FIDELITY PRIVATE WEALTH

Quarterly market commentary

MARCH 2026

A market with headline fatigue, volatility and opportunity

Capital markets entered 2026 on a wave of new technological innovation but quickly shifted into a period of heightened volatility. Early optimism around advancements in artificial intelligence (AI) was accompanied by concerns over its potential disruption to various industries. With this uncertainty, investors reallocated capital within AI as they reassessed both the risks and opportunities associated with the new technology.

By March, geopolitical tensions also escalated with the outbreak of conflict in the Middle East that disrupted oil supplies. The supply shock in oil pushed prices higher and induced further volatility, along with a constant flow of headline news, presenting mixed signals around escalation and de-escalation of the conflict.

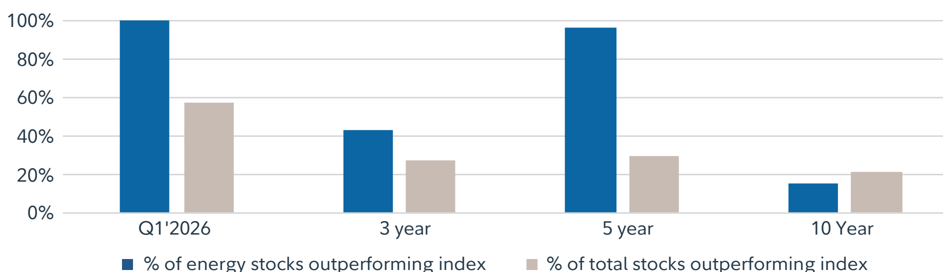
Investors were forced to frequently review their outlooks on energy and displayed some signs of fatigue from this headline-driven coverage. Markets initially reacted with restraint before the duration and magnitude of the current situation caused a more pronounced sell-off.

To further understand these market dynamics, we decomposed S&P 500 returns and identified two key themes last quarter.

Energy was the primary driver of returns: Unsurprisingly, rising oil prices improved profit forecasts for energy companies, drawing significant capital into the sector. Notably, every energy stock outperformed the index in Q1, an unusually high level of participation rarely observed over the past decade, excluding the energy shock from the Russia–Ukraine conflict five years ago. By contrast, outperformance tends to be far more concentrated over longer horizons, with only about 15% of energy outperforming over a ten-year period.

Broader participation among stocks: Approximately 57% of stocks outperformed the index in the past quarter, up from 39% in Q4, and well above the concentration of performance seen over longer periods. This points to a broadening market that has been developing beneath the surface. Capital rotated away from large-cap "hyperscalers," as investors re-evaluated near-term returns from their AI-related capital expenditures, as well as the durability of their competitive advantages. The chart below portrays the two overarching trends.

Energy outperfromance and a broadening market (S&P 500)



Source: S&P Dow Jones Indices LLC, Morningstar, and Fidelity Investments Canada ULC. Data as of March 31, 2026. Returns are shown in USD on a total return basis. For illustrative purposes only.

KEY TAKEAWAYS

Geopolitics and AI-driven disruption shaped markets in the past quarter.

Canadian equities continued to display resilience amid uncertainty.

Energy was the primary driver of performance, driven by supply shocks.

Higher volatility and dispersion in returns reinforce the importance of discipline and diversification.

These dynamics point to a market that was significantly influenced by macro-driven shocks and shifting leadership. Energy-led rallies driven by such macro-shocks have historically been temporary, suggesting that the market could eventually shift back to a more selective criterion in the sector. Meanwhile, improving market breadth indicates that capital is exploring new areas of opportunity beyond traditional large-cap technology, at least for now. Interestingly, none of the largest ten companies in the market outperformed the index in Q1, a stark contrast compared with the past five-years where approximately half of them beat the index and drove overall market returns.

Canadian equities

Canadian equities as measured by the S&P/TSX Capped Composite Index posted a relatively resilient return of 3.9% (in CAD terms) as compared to other global markets. The energy sector surged 42.4% during the quarter. Given this sector's large share in the TSX index, its return more than offset losses in other areas, such as the lowest-performing information technology sector that posted a -19.5% return.

Inflation continued to ease in Canada, declining to 1.8% in February from 2.5% in December 2025, largely driven by falling energy prices in early 2026. However, recent increases in oil and natural gas prices could impact this disinflationary trend in the coming months. At the same time, economic growth has softened, with GDP contracting by 0.2% in the fourth quarter, while the labour market remains stable but subdued, with unemployment hovering at 6.7%. Overall, these trends depict a slow but resilient economy Looking ahead, the Canadian economy could benefit from rising global demand for commodities and energy supplies required to build AI infrastructure.

U.S. equities

U.S. equities as measured by the S&P 500 had an uneven start to the year, losing 4.3% in USD terms. A stronger U.S. dollar on the back of oil price increases cushioned the loss for Canadian investors to a smaller 2.6% decrease in CAD terms. In line with global trends, the energy sector was the strongest contributor, posting a gain of 38.3% in USD terms. However, large losses in information technology (-9.1% in USD terms) and financials (-9.4% in USD terms) dragged the market lower given these sectors' large weights in the index.

Inflation continued to moderate, coming down to 2.4%, while unemployment stayed steady at 4.3%. In contrast, GDP growth slowed sharply from 4.3% in Q3 to 0.7% in Q4. The longest ever government shutdown in Q4 is widely viewed as the primary driver of this slowdown. The growth outlook for the U.S. economy is generally constructive, with AI innovation at the forefront. However, an increasingly uncertain backdrop with shifting geopolitical policies, potential impact of tariffs and the approaching midterm elections is prompting renewed debate around the sustainability of U.S. exceptionalism.

International equities

International equities lost steam in the quarter, primarily driven by the rise in energy prices. These markets are generally net importers of oil and natural gas (unlike Canada and the U.S.) and are therefore more sensitive to oil prices. Additionally, these regions delivered strong gains last year, prompting some investors to take profits amid the increasing uncertainty. As a result, performance was more subdued, with MSCI EAFE Index posting a 0.5% return in CAD terms while the MSCI EM Index posted a 1.6% return in CAD terms.

However, the structural tailwinds for these regions remain intact. Policy reforms, attractive valuations and increased government spending continue to support developed international markets, while emerging markets stand to benefit from rising global investment in AI, particularly through their role in supplying key input materials and hardware.

Fixed income

Bond markets also experienced volatility during the quarter, influenced by ongoing headline developments. FTSE Canada Universe Bond Index posted a modest gain of 0.2%, while the Bloomberg U.S. Aggregate Bond Index (CAD-Hedged) decreased by -0.5% in CAD terms.

Geopolitical tensions in the Middle East have renewed inflation concerns globally. The U.S. is particularly affected, given its elevated levels of fiscal deficits that are expected to further exacerbate from borrowing needs related to defense and expansionary fiscal agenda. Similar fiscal positions in Canada and other major economies have contributed to upward pressure on long-term interest rates, which have weighed on bond prices globally.

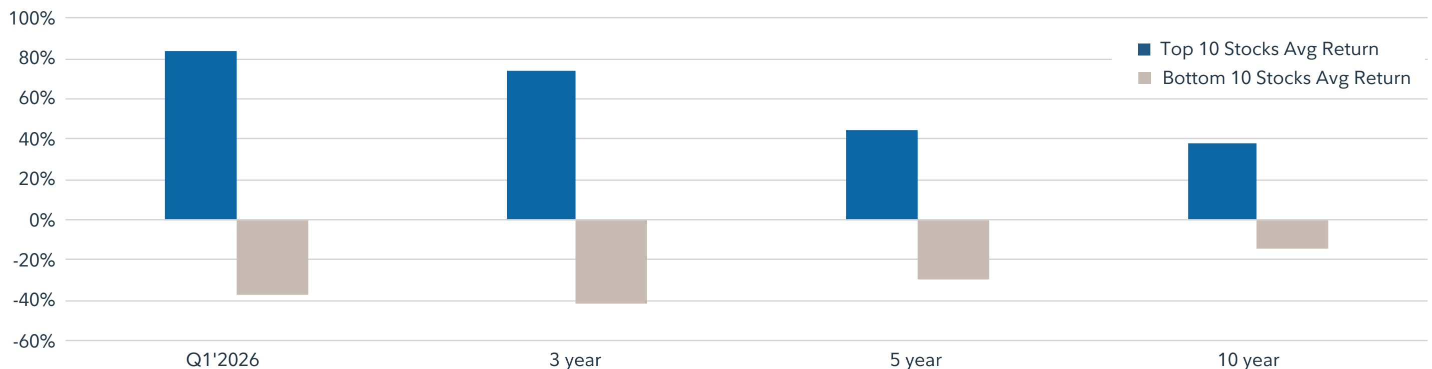
Given energy's central role in the global economy, higher energy prices could feed into broader price pressures. Central banks will be monitoring inflation data in the coming months for signs of this pass-through as they assess the appropriate path for policy interest rates, which were largely held steady during the past quarter.

Outlook

Our view on markets to start the year was cautiously optimistic, but with elevated volatility. While volatility is a normal part of investing, we acknowledge that it can still feel uncomfortable in real time. The first months of the year were a prime example, marked by frequent (and large) market swings and more down days than up days for the S&P 500. Such volatility can test investor emotions and increase the risk of reactive decision-making. Maintaining discipline, focusing on fundamentals and avoiding emotionally driven actions remain critical as we navigate this uncertain environment.

Another takeaway from the start of the year is that, while overall index performance ended the quarter with less than an extreme decline, the underlying market was far less uniform. While more stocks contributed to returns, those that lagged experienced more pronounced declines. Consequently, the gap between top- and bottom-performing stocks has widened meaningfully, as shown in the chart below. This combination points to a more selective market, where returns are increasingly driven by specific sectors and companies rather than broad-based momentum.

A wider gap between top & bottom performers (S&P 500)



Source: S&P Dow Jones Indices LLC, Morningstar, and Fidelity Investments Canada ULC. Data as of March 31, 2026. Returns are shown in USD on a total return basis. For illustrative purposes only. Top and bottom performers represent the average returns of the highest and lowest decile of the index constituent.

Overall, this type of environment can create opportunities for active investors, as periods of heightened volatility and dispersion can lead to temporary disconnects between price and fundamentals. We rely on our expert fundamental managers to explore such areas where pessimism could be overdone, presenting attractive entry points. Meanwhile, we maintain a diversified approach, with exposure across regions and income from bonds providing ballast to equities amid an uncertain and selective market.

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