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Evaluating Canadian Equity Implications from Iran Conflict

March 9, 2026

Key Takeaways

- ▶ War can embed a persistent risk premium in crude oil, lifting prices and volatility. This is typically constructive for upstream Canadian energy producers and supportive for Canada's "secure supply" positioning.
- ▶ Meaningful exposure to gold equities can provide diversification and downside mitigation during risk-off episodes, although near-term outcomes remain heavily dependent on bullion pricing.
- ▶ Sustained higher oil prices can stoke inflation and shift expectations for North American central bank easing, potentially pushing up longer-term yields. These second-order effects can matter as much as the first-order commodity response.

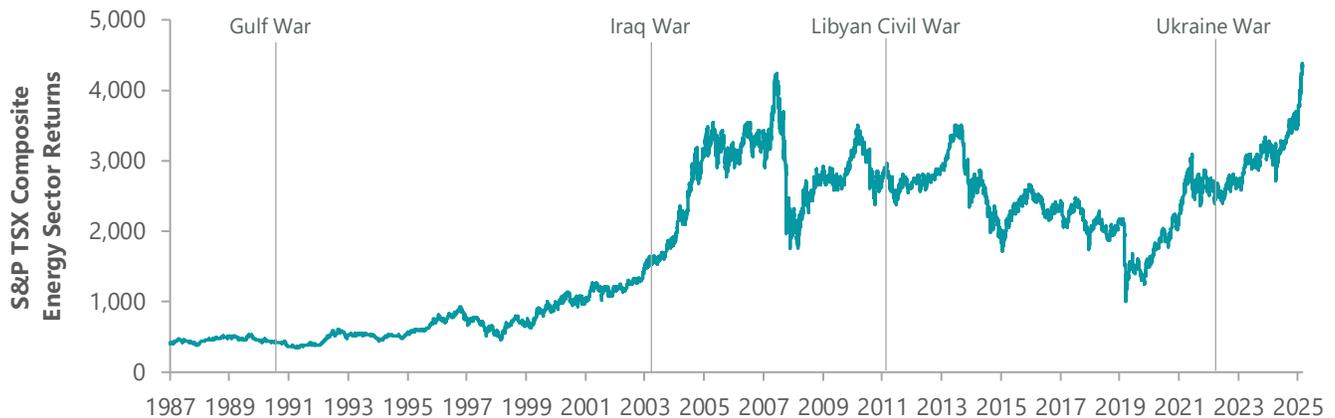
Commodities Most Impacted in Canada

An Iran war backdrop presents a more challenging environment for equities, even when underlying company fundamentals remain intact. Equity markets quickly reprice geopolitical uncertainty through wider risk premiums, higher discount rates/required returns and greater sensitivity to macro data, particularly inflation, interest rates, commodity prices and currency moves. For Canadian equities, this creates both natural offsets and pockets of economic and valuation pressure.

The most direct impact is to the energy sector. Even without a sustained physical disruption, heightened conflict risk can embed a persistent risk premium in crude, lifting oil prices and volatility. This is typically constructive for upstream Canadian energy producers, through stronger free cash flow and capital return capacity, and supportive for Canada's "secure supply" positioning in a more fragmented geopolitical landscape. Midstream infrastructure can also benefit from the same "safe supplier" narrative, although these businesses often trade with material interest-rate sensitivity given their yield orientation and capital intensity (Exhibit 1).

Gold is the other key macro hedge that often responds to geopolitical stress. In risk-off episodes, gold can benefit from safe-haven demand and uncertainty around inflation and real interest rates. Meaningful exposure to gold equities can provide diversification and downside mitigation, although near-term outcomes remain heavily dependent on bullion pricing. Within gold equities, royalty/streaming models often behave like exposure to bullion but with lower operating risk, while miners offer more operating leverage, but also more sensitivity to cost inflation and execution risks.

Exhibit 1: Canadian Energy Stocks During Oil Shocks



Data as of March 9, 2026. Source: Bloomberg.

Spillover Effects on Economic Policy Also Bear Watching

The second-order effects of the war can matter as much as the first-order commodity response. A higher oil price, if sustained, can reintroduce inflation concerns and shift expectations for North American central bank easing. Markets can push out rate-cut expectations and reprice longer-term yields higher. That distinction is important for equity leadership in this type of environment as rate-sensitive, “long-duration” equities, particularly utilities and communication services, both areas we favor in our Canadian portfolios with overweights. These can provide ballast when yields fall in a flight to quality, but may lag if higher-for-longer concerns take hold.

Currencies are another meaningful variable. The U.S. dollar often strengthens in global risk-off circumstances, reflecting liquidity demand and safe-haven flows. The Canadian dollar can be pulled in both directions, supported by higher oil, but pressured if USD strength dominates. From a portfolio perspective, USD strength and/or CAD weakness tends to be supportive for companies with meaningful USD revenue streams or global end markets.

At the market level, Canadian equities have internal hedges, most notably through energy and gold exposures. Conversely, rate- and credit-sensitive segments, including parts of financials, can face valuation headwinds when discount rates rise and funding conditions tighten. More cyclical areas, such as copper miners and industrials tied to global growth expectations, can also be impacted if markets begin to price broader demand destruction from higher energy costs.

Since the February 28 escalation, we have seen volatility, including areas of strength and weakness, but nothing that resembles a meaningful dislocation. Historically, geopolitics-driven volatility can create opportunities to reposition portfolios — often by allowing us to buy equities that are weak (where we think the market is overreacting) and funding this with equities that have relatively outperformed (and sometimes even performed strongly in an absolute sense) because of their defensive nature or attributes that make them beneficiaries of the particular event.

We construct our Canadian equity portfolios to own durable businesses with a disciplined risk lens. We view geopolitical shocks as environments where benchmark differentiation matters and opportunities can arise. Commodity-linked exposures can provide meaningful offsets, while careful attention is required around rate sensitivity, funding conditions and valuations.

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