) data for February, the first of the labor market reports due in this holiday-shortened week. In Canada, futures linked to the main stock index also rose today. Gold rose but stayed on track for its biggest monthly drop in over 17 years as investors piled into the dollar amid the Middle East war and rising inflation worries.

On the economic front, Canada's economy eked out a modest gain in January, with monthly gross domestic product rising slightly as strength in most goodsproducing industries offset lingering manufacturing weakness. Statistics Canada data showed that GDP in January rose by 0.1% on a monthly basis, following a 0.2% gain in December. An advance estimate, which is usually prone to change, showed that the economy may have expanded by 0.2% in February.

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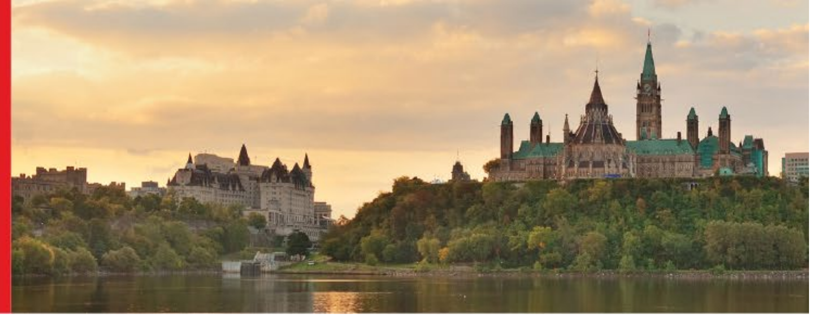

Mining, quarrying and oil and gas extraction and construction were the biggest drivers of growth which helped offset a 1.4% drop in manufacturing growth in January. The construction sector expanded for the third time in a row in January. Overall, just nine of the 20 industrial sectors recorded growth in January.

Canada's economy has struggled in the wake of tariffs imposed by President Donald Trump on a range of sectors such as steel, automotive, aluminum, lumber, copper products etc. This has broadly hit Canada's manufacturing output. While exemptions under the United States-Mexico-Canada free trade deal has helped other sectors, growth has been largely muted with the economy contracting in the fourth quarter.

The Benefits of Small- and Mid-Caps (Argus)

Despite bursts of outperformance, small- and mid-cap stocks (SMID) have underperformed large-caps year to date -- as they have over the past six years. But they may be in a better position to generate market-beating returns going forward. For one thing, SMID companies tend to focus on domestic markets, so their businesses could be less disrupted by the trade and tariff debate, fallout from unrest in the Middle East, the Russian invasion of Ukraine, issues in China, or other geopolitical developments. As well, the prices of SMID stocks generally are lower than the prices of large-caps, with the P/E ratio on the Russell 2000 SmallCap Index at 20, compared to a trailing P/E of 29 for the S&P 500.

Finally, there are long stretches in the record books when SMID stocks have outperformed largecaps. For example, from 2003-2021, the Russell 2000 climbed 450%, compared to an advance of 330% for the S&P 500. That said, SMID stocks can be risky. The standard deviation for monthly returns was 5.7% for SMID stocks over our 2003-2021 test period, versus 4.3% for large-caps. SMID stocks fell further in negative years during our test period, with an average 15% drop versus a 12% pullback for large-caps. Still, despite the risks, diversified investors look to have exposure to small- and mid-caps based on the long-term performance record. We estimate that 20% of the U.S. stock market's capitalization is comprised of SMID stocks.

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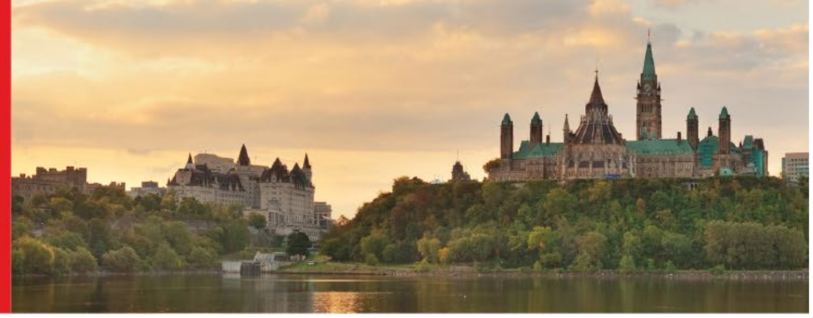

Bond Yields (bps (basis points) negative means prices up and positive means prices down)

Figure 1: Key Interest Rates (Canada & U.S.)

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	2.25%	0.0	CDA 5 year	3.08%	-5.8
CDA Prime	4.45%	0.0	CDA 10 year	3.46%	-4.7
CDA 3 month T-Bill	2.33%	0.0	CDA 20 year	3.75%	-3.6
CDA 6 month T-Bill	2.40%	-2.0	CDA 30 year	3.87%	-4.0
CDA 1 Year	2.64%	-3.5			
CDA 2 year	2.83%	-5.7			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	3.5-3.75%	0.0	US 5 year	3.94%	-4.2
US Prime	6.75%	0.0	US 10 year	4.31%	-3.3
US 3 month T-Bill	3.63%	2.1	US 30 year	4.89%	-1.9
US 6 month T-Bill	3.72%	1.0	5YR Sovereign CDS	44.71	
US 1 Year	3.71%	-0.3	10YR Sovereign CDS	56.39	
US 2 year	3.80%	-3.1			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			685.67	-0.03%	-1.52%
BMO Laddered Preferred Shares (ETF)			12.28	-0.24%	-0.41%

Source: LSEG

Things are looking up! Have a great day!
Ben

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