

Equity Team commentary: Market dynamics amid geopolitical uncertainty

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Key takeaways

- Energy outperformance: Elevated geopolitical risk in Iran drove oil prices up 42% in March, benefiting Canadian energy producers.
- Stagflation risks rising: Persistent high oil prices increase stagflation risk, but the TSX is well-positioned to outperform due to its materials and energy exposure.
- Gold equities opportunity: Gold miners lagged bullion, creating a favorable entry point given strong operating leverage and robust balance sheets.
- Private credit headwinds, Brookfield well-positioned: Major US private credit funds limited redemptions amid market concerns over software sector exposure. In contrast, Brookfield Asset Management, due to its focus on real assets and minimal software exposure, is well positioned for continued fundraising success in 2026.

Markets experienced increased volatility in March as equities began to price in the risk of a prolonged conflict in Iran, raising concerns over regional stability and global commodity flows. Energy outperformed, with WTI crude climbing 42% amid supply risks through the Strait of Hormuz, a critical route for roughly 20% of global oil shipments. The Western Canadian Select (WCS) discount to WTI narrowed, briefly reaching single digits for the first time in nearly a year. This is a positive development for Canadian producers, as a geopolitical premium is likely to persist even after the conflict subsides ([Global crisis, local response: Canada's energy sector amid Middle East instability](#)). Canadian E&Ps gained 11% in March (S&P/TSX Oil & Gas E&P Index), bringing year-to-date gains to 35%, partly due to pre-positioning ahead of the event.

Strong operating performance combined with higher oil prices, fueled by increased geopolitical tensions, made energy the sector. To address higher energy prices, the IEA is coordinating a strategic petroleum reserve release of 400 million barrels (3.3 million bpd) with the US contributing 172 million barrels, or 58% of its reserve. Additionally, the US has temporarily eased sanctions on Russian oil, allowing a one-month waiver for purchases of previously unsold cargoes, with the aim of mitigating the economic impact of the conflict.

Persistently elevated oil prices raise the risk of stagflation—low growth and high inflation—a dynamic last seen during the 1970s oil shocks (OPEC Oil Embargo and Iranian Revolution). While these risks are rising, the TSX remains well-positioned to outperform the US given its higher weighting in materials and energy, both of which outperformed during previous periods of oil-driven inflation (1972-1974, 1977-1980). One key difference between today and the 1970s that may help mitigate the impact is the significantly lower oil intensity of the economy. Industry innovation improving efficiency and the adoption of alternative energy sources have helped make the economy, including consumers, less vulnerable to oil price shocks. As a result, the percentage of disposable income that US consumers spend on gasoline has declined dramatically, falling from an average of ~12% in the 1970s to ~4% in 2025.

Gold prices declined 12% since the onset of the Iran conflict, which may seem counterintuitive given gold's reputation as a safe haven. However, this conflict was well telegraphed and the price of bullion had risen in anticipation of the event. Year-to-date, gold is up 8%, supported by central bank buying, de-dollarization, and fiscal/inflationary tailwinds.

Gold miners underperformed, falling 18% since March 1 (TSX Gold Index) and now lagging bullion year-to-date. This sets up an attractive entry point for the equities, in our view.

The miners' underperformance can be attributed to market's recalibration of expected rate cuts in 2026 which has put upward pressure on the US dollar – further amplified by higher energy prices. On average, every 10% increase in oil prices raises gold miners' costs by ~1-2% (depending on geography and mine).

If we simplistically assume the current ~77% YTD oil price increase holds, this could mean ~16% cost inflation at the high end. To better put this in perspective, on average the producers that we own (ranging from large cap producers such as Agnico, Kinross and Barrick and smaller cap such as G-Mining Ventures) provided 2026 guidance on all-in-sustaining-costs, or AISC, of roughly \$1,600 at the midpoint, typically using \$70 WTI. AISC is the total cost a mining company spends to produce one ounce of gold. The increase in mining costs under this scenario would imply closer to \$1,800 AISC, which still provides considerably robust operating leverage given the current gold price of ~\$4,668 and an average year-to-date price of ~\$4,900 per oz. This compares favourably to the average gold price of \$3,450 in 2025.

We remain constructive on gold equities and view the recent pullback as a buying opportunity, supported by strong balance sheets and ongoing shareholder returns through dividends and buybacks.

In private credit, March saw further negative headlines as Blackstone, Blackrock, Cliffwater, Apollo and Ares all limited redemptions. They join other managers who have capped withdrawals, amid market concerns over software sector exposures in the context of AI risks and elevated valuations from 2020-2022. As a result, the VanEck Alternative Asset Manager ETF is down 21% YTD, with more software-focused managers like TPG and Blue Owl down over 35%.

While it is too early to determine the full impacts of these investments in the context of a credit cycle, we believe Brookfield (both the corporation and the asset manager BN and BAM) is better insulated from these headwinds given focus on real or hard assets such as infrastructure, real estate and renewables, while having minimal software exposure at 1-2% of total assets.

BAM has outperformed the aforementioned peer group, down "only" 15% on the year. However we would argue on a fundamental basis, the company is better positioned to capture AI-related capital deployment, and expect this focus to lead to a record fundraising year in 2026.

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