ETERNA FINANCIAL GROUP

PERSPECTIVES

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Each month, our experts decipher trends shaping the financial universe of informed investors. Discover nuanced analysis and insights to guide your wealth management decisions. Forged by experience and driven by innovation, our perspectives help you build a sustainable financial legacy.

GEOPOLITICAL UNCERTAINTY: THE NEW DOMINANT RISK FACTOR

As 2025 drew to a close, conditions seemed aligned for a calmer 2026: growth forecasts had been revised upward, inflation appeared to be under control, and monetary policy had eased. That favourable backdrop was abruptly upended. Within the span of just a few days in March, the military escalation of the Middle East conflict reshaped the global risk landscape.

Unlike previous episodes of tension, this intervention follows a logic of direct confrontation, considerably widening the range of possible scenarios.

Closing the Strait of Hormuz: a Shock at the Heart of Global Supply Chains

The most immediate impact of the conflict was felt in the transport of energy resources. This strategic waterway, through which roughly 20% of global trade in oil and liquefied natural gas usually passes, has been almost completely disrupted by the use of naval mines and drones. The reaction in commodity markets was brutal: Brent crude surpassed US$100 per barrel before briefly approaching US$120.

A coordinated response from international authorities, including the large-scale release of strategic reserves, only partially offset the loss of supply from Gulf states.

Saudi Arabia and the United Arab Emirates still have access to alternative pipeline routes, and major buyers such as China and India have been able to exploit gaps in enforcement measures. That said, even a partial disruption reduces available supply and embeds a non-negligible geopolitical risk premium into prices.

Beyond energy, the conflict has exposed significant vulnerabilities in global supply chains. The region is a key producer of essential inputs—fertilizers, helium, aluminum, nitrogen—whose disruption ripples quickly across sectors as varied as agriculture, semiconductors, and aerospace. These raw materials rarely make headlines, but their role in production chains is critical.

An Exogenous Shock on a Still Fragile Macro Backdrop

The war in Iran derailed a macroeconomic trajectory that, in many parts of the world, had finally been moving in the right direction at the end of 2025.

From an economic standpoint, this type of conflict is the textbook definition of a negative supply shock: rising energy prices increase transportation and production costs, erode household purchasing power, and push headline inflation higher. Recent Canadian inflation data illustrate this dynamic clearly: headline inflation accelerated to 2.4% year-over-year, largely driven by a 21.2% month-over-month surge in gasoline prices—the largest single-month increase ever recorded. Worth noting, however, is an important difference from the 2022 shock: in the current context, higher energy prices act more as a drag on real income than as a driver of runaway inflation. Advanced economies are less oil-dependent than they once were, and gains in energy efficiency combined with the continued shift toward services have reduced overall sensitivity to oil price shocks.

History nonetheless calls for caution. Prolonged shocks have consistently preceded significant economic slowdowns. The duration of the conflict will be the decisive variable: a brief episode would limit supply disruptions and allow the price effect to fade within a few months. A protracted conflict—along the lines of the Russia-Ukraine or U.S.-Iraq wars—would produce consequences far more difficult to anticipate.

Markets Have Held Up, For Now

Despite the severity of the initial shock, the overall market drawdown has remained relatively modest given the risks at hand. Valuations remain elevated in most regions, which leaves room for further adjustment should the conflict intensify or drag on. The S&P 500, in fact, has reached new highs in recent days. Worth watching, sectors typically more sensitive to oil price shocks—consumer discretionary, industrials—have shown relative resilience so far, while materials and technology have experienced more pronounced multiple compression. Should oil prices remain elevated, that dynamic could reverse.

Our Positioning: A Caution That Predates the Conflict

In this environment, we are maintaining a defensive stance in our asset allocation. It is important to emphasize that this caution is not a reaction to the conflict. Well before the escalation, we had already modestly overweighted alternative assets and fixed income relative to our targets, in anticipation of an environment where risks outweighed near-term opportunities. That approach has proven sound, and we are maintaining it.

We continue to favour companies with solid fundamentals and recurring revenue streams, capable of navigating different phases of the market cycle. The Canadian market, given its natural exposure to energy and resources, offers relative resilience in this context.

Key Takeaways

Geopolitical uncertainty rarely follows a straight line, and the current conflict is no exception. A few guiding principles stand out for investors.

The duration of the conflict remains the determining factor. A brief episode, with a gradual restoration of oil transit, would limit the macroeconomic fallout to a few quarters.

A prolonged conflict, on the other hand, would amplify second-round effects: pass-through to food prices, downward revisions to corporate earnings, and the possibility of rate increases in a context where monetary easing was still anticipated.

The history of oil shocks has also taught us to be cautious about making hasty comparisons. Advanced economies are less dependent on oil today than they were in the 1970s or 1990s, which reduces—without eliminating—their sensitivity to supply disruptions. The example of 2022 is revealing: a major energy shock did not prevent markets from recovering, provided that central banks maintain their credibility.

Finally, in this type of environment, the quality of fundamentals re-emerges. Companies with predictable cash flows, manageable debt levels, and business models that hold up through economic cycles tend to weather periods of geopolitical volatility more effectively, and to offer the best entry points for patient investors.

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