



Shock absorber

Kelly Bogdanova – San Francisco

The U.S. stock market's resilience was on display again after it powered to a new all-time high as Middle East crisis risks de-escalated. Still, inflation and economic growth headwinds shouldn't be dismissed, and we examine how the investment environment is taking shape.

The S&P 500 has delivered a nearly textbook performance so far during this Middle East crisis compared to average returns surrounding prior military interventions:

- The index experienced a 7.8 percent pullback from the onset of U.S. and Israeli strikes on Iran through March 30 compared to the 6.0 percent average decline.
- A quick V-shaped recovery then followed, bringing the index to a slightly higher level than it was before this conflict began.
- This journey took only 30 trading sessions, similar to the average of 28 sessions in [19 of the 20 prior episodes](#).

Then the S&P 500 climbed to a new all-time high on Wednesday on further optimism about the ceasefire and U.S.-Iranian negotiations, and the related decline in crude oil prices.

We think another important factor has pushed the market higher as well: Upward revisions to S&P 500 consensus earnings estimates (especially in the Information Technology sector) even as the Middle East crisis unfolded, and a good start to the Q1 earnings results reporting season from the Financials sector.

Furthermore, we see evidence that some fast-money hedge funds were not well-positioned for the swift,

snapback rally. As the market ticked higher and higher, it likely engendered more and more buying from this group.

Crude oil no longer flashing red

The U.S. and global equity rebound has occurred amid crude oil prices shifting from flashing red to yellow.

The price of physical Brent oil sold to buyers retreated to about \$116 per barrel on Thursday, according to Bloomberg, down from a peak of \$144 per barrel on April 7.

While that is still quite lofty and well above the Brent futures (paper) price, the latter has retreated as well, to around \$99 per barrel in midday trading during the same session.

RBC Capital Markets, LLC's Head of Global Commodity Strategy and Middle East and North Africa Research Helima Croft wrote, "From our standpoint, we certainly see scope for the continuation of the ceasefire, as a respite from drone and missile attacks is likely advantageous for both sides. However, as long as the molecules are not moving through the Strait, the economic cost will mount ahead of summer, even if market participants continue to price in a peace dividend."

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 4/15/26 market close (unless otherwise stated). Produced: 4/16/26, 15:30 ET; Disseminated: 4/16/26, 16:10 ET

Inflation to tick higher

Despite signs of de-escalation in the Middle East crisis, many developed and emerging economies are now grappling with inflation and economic growth headwinds caused by the energy price shock.

The impact appears less acute for the U.S. but is not immaterial, from our vantage point.

The Consumer Price Index (CPI) rose to 3.3 percent in March, surging nearly 1.0 percent compared to the previous month, a pace reached only during serious bouts of inflation, including those in the 1970s and early 1980s.

No surprise, the culprit was mainly higher gasoline prices, which shot up 21.2 percent month over month.

Following the inflation report, RBC Economics raised its full-year 2026 CPI forecast to 3.2 percent, a bit higher than the 3.1 percent consensus forecast.

Assuming oil prices don't leap again and the crisis is resolved soon, our economists expect inflation to peak at 3.7 percent in Q2 before pulling back to 3.0 percent by year end, not much higher than where it stood earlier this year.

Normally, a brief bout of 3.0 percent-plus inflation can be absorbed by households and businesses without much trouble. But this is happening on top of a significant inflation wave.

Consider that on a cumulative basis, consumer prices have risen over 27 percent since COVID hit in early 2020—and that's just the official data. We suspect reality is higher.

If energy prices remain elevated for a prolonged period or increase again—in other words, should the Strait of Hormuz take longer to open up than markets are currently assuming—this new bout of inflation could become more broadly entrenched in the economy, hitting goods and services prices (aka core inflation).

If a lengthy energy supply shock unfolds, strains on global supply chains could surface.

GDP growth to slow

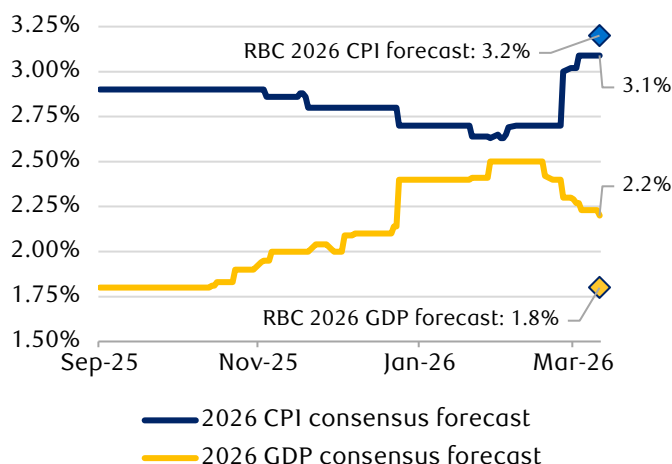
When the Middle East crisis began, the U.S. economy looked like it was on relatively solid footing. However, downward revisions to prior data by the Bureau of Economic Analysis indicate the economy instead had been somewhat wobbly.

In April, Q4 2025 GDP growth was revised lower for the second time, to only 0.5 percent, whereas the initial reading had been 1.4 percent back in February.

RBC Economics recently cut its 2026 GDP growth forecast to 1.8 percent, beneath the 2.2 percent long-term average and consensus forecast. By way of comparison, GDP growth was 2.1 percent in 2025.

RBC sees higher U.S. inflation and lower growth than the consensus forecast

Progression of 2026 consensus forecasts and current RBC Economics forecasts



Source - RBC Wealth Management Fixed Income Strategies, RBC Economics, Bloomberg; data through 4/10/26

Since 1990, below-trend GDP growth between 1.1 percent and 2.0 percent has delivered mid-single-digit S&P 500 price returns (not including dividends), on average, according to RBC Capital Markets.

Our economists still don't see elevated recession risks at this point. Households should be able to tap into savings to blunt the immediate inflation impact before pulling back on spending on non-energy goods and services.

Furthermore, we think high-income households—those that benefit the most from the “wealth effect” associated with stock market gains and the cohort that impacts overall American household spending far more than others—are unlikely to rein in spending much despite the challenging inflation period. The stock market rally has helped, and this group has significant savings and is the biggest beneficiary of the One Big Beautiful Bill Act's approximately \$50 billion of additional income tax refunds.

A window of time for the economy

RBC Global Asset Management Inc.'s Chief Economist Eric Lascelles wrote, “The economic rule of thumb is that spillover effects should be limited until an energy shock has lasted for 3–6 months, at which point the danger starts to grow. This war is currently just 1.5 months old and has a good chance of being resolved before that danger zone is entered.”

We continue to recommend that investors remain committed to equities in portfolios up to but not beyond the long-term strategic asset allocation level.

UNITED STATES

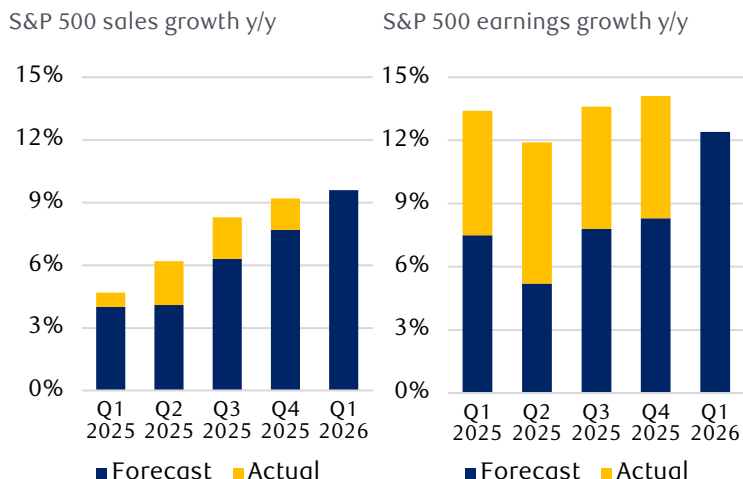
Alan Robinson – Seattle

■ **The S&P 500 and Nasdaq stock indexes reached new highs during the week as investors looked beyond the Iran conflict**, while the Dow Jones Industrial Average (DJIA) remained a few percentage points below its February 2026 highs. The DJIA has less exposure to the faster-growing technology sector, and concerns over a new tariff regime dampened enthusiasm for industrial stocks.

■ **First-quarter 2026 earnings season kicked into gear during the week**, with the banking sector in particular posting better-than-expected results. The large, diversified banks reported solid “beat-and-raise” results, characterized by double-digit revenue growth, strong trading performance, and resilient consumer health despite a more cautious economic outlook.

■ **Consensus earnings forecasts for the S&P 500 Index have continued to move higher this year**, apparently unaffected by geopolitical conflict. However, the increasingly rosy outlook has not been broad-based. **The Information Technology sector has led the charge**, with expected Q1 2026 earnings growth of 45% y/y as of the start of earnings season, compared to forecasts of “only” 34% at the start of this year. Estimates for the Health Care sector provided the biggest drag on overall growth forecasts, with analysts expecting a 10% decline in earnings due to pricing pressures. But earnings for the S&P 500 as a whole are still expected to grow 12% y/y overall. Management teams are adept at tamping down analyst expectations ahead of earnings releases, only to beat forecasts on the day (see chart). We see no reason for the recent pattern of higher growth and profit margins to stall in the near term.

Sales and earnings typically beat pre-season consensus forecasts



Source - RBC Wealth Management, FactSet, Bloomberg. Consensus forecasts on first day of quarterly earnings season compared to actual final results. Actual results for Q1 2026 should be complete by June 2026.

■ The Federal Reserve released its regular Beige Book report during the week, detailing economic conditions around the nation. **The report noted that growth and the labor market remain steady, and that corporate inflationary pressures are being offset by cost cuts.** This commentary suggests to us that short-term interest rate policy remains on hold, with no pressing reason to cut or raise rates at this stage.

CANADA

David Iacono, CFA & Shizhe Zhong – Toronto

■ **Canada’s labour market added a modest 14,000 jobs in March**, recouping very little of the cumulative 109,000 job losses since the start of 2026. The unemployment rate held steady at 6.7%, below the 6.8% level in December 2025 and the recent peak of 7.1% in September 2025. According to RBC Economics, this gradual drift lower in unemployment has been tied to softer labour force growth, as Canada’s labour force declined by 39,000 workers over the past six months compared to the 42,000 increase in employment—a divergence linked to stalling population growth and an aging population rather than discouraged workers abandoning their job search. The details underlying March’s unemployment rate were encouraging, with permanent layoffs staying low while future job starts and temporary layoffs rose from a year ago. Despite the trade uncertainty ahead of CUSMA negotiations this summer and higher energy prices cutting into household purchasing power, RBC Economics remains cautiously optimistic that both per-person economic growth and labour market conditions will continue to improve gradually throughout the year.

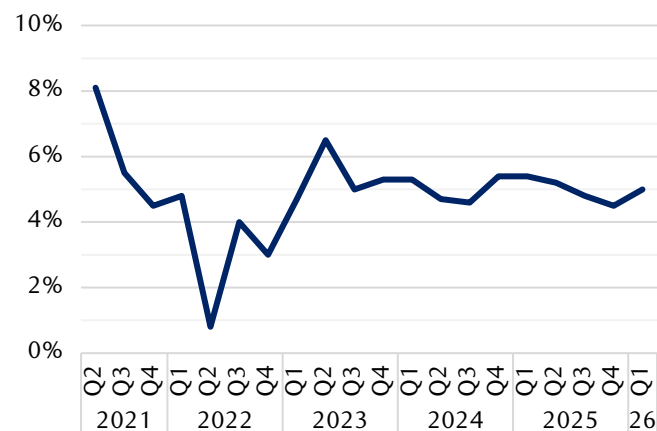
■ **As Canada marks one year of navigating elevated tariffs, the impact remains uneven across the economy.** While consumer spending held firm, business investment softened as targeted sectors faced significant headwinds. According to RBC Economics, nearly 90% of Canadian exports entered the U.S. tariff-free, thanks to CUSMA compliance protections. Tariff pain has been concentrated in certain sectors. In the past year, steel exports fell 30%, while manufacturers of aluminum, copper, motor vehicles, softwood lumber, and related products also absorbed heavy tariff burdens. In 2025, Canada’s share of the U.S. import market contracted to 11.2% from 12.6%—the second-largest decline among major American trading partners. Though Canada’s declining U.S. market share reflects a long-term trend partially predating the trade war, the tightly integrated U.S.-Canadian industrial base means even modest tariff increases on Canada impose outsized costs compared to more distant competitors.

UK & EUROPE

Rufaro Chiriseri, CFA & Thomas McGarrity, CFA – London

- **The UK economy surprised to the upside in February with GDP growth of 0.5% m/m, exceeding expectations of 0.1% m/m.** However, the Bank of England (BoE) is unlikely to be swayed, in our opinion. Instead, the BoE is focused on the Middle East conflict and its inflationary consequences through higher energy prices.
- Interest rate expectations for 2026 have whipsawed dramatically. Before the conflict began on February 27, markets had been pricing around two cuts. Following the initial energy shock and a hawkish March meeting, expectations peaked at four rate hikes. **Today, pricing has settled around 1.5 rate increases for the year.**
- BoE Governor Andrew Bailey cautioned against rushing policy decisions given current uncertainties and pass through into the economy. **The key difference from the 2022 energy shock: today’s economy is weaker, and labour markets are less tight, reducing the risk of wage-driven inflation spirals, in our view.** With monetary policy already restrictive at 3.75%, current market pricing looks excessive, and we think the BoE has room to pause and assess before changing monetary policy.
- **ASML reported Q1 results that beat consensus expectations and raised its full-year guidance, projecting 2026 revenue growth of 10.0%–22.4%**—reflecting uncertainty around potential China export controls. Despite beating expectations, shares fell 4% on the day it reported results, though they remain up 40% year to date. The company’s CEO noted, “The semiconductor industry’s growth outlook continues to solidify, driven by ongoing AI-related infrastructure investments. Demand for chips is outpacing supply.”
- **Q1 results from leading luxury goods companies LVMH, Hermès, and Kering revealed headwinds stemming from the Middle East conflict.** Beyond a sharp decline in Middle Eastern footfall in hubs such as Dubai

China quarterly GDP growth (year over year)



Source - RBC Wealth Management, Bloomberg

and Abu Dhabi, disrupted international travel flows have dampened sales in European capitals. The situation in the Middle East has contributed to further stalling in the long-awaited recovery for the luxury goods industry. This has contributed to both year-to-date earnings downgrades and valuation de-rating for European luxury stocks, making it one of the worst-performing areas of the European market in 2026 so far.

ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

- **Asia-Pacific equity markets continue to rally from the previous week** on hopes of progress in the U.S.-Iran ceasefire negotiations. South Korea and Taiwan have led the region this week. **Taiwan overtook the UK in stock market value on Wednesday** as the island’s semiconductor firms rebounded from the correction triggered by the Middle East conflict. According to Bloomberg, Taiwan’s market capitalization rose to US\$4.14 trillion, making it the seventh-largest market globally, ahead of the UK’s US\$4.09 trillion. As of the time of this writing, Taiwan’s TAIEX Index had recouped all losses driven by the conflict.
- **China GDP growth accelerated in Q1 2026.** The economy grew 5.0% y/y in the quarter, faster than the 4.5% growth in the previous quarter and ahead of 4.8% consensus expectations. According to the National Bureau of Statistics, “The main macro indicators rebounded in the first quarter, and new drivers are growing rapidly ... But we also need to see that the external situation is more complex and volatile, and the imbalance between strong domestic supply and weak demand is still stark.” Overall, while we think it is too early to gauge the spillover effects from the oil shock caused by the Middle East crisis, we also think the stronger Q1 results will give policymakers more time to be patient in rolling out additional stimulus.
- **Singapore became the first country in Asia to tighten monetary policy in response to the Iran war,** acting preemptively to address rising inflation risks stemming from a sharp increase in fuel prices. The Monetary Authority of Singapore (MAS) said on Tuesday that it will increase the slope of its policy band while keeping the width and level unchanged. The MAS uses the exchange rate as its main policy tool rather than interest rates. Underpinning the move to tighten its policy, MAS noted that “Singapore’s imported energy costs have already risen ... As higher energy costs pass through supply chains worldwide, a broader range of Singapore’s import costs will increase.” Regional peers have mostly stayed on hold as they assess the economic fallout from the conflict and the potential for fuel costs to remain higher for longer.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	7,022.95	7.6%	2.6%	30.1%	38.7%
Dow Industrials (DJIA)	48,463.72	4.6%	0.8%	20.1%	28.4%
Nasdaq	24,016.02	11.2%	3.3%	42.8%	51.2%
Russell 2000	2,713.66	8.7%	9.3%	44.1%	37.4%
S&P/TSX Comp	34,155.99	4.2%	7.7%	41.9%	57.1%
FTSE All-Share	5,653.82	4.1%	5.7%	26.8%	30.3%
STOXX Europe 600	617.27	5.9%	4.2%	21.5%	22.0%
EURO STOXX 50	5,940.34	6.7%	2.6%	19.5%	19.2%
Hang Seng	25,947.32	4.7%	1.2%	20.9%	56.3%
Shanghai Comp	4,027.21	3.5%	1.5%	23.2%	31.7%
Nikkei 225	58,134.24	13.8%	15.5%	69.6%	48.2%
India Sensex	78,111.24	8.6%	-8.3%	1.8%	6.4%
Singapore Straits Times	5,021.20	2.8%	8.1%	38.5%	57.7%
Brazil Ibovespa	197,737.61	5.5%	22.7%	53.0%	57.8%
Mexican Bolsa IPC	69,553.80	1.4%	8.2%	32.1%	24.2%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.280%	-3.7	11.3	-5.4	-32.2
Canada 10-Yr	3.472%	-0.1	3.9	36.0	-26.9
UK 10-Yr	4.814%	-10.2	33.5	16.6	57.3
Germany 10-Yr	3.043%	3.9	18.8	50.9	60.3
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.47%	0.8%	0.7%	6.1%	13.0%
U.S. Investment-Grade Corp	4.99%	1.3%	0.7%	7.7%	14.2%
U.S. High-Yield Corp	6.81%	1.7%	1.2%	10.5%	18.8%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,791.41	2.6%	10.9%	48.3%	101.0%
Silver (spot \$/oz)	79.10	5.2%	10.4%	144.7%	174.0%
Copper (\$/metric ton)	13,252.99	8.1%	6.4%	45.3%	39.5%
Oil (WTI spot \$/bbl)	91.21	-10.0%	58.8%	48.7%	6.8%
Oil (Brent spot \$/bbl)	94.90	-19.8%	56.0%	46.7%	5.3%
Natural Gas (\$/mmBtu)	2.61	-9.6%	-29.3%	-21.7%	54.2%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	98.0820	-1.9%	-0.2%	-2.1%	-7.7%
CAD/USD	0.7279	1.3%	-0.1%	1.6%	0.4%
USD/CAD	1.3738	-1.3%	0.1%	-1.6%	-0.4%
EUR/USD	1.1797	2.1%	0.4%	4.6%	11.0%
GBP/USD	1.3562	2.5%	0.6%	2.5%	9.0%
AUD/USD	0.7171	3.9%	7.5%	13.0%	11.3%
USD/JPY	158.9700	0.2%	1.4%	11.0%	3.0%
EUR/JPY	187.5400	2.3%	1.9%	16.1%	14.4%
EUR/GBP	0.8699	-0.4%	-0.2%	2.0%	1.9%
EUR/CHF	0.9224	-0.1%	-0.9%	-0.7%	-4.8%
USD/SGD	1.2712	-1.2%	-1.1%	-3.6%	-6.7%
USD/CNY	6.8190	-1.1%	-2.4%	-6.8%	-5.8%
USD/MXN	17.2556	-3.8%	-4.2%	-14.2%	3.2%
USD/BRL	4.9915	-3.6%	-8.8%	-15.2%	-3.7%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -0.1% return means the Canadian dollar has fallen 0.1% vs. the U.S. dollar year to date. USD/JPY 158.97 means 1 U.S. dollar will buy 158.97 yen. USD/JPY 1.4% return means the U.S. dollar has risen 1.4% vs. the yen year to date.

Source - Bloomberg; data as of 4/15/26

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			Count	Percent
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