CIBC GLOBAL
ASSET MANAGEMENT

Portfolio Solutions Research Forum Commentary

April 2026

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Key takeaways

- Market reactions to recent geopolitical developments have remained contained, with varied responses across asset classes.
- Credit markets have shown relative stability in the recent environment, reinforcing their role within diversified portfolios.
- Following a period of reduced risk exposure, portfolios have begun to add risk back at the margin in a measured and disciplined way.

What have recent market developments revealed about portfolio behavior during geopolitical events?

Recent geopolitical developments, including the Iran conflict in March, provided a real-time test of how different asset classes respond under stress. While markets experienced periods of uncertainty, overall reactions remained relatively contained.

Across asset classes, responses were not uniform. Equity markets experienced variability, with Europe and emerging markets more volatile than the US. Meanwhile, government bonds did not provide the level of diversification that investors traditionally expect. This was due to inflation concerns dominating bond returns. Historically, high-quality government bonds have often provided diversification benefits during growth-driven risk-off periods. However, when inflation becomes the dominant concern, stock and bond returns can become more positively correlated, reducing diversification benefits in the short term.

This highlights how portfolios can behave differently in practice than in theory, particularly during periods of stress. What we observe is that diversification outcomes are shaped more by the underlying macro environment than by the event itself, with different asset classes responding to different drivers.

For investors, this underscores the importance of monitoring portfolio performance through real-world events, rather than relying solely on expectations.

How have credit markets behaved through recent conditions?

Within fixed income, credit markets have shown relative resilience through recent geopolitical developments. This is in line with what we've observed historically: investment-grade credit has typically experienced limited spread widening during geopolitical shock and overall performance has remained more stable compared to other risk assets.

This reinforces that credit market behavior is more closely linked to broader economic conditions and interest rate dynamics than to geopolitical events alone.

For portfolio construction, this stability highlights the role of credit as a component that can provide income and help moderate overall portfolio variability, even during periods of heightened uncertainty.

How are portfolios evolving in response to recent market conditions?

In the period leading into recent geopolitical developments, portfolios had taken a more cautious stance, reflecting a range of macro and market uncertainties.

As conditions have evolved and market reactions have remained measured, portfolios have begun to add risk back at the margin in a deliberate and controlled manner. This does not represent a significant shift in positioning, but rather a measured adjustment within a disciplined framework.

For investors, this approach reflects the importance of adapting to changing conditions without making large, directional moves based on short-term developments.

Maintaining discipline through changing environments

Recent market developments highlight that while geopolitical events can introduce uncertainty, their impact across asset classes can vary and may not always result in sustained disruption.

A disciplined approach to portfolio construction that is grounded in diversification, measured adjustments, and long-term objectives remains essential. Rather than reacting to individual events, portfolios are positioned to navigate a range of outcomes while maintaining flexibility as conditions evolve.

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Portfolio Solutions Research Forum (PSRF)

The views of our Portfolio Solutions Research Forum help guide CIBC Global Asset Management and our partners by providing strategic asset allocation recommendations, as well as strategic and tactical investment oversight for CIBC managed solutions.

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