Monthly Market Monitor

Data and opinions as of February 28, 2026

NEI perspectives

The Battle of Hormuz causing energy prices to soar - Middle East escalation is pushing energy and shipping risk premia higher. inflicting inflation pressures through oil and LNG markets. This dynamic is keeping yields firm and undermining near-term rate-cut expectations. **Bottom line:** Markets are increasingly pricing this as an energy-driven inflation shock, the magnitude of which depends on the duration of the conflict. A drawn out conflict may have significantly negative impact on the global economy.

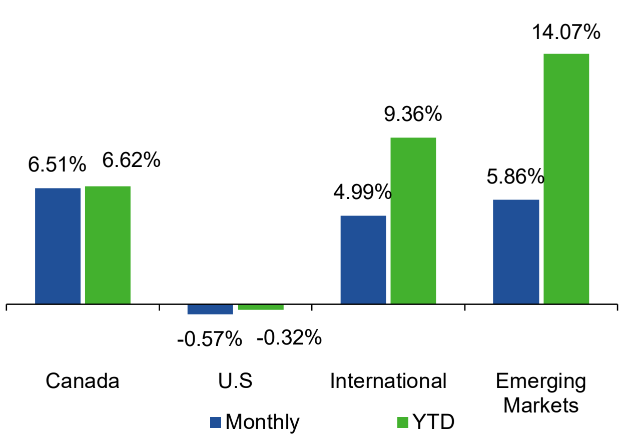
Growth in Canada remains choppy - Canada's GDP contraction in Q4 reinforces a softer-growth narrative, even if inventory effects exaggerate the headline weakness. However, volatile commodity and metals pricing can still overwhelm macro signals and drive TSX performance in the near term. **Bottom line:** The macro picture in Canada is softening, near term outlook still dependent upon USMCA negotiation, before benefits from longer term nation building initiatives trickles down.

Takaichi trade re-ignite carry-trade unwind worries - Japan's Prime Minister winning a supermajority is reviving the "Taikaichi trade", with weaker yen, stronger equities, and bond selloff with longer-dated JGB yields rising. This raises the odds of carry-trade unwinds and downward impact for North American markets. **Bottom line:** The "Taikaichi trade" brings increased risk of weaker yen, stronger equities, and rising long JGB yields – raising carry trade unwind risks that could pressure North American assets even without a local data shock.

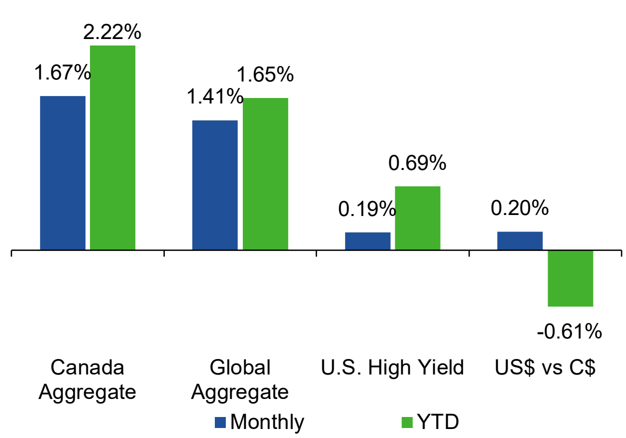
Risk premia rising: Energy, Canada growth and Japan's policy shockwaves

Over the last month, markets have been remarkably resilient despite being pulled in three directions: Middle East conflicts have pushed energy prices back to the center of the inflation story; Growth in Canada is softening just as commodities (including precious metals) are becoming more volatile; and Japan's rate trajectory is reintroducing global duration risk as politics and policy uncertainty heighten the risk of the broader carry-trade unwind narrative. The common thread: the market backdrop is shifting from "smooth disinflation" to a noisier mix of supply shocks, policy and geopolitical uncertainties, and cross-asset volatility.

Equity returns (in C$)



Fixed income and currency returns (in C$)



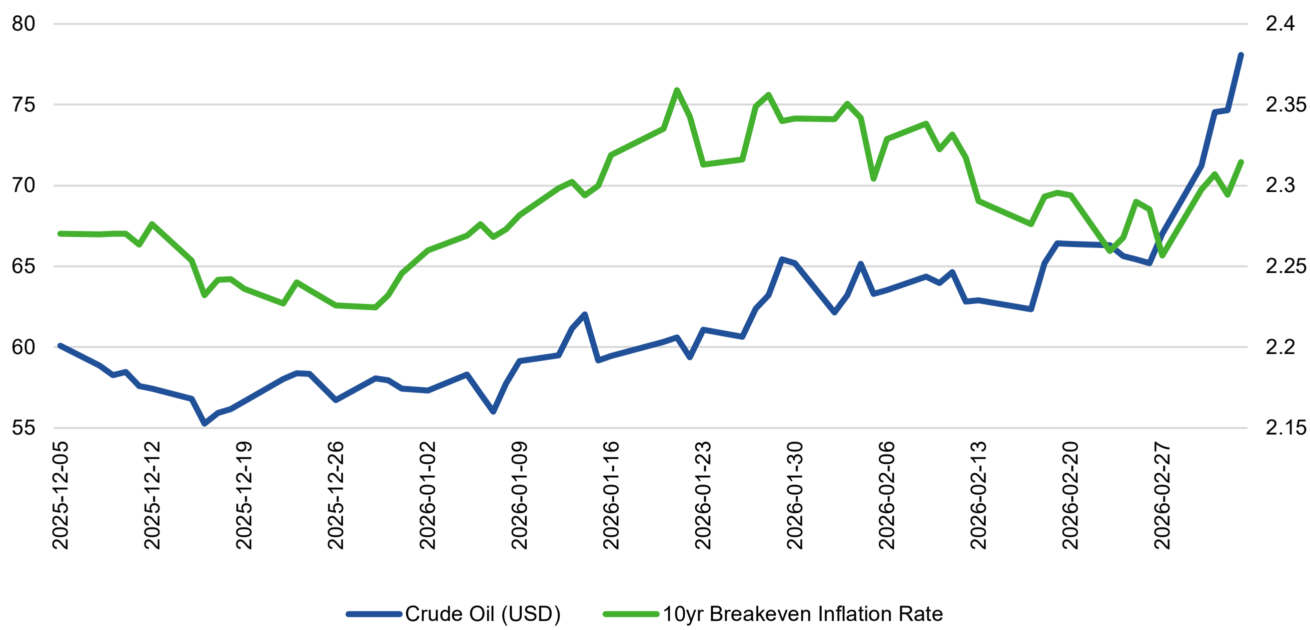
Source: Bloomberg.

Middle East conflicts and the impact on energy prices

Rising tensions around Iran have materially disrupted shipping routes and energy flows through the Strait of Hormuz, a critical chokepoint for global oil and LNG supply, forcing markets to reprice geopolitical risk premia across energy and freight markets. Reuters highlighted sharp moves in crude oil and natural gas prices linked to shipping disruptions and production uncertainty, underscoring how quickly geopolitical stress is translating into market volatility. Compounding this, QatarEnergy declared force majeure and halted LNG output – an especially consequential development given Qatar's outsized share of global LNG exports and the already-fragile balance in global gas markets.

The broader implication is that these dynamics are increasingly trading less as isolated geopolitical headlines and more as a sustained, energy-led inflation shock. Higher and more volatile energy prices can keep inflation expectations elevated, anchor real yields higher, and complicate central banks' ability to deliver rate cuts – even if growth data continues to soften globally. In this context, a prolonged conflict can increase the odds of stagflation across global economies.

Chart 1: Brent (or WTI) vs 10-year breakeven inflation (last 3 months)



Source: Bloomberg.

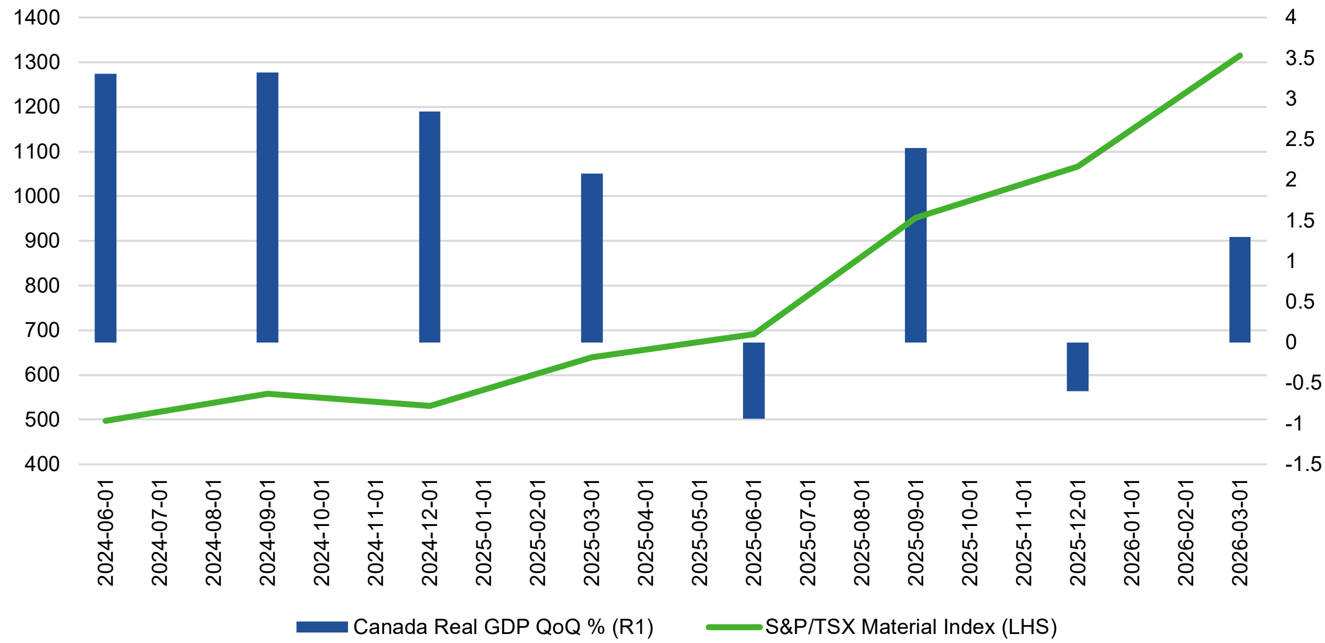
Bottom line: This is increasingly trading as an energy-led inflation shock, which can keep yields firm and complicate central-bank "cuts" narratives even if growth cools.

Canada's GDP dip and what it means for markets

Canada's Q4 2025 GDP contraction adds an important domestic cautionary flag for investors. Statistics Canada reported real GDP down 0.2% quarter-over-quarter, roughly -0.6% annualized, driven in large part by a sharp inventory drawdown. While this means the headline weakness overstates the deterioration in final domestic demand, it nonetheless reinforces the picture of an economy losing momentum at a time when financial conditions remain restrictive.

For Canadian equities, sharp swings in materials and precious metals drives sentiment and dominate short term performance over macroeconomic conditions. During the most recent market stress episode from the Iranian war, precious metals are behaving less like a stable portfolio ballast and more like volatility amplifiers. Gold fell roughly 4% and silver close to 10%, while U.S. dollar appreciated, reiterating US dollar's safe haven currency status. The TSX materials sector, largely comprised of gold and silver miners that are heavy energy consumers, fell over 11% since the breakout of the conflict.

Chart 2: Canada real GDP growth (q/q) vs TSX Materials (or TSX Gold Index) total return (last 12 – 18 months)



Source: Bloomberg.

Bottom line: Canada's macroeconomic tone supports a softer-growth narrative, but commodity and metals whipsaws can still dominate TSX and short term market sentiment.

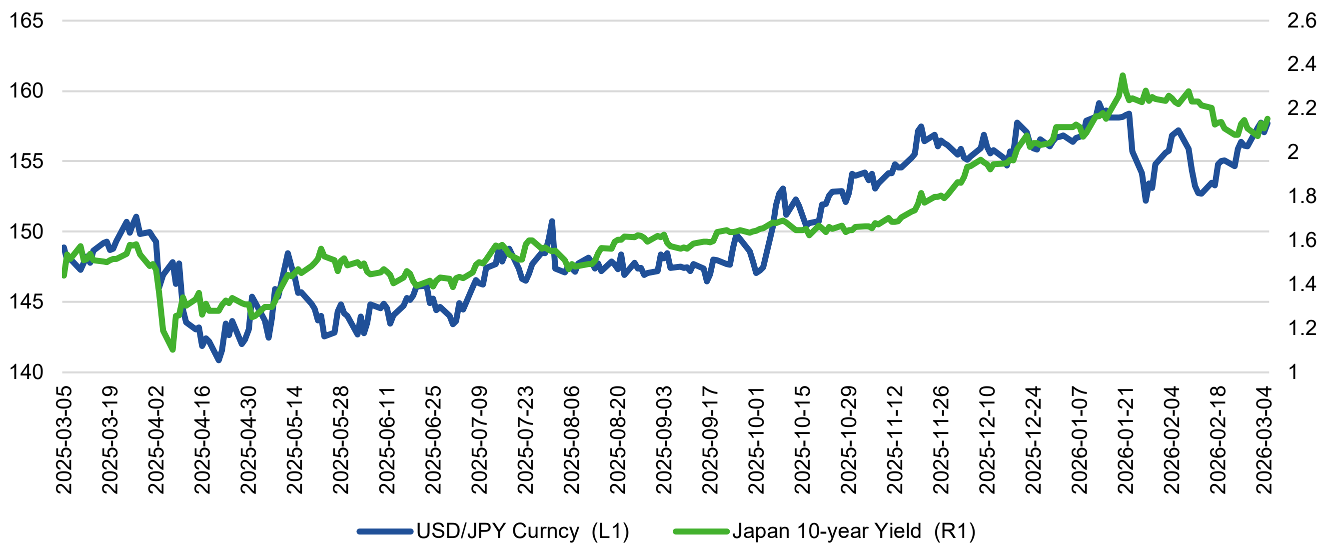
Japan's bond yields and the implications for global rates

Japan is re emerging as a consequential driver of global bond and currency markets. A decisive election outcome delivering a governing supermajority has revived the so called "Takaichi trade," characterized by a weaker yen, stronger domestic equities, and renewed pressure on Japanese government bonds, particularly at the long end. Longer dated JGB yields have moved higher as markets reassess fiscal, political, and policy risks. At the same time, the Bank of Japan has reiterated that policy normalization remains on the table if growth and inflation evolve in line with expectations, even as energy shocks and broader market volatility make the path less linear.

For portfolios, the implication is increasingly clear: the long standing assumption that Japanese rates would remain anchored near zero indefinitely is breaking down. Rising and more volatile JGB yields reduce the appeal of cheap yen funding and stable carry trades that have supported global risk taking for years. As a result, the probability of carry trade unwinds increases, raising the risk of rising U.S. and Canadian bond yields as well as falling global equities and other risk assets during periods of market stress.

The broader takeaway is that financial conditions can tighten beyond Japan even without a fresh negative data shock from North America. Japan's evolving political – policy mix highlights how downside cross asset risk can bleed into North America, pushing global borrowing costs higher and tightening financial conditions "from abroad," rather than through domestic growth or inflation surprises.

Chart 3: Japan 10-year JGB yield vs USD/JPY (or U.S. – Japan 2-year yield spread) over the last 6 – 12 months



Source: Bloomberg.

Bottom line: Japan's supermajority win is reviving the "Takaichi trade" – weaker yen, stronger equities, and rising long JGB yields – raising carry trade unwind risks that could pressure North American assets even without a local data shock.

Data and opinions as of February 28, 2026.

©2026 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar Research Services LLC, Morningstar, Inc. and/or their content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar Research Services, Morningstar nor their content providers are responsible for any damages or losses arising from any use of this information. Access to or use of the information contained herein does not establish an advisory or fiduciary relationship with Morningstar Research Services, Morningstar, Inc. or their content providers. Past performance is no guarantee of future results.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. The views expressed herein are subject to change without notice as markets change over time. Information herein is believed to be reliable but NEI does not warrant its completeness or accuracy. Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus and/or Fund Facts before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing, or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.