

Rate Expectations

The key question for investors is no longer whether inflationary pressure is re-emerging. It is whether central banks will respond aggressively enough to halt the global expansion in its tracks.

That risk has clearly risen. The oil shock has pushed headline inflation higher across major economies, and the concern is that higher energy costs are beginning to seep into “core” (ex-energy, food and other volatile items) price baskets. This is a classic central bank dilemma. Oil-driven inflation weakens real incomes, squeezes corporate margins and lifts measured inflation all at once. Tightening into that mix can stabilize inflation expectations, but it also risks amplifying the growth hit. And unfortunately, central bank policy rate adjustments are ineffective at reining in oil prices during a supply shock.

In some ways, markets are already doing part of the central banks’ job. As discussed in [our most recent Ask Forstrong](#), long-term bond yields have moved higher as investors reprice inflation risk, with 30-year US Treasury yields recently reaching their highest levels since 2007. Higher yields matter. They raise mortgage rates, increase corporate financing costs and tighten financial conditions regardless of whether policy rates move in lockstep.

But context is critical. The growth backdrop is relatively robust. The global economy entered 2026 with several important supports: resilient trade activity, fiscal stimulus in a number of major economies and a powerful AI-related capital spending boom. These trends are durable and should persist through fluctuating macro conditions.

Additionally, parallels drawn to the 2022 oil price spike overlook key distinctions. This time, the starting point was not one of already rapidly accelerating inflation pressure. Supply chains are in better shape. Labour markets are cooling rather than overheating. And critically, the oil intensity of global GDP continues to trend lower. The knock-on effects from higher oil prices should therefore be less forceful than in previous oil shocks.

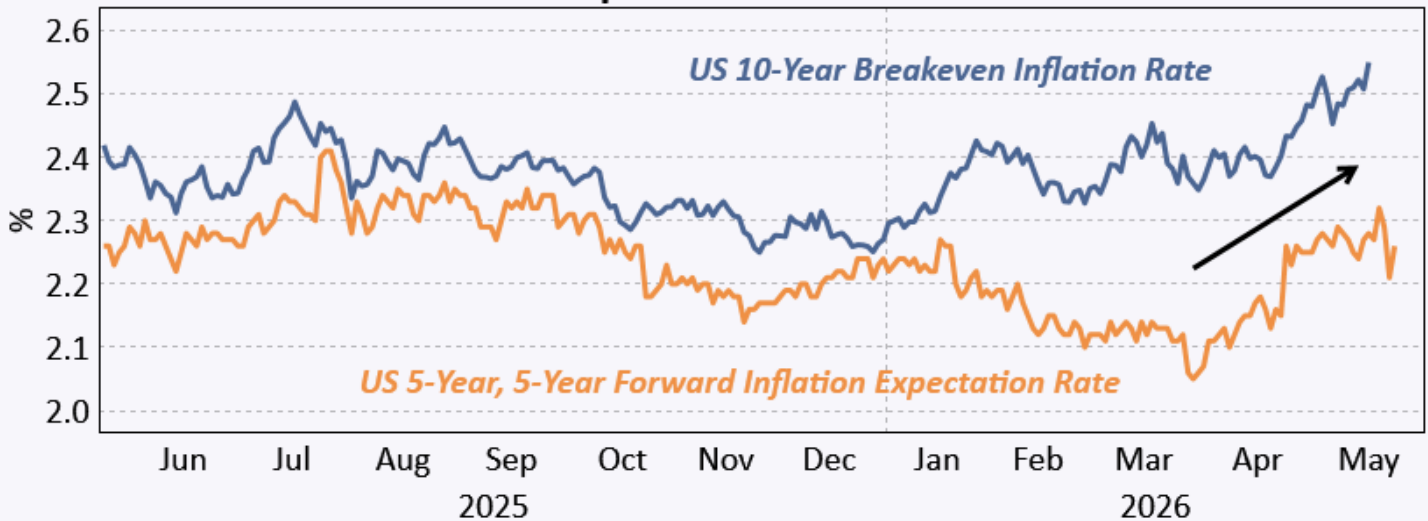
Timing, though, is everything. Central banks can look through a temporary oil spike if inflation expectations remain anchored and second-order effects are contained. Per the chart below, inflation expectations are pushing higher but remain relatively benign. But the longer oil prices stay elevated, the more the shock migrates from gasoline pumps to freight costs, food prices, wages and corporate pricing behaviour. At that point, what began as a focused price shock becomes a broader inflation problem. Central banks do not want to be thrust into a reactionary position for the second time this decade.

Making predictions on volatile geopolitical developments and conflicts is a losing proposition. However, the Trump administration does appear to have reached a pain point with the war in Iran as the November midterms approach and American drivers grow increasingly frustrated. Recent reports suggest progress toward a US-Iran framework that could extend a ceasefire and reopen the Strait of Hormuz, although Iran has disputed some US claims and the details remain murky. If such an agreement materializes and is honoured by both sides (a big if), it would likely represent a meaningful pressure release valve for oil prices and geopolitical risk.

Ultimately, we expect that the global economy can withstand elevated oil prices at or near current levels and modestly higher interest rates. However, risk levels are elevated and require close monitoring. We remain

invested and continue to align our strategies with the key themes underpinning global growth; embracing broad diversification to dampen volatility and manage risk.

Inflation expectations are on the rise



Sources: Macrobond, Federal Reserve, Forstrong Global Asset Management

Global Strategy Overview

Cash

Elevated geopolitical and economic risk necessitates maintaining portfolio hedges. Gold bullion has performed poorly since the start of the Iran war (likely as investors sold recent “winners”); but appears to have found support near the \$USD 4,400 level. Cash levels remain neutral, while gold bullion exposure has been maintained in balanced and growth-oriented strategies this quarter.

Bonds

The recent spike in oil prices has caused a surge in long-term bond yields, as bond investor attention shifted to inflation risk and a potential hawkish pivot from central banks. The moves bring global bond yields closer to fair value in our view, but investment grade bonds in developed markets still lack a clear catalyst to warrant taking on more exposure. Fixed income exposure remains modestly underweight this quarter.

Equities

The outset of war in Iran has led to some indiscriminate selling of risk assets, as an oil price shock feeds stagflation fears. While risks to global growth are elevated, we ultimately expect markets to stabilize and constructive underlying macro trends to reassert themselves. We have modestly increased equity exposure in client portfolios.

Opportunities

Swedish growth indicators continue to firm, showing the economy is entering an upswing phase. Lower interest rates are feeding into domestic demand, while rebounding European industrial activity and accelerating defense spending have underpinned a steady rise in new orders. We have added to an existing position in Swedish equities in balanced and growth-oriented strategies this quarter.

Forstrong Strategies	Inception Date	1 Month	YTD	1 Year	3 Year	5 Year	10 Years	Since Inception
Balanced								
Global Income	30/06/08	0.94%	2.05%	10.45%	8.59%	5.37%	5.53%	7.32%
Global Balanced	03/06/03	2.61%	2.61%	17.19%	10.72%	6.40%	7.55%	7.35%
Global Growth	30/06/03	4.42%	3.68%	23.37%	14.19%	8.59%	9.88%	8.76%
Canadian Income	30/06/08	1.29%	2.32%	10.78%	8.59%	5.39%	5.42%	6.48%
Canadian Balanced	30/06/03	2.31%	3.59%	18.91%	11.49%	7.43%	7.73%	7.53%
Canadian Growth	30/06/03	3.91%	5.10%	26.79%	15.38%	9.89%	9.90%	8.82%
Global Equity								
Emerging Markets Equity	31/01/19	7.35%	8.68%	31.94%	13.21%	6.11%	NA	6.45%
Global Ex-North America Equity	31/12/19	5.04%	8.51%	29.81%	15.63%	9.20%	NA	9.41%
Alternative Income								
High Income Opportunities	30/06/22	0.94%	3.34%	18.55%	11.91%	NA	NA	12.98%

* Performance as of April 30th, 2026
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