

Why Markets are Not a Well-Oiled Machine Right Now

Speaker Key:

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00:00:00	DP	Welcome to AGF Inside Perspectives. John, good morning.
00:00:06	JC	Good morning.
00:00:06	DP	And Happy Saint Patrick's Day.
00:00:08	JC	And to you. Let's raise a glass of Guinness.
00:00:10	DP	That's right. It'll be a non-alcoholic Guinness for me, but of all the non-alcoholic beers, it's actually pretty tasty.
00:00:15	JC	It's good. It is good.
00:00:17	DP	There you go. All on board. I'm not sure if you're a movie buff, John, or even watched the Academy Awards ceremony this past weekend. I'll admit, I'm a bit of a sucker for that kind of stuff.
00:00:29		Especially, it feels heavy, the world right now, and it's a little bit of levity. And I noticed that this year's big winner, although there were big winners, but the big winner was One Battle After Another. And I just thought, how fitting is that, given the year that investors have had to navigate so far this year?
00:00:49	JC	Yes. Look, I'm not a massive movie buff, but I do enjoy a good movie every once in a while, just to get your mind off of your day-to-day activities. I will say, I did not watch the Oscars, and I don't think I've watched the Oscars in many, many years. But I am quite happy that Kevin O'Leary did not win an Oscar for his cameo in, well, actually, it was more than a cameo, it was an actual real job. But he didn't win, which is good.
00:01:15		Anyways, a good movie is always a good thing to sit down to and try to get your mind off of day-to-day events, because this market really can wear on you, and it probably has on many, many investors. It's been an interesting start to the year, which we'll get to in a moment or two. But yes, a good movie isn't so bad.

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00:01:32	DP	And yes, definitely, we want to get to what's going on in markets. Here's one more little nerdy film-market connection for you. Paul Thomas Anderson. He's the director of One Battle After Another.
00:01:44		He also directed There Will Be Blood, maybe ten years ago, a great movie about one man's obsession with oil, which, of course, is not only a commodity that investors are growing all too familiar with these days, but one that our guest, AGF portfolio manager Richard Fisher, knows pretty, pretty well.
00:02:05		And so, without further ado, let's get into our conversation, John. Richard, welcome.
00:02:20	RF	Thank you, David.
00:02:21	DP	It's a great pleasure to have you on the show. Now, normally, I'd follow up with a film question for you as well, but knowing you're a long-suffering Buffalo Sabres fan, I can give you a few minutes instead to gloat about your team's somewhat impressive run to near the top of the NHL standings this year. I'm guessing it feels pretty good for you.
00:02:44	RF	It's been a long, long winter. And John knows this too, because his son is a diehard Sabres fan.
00:02:50	JC	Yes, he is.
00:02:51	RF	I go back all the way to the French Connection. Growing up in Simcoe, Ontario, and outside of cable, it was the UHF. The aerial got pointed over to Buffalo, and we couldn't get Leaf games. We got all the Sabres games. So I was basically hooked from day one, so it's been a fun season to watch so far.
00:03:12		And the recipe is pretty simple. It's keeping it simple. It's putting pucks deep. It's playing a full 60 minutes. It's 110% per shift. And when you put pucks in the net, Dave, good things tend to happen.
00:03:27	DP	There you go.
00:03:28	JC	Wow. He sounds like a Buffalo Sabre himself.
00:03:31	RF	Media trained and all.
00:03:34	JC	Hey, listen, the truth of the matter is it's been 14 years since the Sabres made the playoffs, right? It's been a long, long time. The beauty, I think, from my perspective, is that fan base is a great fan base. They love their team. They support their team, good, bad, and indifferent. They're always there.
00:03:49		And to see the excitement in the building now, watching games from home, you can almost feel it coming through the television.

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		And it's a good thing, because a healthy Buffalo franchise is a healthy NHL. It does help quite a bit.
00:04:02	DP	Okay, we'll move on from that. I think that's enough gloating for one day. And let's get into something a little bit more serious. And, John, the last episode we did talk about and we ran through a list of geopolitical hotspots, including the risk of an escalating conflict between the US and Iran. And now the war has broken out between the two.
00:04:30		And Israel, obviously, also actively involved as an ally to the US. Are you surprised at just how disruptive an event this has turned out to be?
00:04:41	JC	Yes and no. I never thought that the Iranian conflict would get to this point. I thought there'd be some diplomacy and there'd be some resolution to it. But obviously, something changed. Something was said, something was done, something, something. And we're at this stage. I am actually quite encouraged by the market's resiliency. Right?
00:05:01		If you look at the market, we've had moves of a percent, percent and a half, but we haven't seen one of those capitulation events at all in the first two and a half months of the year or the last three weeks of this conflict in Iran. So the market has actually held in much better than I would have expected it. We saw oil pop a little bit, and we'll get Richard's thoughts on this, to \$120 overnight a week or so ago, but it settled back down below \$100.
00:05:30		And it feels comfortable. Now, that's not always a good thing in markets, right, because when there's complacency in the markets, sometimes you can get beat up again. But surprised at the resiliency, surprised at the S&P, surprised at the TSX and how well it's hung in there. Watching oil very carefully because it is very, very much a leading indicator now for where the markets are going to go. But generally speaking, encouraged by the resiliency, but not comfortable. Not comfortable yet.
00:05:59	DP	And then, Richard, we'll get you in on this. And let's talk about oil first. There's a few commodities that are being impacted by what's going on, but let's talk about oil because it's on everybody's mind and it's in the headlines in a daily way. What aspects of the war are specifically driving the price of war? So, what is it about the war that is creating those fluctuations that John mentioned, those highs, and then the settling that we've had over the last couple of days?
00:06:27	RF	First and foremost, it's been the disruption in the traffic. This is the Strait of Hormuz being largely closed down. There's a couple of tankers per day that do make its way through that narrow

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		passage. But largely, everything is at a standstill. And I'll put a couple numbers around it in both oil and natural gas. Oil, you are seeing a disruption on a gross basis of about 20 million barrels a day.
00:06:55		And then when you net that out, basically, on some of the pipeline diversions, east, west, and some of the short-term supply pumping that's being done on the strategic reserves, you're still nine or ten million barrels a day net short, which is causing the price spike. Natural gas, principally in Qatar, that's 20% of global production right there that has been shut in.
00:07:22		The key for me, though, is the duration of this disruption. The longer it goes on, the more that the price of stuff goes up everywhere.
00:07:34	JC	It's pretty amazing to me, David and Rich, to see how many people now have this little satellite image of the Strait of Hormuz on their screens, and watching little red dots. And those little red dots aren't moving, which are the big tankers sitting in the middle of the ocean and the like. So, Rich, just to put your number in perspective, I believe that the global demand is about 100 million barrels a day, right?
00:08:00		So think about it. 20% of all the oil that needs to get out and into stuff isn't getting out and into stuff. So we are getting very, very close to a global shortage here that's going to really impact a lot of different things.
00:08:14	RF	Yes, and wider market implications. Obviously, you're seeing price spikes around other areas of the broader economy. The disruption comes, the length of the disruption comes in with inflation morphing into stagflation. So, not only does it affect prices, it affects the output of Western economies. And that's where I think rubber hits the road.
00:08:42	DP	And Richard, on that front, John mentioned that oil has obviously spiked, and then it's fluctuating a little bit. Obviously, that's investors trying to figure out this dislocation and trying to figure out where the price should be. Do you feel like, and I guess we don't know, but do you feel like we're getting close to a point where it may stabilise a little bit here?
00:09:07	RF	Well, it's going to be all dependent on the length of the disruption. The longer this goes, I think, the higher prices go.
00:09:16	JC	I think we are at a tipping point here. The way I think about it, and the way people have been talking to me about it is we're an incident away from \$150 on oil, and we're an incident or a resolution away from \$70 to \$75 again. So, the bid-ask spread is

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		quite wide and could go either way. We're currently sitting, as we do this podcast, in around \$95 a barrel.
00:09:43	JC	It was \$65 when the war started. I don't know if we get back to \$65 anytime soon. I think there's a new floor now, and it's around \$75, from my perspective. So \$75 to \$150 is a wide, wide margin or a wide bid-ask spread, and it could go either way.
00:10:01	DP	And then we talked about the Strait of Hormuz. We've talked about that. And obviously, that's the big issue. Richard, maybe you can just walk us through, in terms of targeting energy infrastructure on both sides of the equation here, Iran doing that and then the US and Israel potentially doing that. What implication does that potentially have? And has that been a tactic on either side to date?
00:10:29	RF	Well, if you're talking about implications in terms of wider product set beyond a barrel of oil and natural gas, it's jet fuel and diesel that moves cargo for transportation purposes. It's helium, actually. One third of all helium production is coming and transported out of that strait. And that's critical for semiconductors and medical devices. The urea that's produced there that grows food.
00:10:56		We haven't seen any food inflation yet. But again, duration will dictate food prices in the coming months. And the naphtha that becomes plastic is important as well. So, it's a much broader product set than just a barrel of oil and the price of oil that's going to impact Western economies.
00:11:18	JC	Yes. And, David, I think we've tiptoed around an issue that we haven't talked about yet, and I think I'll bring it up now. There's political overhang here, right? If energy facilities and energy infrastructure starts to get hit, the price of oil is going to go higher, inflation goes higher, the gas that you pump into your car goes much, much higher. And voters don't typically like that.
00:11:43		So there's this balancing act that the US administration has to take on how to fight this war and not spike inflation, because once you spike inflation, consumers get hurt. And when consumers get hurt, it translates into the way they vote at the midterms, which are not that far away. This is a real, real issue.
00:12:06		And so far, both sides, for the most part, have behaved on hitting infrastructure or energy infrastructure on either side. If that changes, then it's game on or game off, whatever you want to call it. It'll change the narrative of this war.
00:12:22	DP	And to that point, that spike in inflation potentially has a huge impact on what central banks will do going forward, too. As they're trying to navigate this bringing back inflation to that 2% target, all

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		of a sudden it starts to feel a little dicey, and maybe rates don't come down as much as people think.
00:12:40	JC	Yes. Just on the central bank issue, there are nine central banks reporting this week as we do this podcast. Most of them are wait and see. Most of them aren't going to move all that much. But to your point, if there is a massive disruption and we see a spike in inflation, they're all going to have to act one way or the other. And that causes implications in the market as well.
00:13:05	RF	Yes. And, well, since you brought it up, real assets, obviously, we've got a continuing waiting in gold, and there are wider implications for gold there too, and we're keeping our eye on that because you would have thought that with the outbreak and when the shooting started, gold would be that haven of safety.
00:13:26		It actually hasn't been. It's more reacting to the possibility and evidence, maybe, that real interest rates are moving higher. That's negative for the price of gold. A stronger US dollar is a negative correlation to gold. And this is something that we're watching quite carefully. These are near-term headwinds. Structurally, we still like gold long term, but we're keeping our eye on it very carefully.
00:13:56	JC	I would argue that gold sniffed out the war before the war, actually sniffed it out.
00:14:00	DP	I was just going to say, I wonder if part of that is that it had run so much.
00:14:04	JC	It did lead, right? We went from, call it low \$4,000s to \$5,500, almost overnight, it felt. So it had a massive move and has come back a little bit. So the reaction to gold for me right now seems to be the right reaction. But it definitely led the war.
00:14:21	RF	Yes. And we did lighten up somewhat on our gold positioning, because we saw the same sort of reaction in 2022 with the Russia/Ukraine outbreak. Physical gold was down 15% from high to low on the outbreak of that conflict.
00:14:44	DP	Let me get into a little bit of the brass tacks of how you go about doing your jobs, John and Richard, in this type of environment. And maybe, John, I'll start with you. From a trader's perspective, each day has probably been very kind of different in feel, depending on what the news flow is on that particular day. Are there lessons or are there ways to approach this from a trading perspective?
00:15:17	JC	Yes, that's a great question. It comes down to one word for me, patience. So we will get a headline, we'll see a reaction to that headline, and then whether it's later in the day or the following day, we come back a little bit, right? So, if we're a buyer of

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		something for Rich or one of our funds, and we see this massive, we call it a hockey stick move higher, we're going to be patient. We're not going to chase that.
00:15:42		<p>And I think that's one of the things that we do exceptionally well at AGF, is that we have the patience to be able to wait on some of these moves to come back into equilibrium. And when they do, then we can take advantage of it.</p> <p>So, in a word, being patient with your investments and being patient in the trading game is a virtue these days because, whether it's a spike up or a reversal down, we're getting some big moves in individual securities. And you've just got to be patient and make the right call at the right time. It doesn't have to get done immediately.</p>
00:16:12	DP	And then, Richard, without mentioning particular names, because compliance will get upset with us if we do something like that...
00:16:20	RF	I like my job.
00:16:22	DP	But when you're in this kind of environment and you're managing a portfolio and you're seeing some significant shifts, and I'm guessing some of the names that we hold or some of the names that you have your eye on, just what's the approach for you? Again, does it come down to a little bit of patience, or is there a little bit more to it from your perspective?
00:16:45	RF	Well, I would say if we go back to middle of December, when we wrote our year ahead piece, we did date that it was going to be episodic, and we figured that we had to be a little bit more nimble than in previous years. Nobody on our team predicted an Iran conflict by any means. But we were fully prepared to be trading the portfolio a little bit more than we have in previous years.
00:17:13		And indeed, that's what's been going on. The one thing I would say is that when the shooting started, we immediately came to the conclusion that this was going to be a longer duration event than what the markets were indicating at the time, and we positioned quite quickly into more cash than usual.
00:17:39		Now, we've got our eye on certain triggers, and I can't say that we're going to catch the bottom. We probably won't. But that's okay, because this is a long game. And the one thing that I will say in the long game is that, in hindsight, I think this will be the loudest signal yet that the market is rotating back towards real assets. This is not a trade, but rather a long-term fundamental structural shift. In a phrase, this is regime shift, and it favours real assets.

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00:18:13	DP	On that front, Richard, this does feel all-consuming to a certain extent. In terms of an event like this, is there still an opportunity, obviously, you've got to keep your eye on what's going on, but how do you manage that short-termism that's obviously in the market in terms of being tactical with that strategic overlay or that strategic, which is more about looking out on a longer-term horizon. How does that work for you?
00:18:46	RF	John, I think, put it perfectly. You just cannot hang on headlines, because I think the battle actually is being waged on several fronts. One is misinformation on headlines. So, then you have to basically go back to the fundamentals, that this conflict is not going to last forever. There will be resolution. I think John's right.
00:19:13		I think structurally, energy prices will be higher. There'll be a higher risk premium tomorrow than there was yesterday. And so, it's quite possible that we have a higher energy weighting going forward than we did in the past. Keeping your eye on how things are going to move over 12 months and longer, rather than what happens this afternoon, is also prudent.
00:19:41	JC	It's amazing to me, and I've been talking about this for a while. So I've been talking about an energy revitalisation for some Canadian names. We've been seeing a number of international investors pick away at some Canadian energy names for about nine months now. I talked about gold and how it led the war. It kind of felt like real smart investors led the energy trade, and it's worked out for them.
00:20:09		But nine months ago, if you look back, there was very little energy in energy. And now there's a lot of people invested in it, and they actually led the war. It's amazing how smart people are out there. And so, that's why it's so important, from my perspective on the desk, and our team's perspective, to watch the flows. Where are people investing, whether it's sectoral, country allocation, regional allocation? It will tell you a lot about where the money is flowing, and ultimately, where the money is flowing is where you want to invest.
00:20:40	RF	And you can extend that to the broader commodity set in a world that is now fully engaged in deglobalization. Safe geographies get premiums, and Canada is one of the safest geographies and deserves, I think, when people really look at it, the highest premium.
00:21:00	JC	Thus the outperformance Canada year to date.
00:21:02	DP	Yes, I was going to mention that there does seem, and I'm guilty of this too, there's a little bit of doom and gloom when you go through an event like this and oil is spiking because, obviously,

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		there's issues with oil spiking from a consumer and affordability standpoint, but there are some regions of the equity markets in particular that maybe benefit from higher oil prices, and Canada being one of them. And you add in the gold spike, and Canada seems like a pretty good, maybe, place to be right now.
00:21:30	JC	And a safe place to be, to Richard's point, right? Our government is relatively stable. We don't have any of the issues that the Middle East has at this point. So capital kind of looks for safe places to rest, and it looks like Canada may be one of those places.
00:21:48	DP	And then, Richard, just further to that, John mentioned watching flows from a sectoral standpoint. And let's talk about oil and energy sector. Have there been winners and losers from this so far in terms of maybe where some of those flows are going, whether they're going to refiners, or I don't know the answer to that, but just to maybe a thought on that, in terms of how that's positioned?
00:22:16	RF	Yes. Beyond the obvious, if you're an importer, you're not winning. If you're an exporter, you're winning. Refiners, obviously, as soon as you get another headline where a drone has started a fire and a refining operation has been shut down, refining in safe geographies, those stocks have performed well.
00:22:44		More of the majors, US, European majors have performed very well through this. Curiously, though, some of the oilfield services stocks have been left behind a little bit.
00:23:00		When the total bill for everything that's gone on in the Gulf states is tallied up, and there's a rebuild, they're going to be asked to come in and provide their expertise there. So, maybe they are the lagged winner in all of this. We'll find out.
00:23:17	JC	Yes, there's an old adage, right? When things are starting to really heat up, it's always the majors and the large caps that start the heat up, and then we come down market. I'm not sure we've come down market yet far enough. It's still the majors that are leading the way, to Richard's point. Once we start to see some of the midcaps start to really perform, then you've really got a trade on. Now you've really got an opportunity in a sector, whether it's energy or anything else. We haven't quite seen that yet. If it starts to come down to mid-market, then we've got a real trade on there.
00:23:49	DP	Okay. I think we'll end it there, guys. Obviously an event in progress and lots of moving parts here. But thank you, Richard, for joining the show and just walking us through what's happening and where this may lead to, and John, for your insight, as always.

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		It's a heavy time. We're in the thick of it. And I really do appreciate you coming to the show today.
00:24:17	JC	Yes. Just one thing, David, before we go. I think I speak for everybody. We hope this war ends soon, right? There's casualties. There's people perishing that shouldn't be perishing. There's things happening that shouldn't be happening. Let's just all hope that the war ends soon and we get some peace somewhere in this world for us all to feel a little bit better.
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