



## Q1 2026 Newsletter

Hello again from our team. We hope you enjoyed the Easter long weekend with unseasonably warm weather and sunshine. Now we must get down to the serious business of writing a Newsletter, which is never easy but has been made more difficult by the twists and turns of policy originating in the U.S. In referencing the current situation, President Macron of France put it best when describing how the U.S., and specifically President Trump, make decisions, stating:

*“When we want to be serious, we can't say each day the opposite of what we said the day before.”*

With that in mind, we will attempt to present a serious Newsletter and ask for your forgiveness if the world has completely changed by tomorrow!

The stock markets ended the First Quarter on a high note by posting their best showing of 2026 on the last day of March. On the final day of the First Quarter, investors got a glimpse of a potential upside that might occur if Trump succeeds in delivering an off-ramp to the Iran conflict. We might call this the "Hormuz Hope" rally. Of course, it wasn't enough to save what was a grim quarter for investors. The tech-heavy Nasdaq fell into correction territory on March 26, meaning that it had fallen 10% below its recent high. A day later, the Dow (a benchmark that tracks the real economy) joined it. Despite the one-day March 31 rally, the Dow and the S&P 500 still suffered their worst quarter in nearly four years. Canada was saved somewhat by its heavy reliance on the Energy and Materials Sectors.

If we flashback to last December, economic growth in North America was accelerating, the U.S. Federal Reserve appeared poised to make further interest-rate cuts and the market had moved past the uncertainty of Trump's tariff policies. Together, these factors offered the potential for double-digit returns that were not led by the "Magnificent Seven" stocks. Market returns were finally broadening out to other Sectors, and we had a positive backdrop with all the stars aligned.

This of course all changed on February 28, when the U.S. and Israel launched a new war in the Middle East. Since then, oil prices have surged by as much as 63% and bond prices have

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fallen, causing the U.S. S&P 500 to erase all the gains that it had made in the past seven months. In March alone, ten of the eleven Sectors fell on average by 6.2%, with Energy being the lone exception. Aside from oil, supply chains have been snarled for a variety of other important commodities from aluminum to fertilizers. This has raised the prospect of higher inflation and upended bets that the Federal Reserve (FED) will move to cut interest rates this year. Six weeks ago, traders priced in a nearly 80% chance that the FED would cut rates twice by the end of the year. Now those odds have dropped to less than 5%.

Stock indexes posted relatively modest declines in the opening week of the war, reflecting expectations that any disruption to oil exports through the Strait of Hormuz would be short lived. As we enter the second month of the war, Wall Street is having to consider a darker scenario. As stocks declined in the back half of March, so did bonds. This is similar to 2022 when bonds fell and provided no safety net to investors.

As we write this, most analysts are sticking to their original targets of modest stock gains for the year ahead. However these projections rest on the assumption that the conflict in the Middle East is relatively short-lived and that the impact to the global economy will be mild. This is a tenuous assumption, as everything can change on a single Tweet from the President, or on his changing mood from day to day. The war needs to end soon, because if the price of oil doesn't go down, the market won't go up. It's as simple as that.

In this Newsletter, we will as usual outline the trades that were made in the First Quarter and relay the average returns in Managed Portfolio Accounts. Your Portfolio Report and Performance Report(s) will be mailed separately later in April.

### [1<sup>st</sup> Quarter Trades in MPA Accounts](#)

In January of 2026, we made several trades in an attempt to diversify portfolios into different parts of the markets. We have made no trades since the outbreak of war in Iran, as the day-to-day changing narrative has made it too difficult to make predictions.

In January, we took profits on CNQ and Gibson Energy, which we wouldn't have done if we had known about the upcoming war. We also sold Union Pacific, as we believe that the Canadian railroads have a more profitable future. We initiated partial positions in ZEM – a basket of emerging market stocks, as well as CVS – a diversified Healthcare company. In Canada, we bought small positions in CAE – a world-leading pilot training company, WSP – a Canadian engineering company that will benefit from the country's announced investment in infrastructure, MDA – a satellite company, as well as Shopify. We will pause any additions to these stocks until we can better predict the outcome of the war, oil prices, as well as any inflation implications resulting from higher energy prices.

### [First Quarter Returns for 2026<sup>1</sup>](#)

In the First Quarter, the Canadian S&P/TSX gained +3.9%, with no surprise that it was led by Energy (up by +30.1%) and Materials, primarily Gold (up by +10.7%). These two Sectors make up approximately one-third of the Canadian market, while Financials, (down by -1.9%), represent another one-third.

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<sup>1</sup> The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

The U.S. S&P 500 lost -4.3% during the First Quarter; although the Energy sector was up by +38% and Materials sector was up by +9.7%, however unlike Canada, these two Sectors combined, comprise less than 5% of the U.S. index.

The U.S. Dow Jones Index fell -3.6%, while the Nasdaq dropped -7.1% due to its heavy weighting in Technology.

We use a sampling of Managed Portfolio Accounts that have not had large amounts of cash added or withdrawn during the quarter in order to come up with average returns. Our analysis shows that Managed Cash Accounts with a Growth mandate lost on average between -1.29% and -1.88% for the quarter. Cash Accounts with a Balanced mandate lost between -1.19% and -1.47% on average.

Registered accounts mandated Growth, lost between -0.50% and -1.37%, while Registered Balanced accounts were down between approximately -1.13% and -1.61%.

These results are summarized as follows:  
Accounts over \$250K:

	<u>Q1 2026</u>
MPA Growth (Non-Registered)	-1.29% to -1.88%
MPA Growth (Registered)	-0.50% to -1.37%
MPA Balanced (Non-Registered)	-1.19% to -1.47%
MPA Balanced (Registered)	-1.13% to -1.61%

### Hormuz Headache

In both 1991 and 2003, the U.S. entered wars against Iraq, an oil producing nation. Both of those conflicts resulted in resounding U.S. military victories in which the enemy was thoroughly vanquished, and, upon their conclusion, markets ripped to the upside by close to 25%. Many investors, including analysts, appear to believe that following the current war with Iran, that markets are poised to repeat their performance in 1991 and 2003. We hope that we are wrong, but we disagree that this is likely to occur this time. Unlike before, a lot more damage to energy infrastructure has occurred, a lot more energy production has ceased, the flow of oil has been massively disrupted, and an opening of the Strait of Hormuz is far from assured anytime soon. President Trump recently stated that the U.S. has already largely achieved its military objectives, that the U.S. receives almost no oil from the Middle East, and that Hormuz is not his problem! It is for other countries now to re-open The Strait.

The current situation bears little resemblance to 1991 or 2003. While there was damage to infrastructure in both of those wars, it was contained to Kuwait and Iraq. The flow of oil out of the Persian Gulf and the Strait of Hormuz was never materially interrupted as it has been currently. In fact, this war has produced the biggest disruption of oil in history, and the consequences for markets could be severe. Of course President Trump's inconsistent comments make it almost impossible to make predictions. One Tweet stated, "Until the Strait is re-opened, we will be blasting Iran into oblivion or, as they say, back to the Stone Ages!" When asked a day later by a reporter, Trump responded with, "The Strait is not America's problem. We're not going to have anything to do with it." How can one make sense of this?

We know that the President likes to keep his opponents off balance. Is he trying to put pressure on Europe and NATO to join the war? Is it possible the misdirection is because he intends to invade Iran on the ground? Who knows? The best explanation is probably that even he doesn't know what he is going to do. What we know (as of 10am on April 7), is that the damage to energy infrastructure is far more extensive, and that the shooting has not stopped, and that a lot more time could pass before there is any deal to open the Strait. There is no visibility on when the Energy sector and other key industries in the region are going back to normal.

We remain cautious. As we have already stated, the markets are unlikely to rise if the current price of oil doesn't fall.

### [The Strategy That Is Guiding Us](#)

At the start of the year, markets were pricing in a broad improvement in growth across regions and it caused us to begin making some small changes in repositioning assets away from the U.S. towards Canada, and even Asia. This stopped in late February with the surprise attack on Iran. Expectations for a synchronized global expansion in 2026 have faded to the point that a slowdown now seems more probable. Asia faces headwinds from higher energy costs combined with weaker currencies, and Europe is similarly constrained by rising energy prices. This is causing us to believe that markets in the U.S. and Canada are once again the best places to be. Inflation caused by geopolitical conflict has caused some economists to assign a small probability of a Federal Reserve rate cut like later this year – a far cry from the two or three rate reductions that were predicted in early January. Canada is rich in Resource stocks, including Energy, Materials and Metals which are good inflation hedges, so our market should hold up better than some others. The U.S., which is almost self-sufficient in Energy, and whose dollar is considered a refuge in tough times, should also be a good place to be.

Some clients might wonder why we are not reducing market exposure given the backdrop that we have outlined in this Newsletter. The reason is that there is also potential for a strong market rally should a sudden pause in hostilities occur. You might recall that this happened as recently as April 9, 2025. One year ago, when Trump backtracked in his April 2<sup>nd</sup> global tariff "Liberation Day" announcement, the market surged more than 9% in a single session, making it one of the three best days for the S&P 500 Index in the past 30 years<sup>2</sup>. Of course, investors (including all of us) who stuck with their long-term financial plan, profited that day and beyond. For anyone contemplating selling stocks a year ago on "Liberation Day", it was a reminder that they would have locked in their losses. The lesson is simple but can be difficult to apply in real time: Periods of uncertainty often produce the best days that investors must not miss.

We are currently invested in stocks, but not fully invested yet. Stocks outperform bonds in an inflationary environment, so we are reluctant to add fixed income right now. Like everyone, we are uncertain of the eventual outcome of the Iran war. In uncertain environments, we believe that discipline and patience matter more than conviction on any single outcome.

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<sup>2</sup> Bloomberg: based on the one-day return of 9.5% of the S&P500 Index

## Stock Feature: CAE – A World-Class Canadian Business

Over the past year, we have been increasing our exposure to Canadian companies within clients' portfolio, and one example is CAE Inc., based in Montreal. While Canada has relatively few world-class companies, CAE represents a highly distinctive and globally competitive business.

CAE was founded in 1947 and has grown into a world leader in flight simulators and training systems used by pilots, flight attendants, and aircraft maintenance staff. Today, the company operates in more than 35 countries and employs over 15,000 people worldwide.

The demand for pilot training is expected to remain very strong. According to Boeing, the airline industry will need about 674,000 new pilots over the next two years. Nearly 20% of this demand is expected to come from North America, largely because many pilots are reaching mandatory retirement age and an increase in early retirements following the COVID-19 pandemic.

CAE is very well positioned to benefit from this trend. The company has more than 80% of the global market for full flight simulators used in pilot and cabin crew training. These systems are expensive and difficult to replace, which makes it hard for competitors to take market share. As a result, we believe CAE has a strong and durable business that should benefit from these favorable industry trends.

## Summary

The first quarter was shaped by fast-moving geopolitical headlines and a sharp rise in energy prices, which disrupted supply chains, complicated the inflation outlook, and pressured both stocks and bonds. While this environment has understandably felt unsettling, we will continue to monitor developments closely. Our focus remains on what we can control, by maintaining diversification, and staying positioned for the possibility of a meaningful rebound should conditions improve quickly. Markets can change quickly, and experience shows that trying to time the markets can have costly results. It is important to stay invested and avoid reacting to short-term noise. Thank you, as always, for your continued trust, and of course you can call us anytime.

Best regards,



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