Q1 2026 Market Overview

Market in Review

The first quarter of 2026 was characterized by strong market growth through February, followed by volatility in March from the escalated conflict in the Middle East. At the close of the quarter, Canadian markets had outperformed U.S markets. Canada's market relies heavily on resource-related securities, and energy and materials were top-performing sectors over the quarter.

The Canadian dollar had strong performance relative to the USD through the first two months of Q1, reaching a one-year high USD/CAD in January. This was fueled by broad U.S. weakness, with USD as the weakest performing currency in the entire G10. This trend reversed in March, with most global currencies losing ground against the USD in response to the Middle East conflict and the subsequent flight to safety to the "safe-haven" currency.

In January, fixed income markets remained in focus as Canadian federal, provincial, and municipal spreads tightened, and Canadian debt continued to outperform U.S. debt. In March, in response to the Middle East conflict, U.S. government bond yields and credit spreads rose significantly, and the yield curve experienced a flattening with dampening expectations of Fed rate hikes. Anticipated increased government borrowing and inflation from rising oil prices led investors to sell off their debt investments, pushing yields even higher.

Economic Indicators, Inflation, and Interest Rates

Canada

Canada's labour market faced headwinds in Q1 2026. The unemployment rate rose 0.2 percentage points to 6.7% in February which was fueled by a loss of 84,000 jobs — one of the worst monthly job losses since the COVID-19 pandemic (Statistics Canada, February 2026). The rate remained constant in March with a modest recovery of 14,000 jobs added.

The Bank of Canada held its policy rate at 2.25% throughout Q1 2026 after several 2025 rate cuts (Bank of Canada, March 2026). By the end of the quarter, the Central Bank cited uncertainty surrounding the Middle East conflict and associated inflationary pressures from rising oil prices. Consumer spending softened modestly in January, followed by a rebound in February, before steep downward pressure by rising gas prices and war-related uncertainty in March. Inflation decreased from January through February, falling from 2.3% year-over-year to 1.8% year-over-year by late February (Statistics Canada, March 2026), but is expected to rise in the coming months as rising oil prices are anticipated to cause widespread price increases.

United States

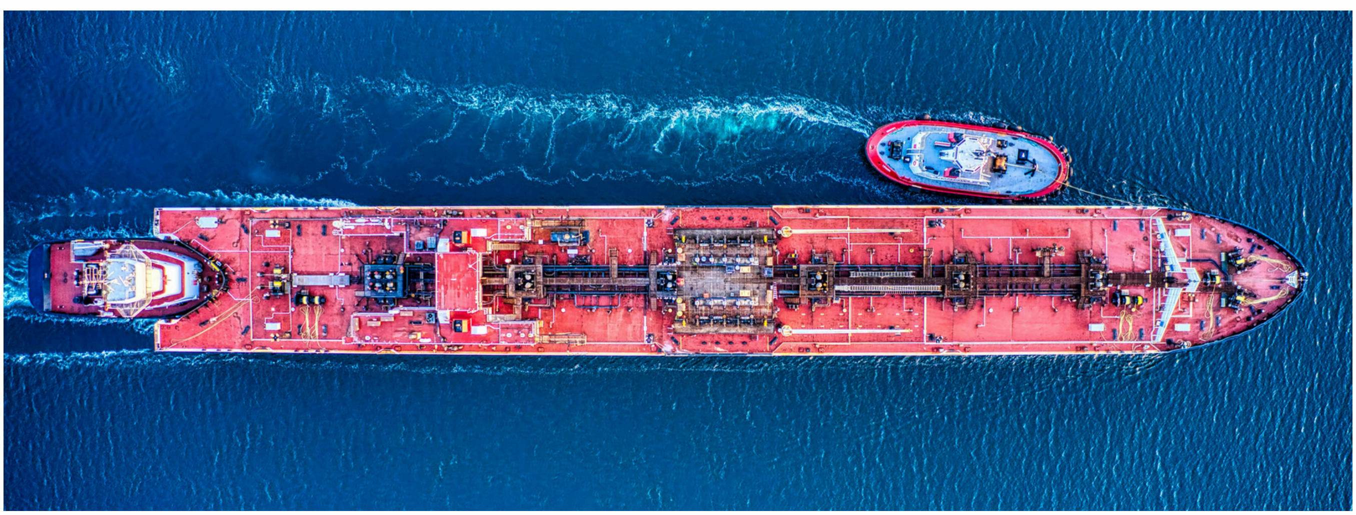
The U.S. labour market weakened in early Q1 with the unemployment rate rising to approximately 4.4% in February with 92,000 job losses (U.S. Bureau of Labor Statistics, February 2026), but edged back down to 4.3% in March with the addition of 172,000 new jobs (U.S. Bureau of Labor Statistics, March 2026). Following the rate cuts enacted in 2025, the Federal Reserve maintained its target range of 3.5–3.75% throughout the entirety of Q1 2026 (Federal Reserve, March 2026). Citing geopolitical uncertainty, the Fed increased its expected unemployment projections and decreased its expectation of real GDP growth, while also implying fewer rate cuts in 2026 than previously anticipated.

U.S. equities experienced a volatile quarter, with threats of AI disruption and bubble concerns in the early part of the quarter being compounded by the effects of the Middle East conflict in March. In total, the S&P 500 ended the quarter down 4.63% (Yahoo Finance, April 2026). On the trade front, the U.S. Supreme Court invalidated Trump's global tariffs in February, making businesses eligible to claim tens of billions in aggregate tariff losses, with a refund system expected to be released imminently. In March, many U.S. states launched legal action over Trump's global tariffs, and China initiated its own probe into U.S. trade practices in response to Trump's trade moves.

Global

European markets started the year strong, outperforming U.S. markets in January with the FTSE 100 gaining 3.0% that month (Milliman, January 2026). This trend reversed in March after the ratting effects of the war, with MSCI Europe ex-UK falling 2.3% overall in Q1 2026 (MSCI, April 2026). Asian markets also showed strength from the outset of the conflict, with emerging Asia outperforming developed markets early in the quarter. Asian markets then declined sharply in March, erasing the relative gains sustained earlier in the year, reflecting a broad flight to quality and risk-off sentiment globally (Bloomberg, March 2026).

Commodity markets reflected mixed demand signals. Gold prices were volatile, surging to an all-time high of approximately US$5,400 per ounce in January before retreating sharply through February and March, closing the quarter near US$4,675 (World Gold Council, April 2026). This was caused largely by central banks pivoting to a tightening stance in preparation for increased global inflation expectations, resulting in the single worst month for gold since the 2008 housing crisis — falling 12% in March (World Gold Council, April 2026). Crude oil was relatively stable in January and February, hovering between $60–$70 per barrel, before disruptions to the Strait of Hormuz sent Brent Crude to highs of nearly US$120 in March, with large daily price swings (U.S. Energy Information Administration, April 2026). Uncertainty over the fate of the Strait of Hormuz and the long-term effects of a potential sustained closure remains elevated.



Portfolio Positioning

Asset Allocation Outlook

Cash

Our cash allocation remains at approximately 1%. We continue to hold a small liquidity buffer to take advantage of near-term opportunities as they arise, while keeping the portfolio fully deployed in higher-returning asset classes (Dimensional, April 2026).

Fixed Income

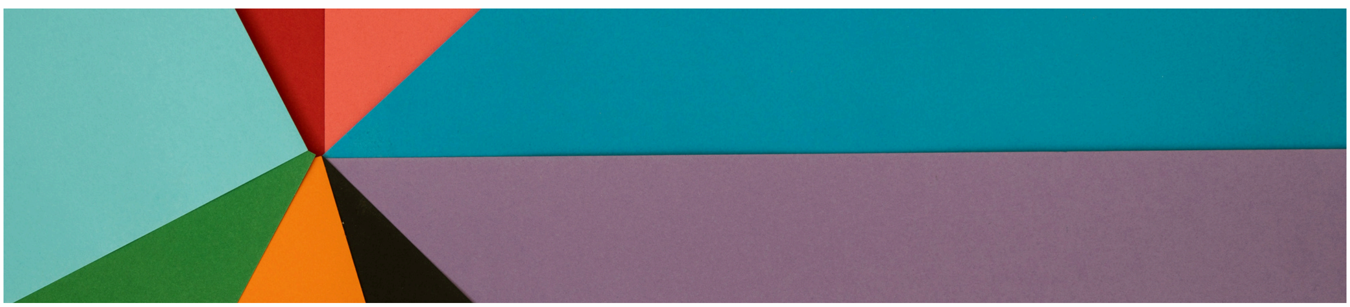
Our fixed income allocation remains stable, with a continued focus on select debt opportunities for consistent income and portfolio diversification.

Equities

Our overall equity allocation remains unchanged from Q4 2025. We held our existing public equity positions through the quarter without adding or exiting any names. The portfolio continues to be weighted toward high-quality businesses with durable cash flows and strong balance sheets, which we believe provides appropriate resilience in the current environment.

Alternatives

Our alternatives allocation remains at 20%. The private equity and private credit positions established in Q4 2025 have now fully settled, and we are beginning to receive regular income distributions.



Portfolio Activity

There were no new positions added or exited during Q1 2026. Our focus this quarter was on two key developments within the existing portfolio:

Currency Positioning – Shift to Canadian Dollar Holdings

A notable development this quarter has been our deliberate shift to Canadian dollar holdings within the portfolio. Given the current environment — including the early trend of USD weakness and our clients' predominantly Canadian-dollar liabilities — we aim to continue to increase the portfolio's CAD focus. This shift reduces unhedged foreign currency risk and better aligns the portfolio's currency profile with the long-term spending needs of our clients. We will continue to monitor the CAD/USD dynamic closely and adjust positioning as conditions evolve.

Private Investments – Settlement of Q4 2025 Positions

Our private equity and private credit investments initiated in Q4 2025 — including Sagard Private Equity, Sagard Private Credit, Avenue Living Trust, and Partners Group Next Gen Infrastructure — have now fully settled. Capital has been deployed as committed, and so far, these positions are performing in line with expectations and continue to serve their intended roles: reducing portfolio correlation, enhancing the income profile, and adding long-term compounding potential through private market exposure.

Looking Ahead

Q2 2026 Outlook

As we move into Q2 2026, the macro environment remains complex. Uncertainty surrounding the situation in the Middle East remains the dominant risk factor for both Canadian and global markets. We expect this could remain a source of volatility throughout the year, and are confident in the intentional structure we've built for weathering volatile situations.

While trade tensions have moved out of the focus of the macro-environment, it will be crucial to monitor and adapt to the rapidly changing landscape of global trade. As of March 2026, global trade has become more security-driven and less predictable due to the trade channels and counterparties impacted by the Middle East conflict.

Currency valuations will be another key driver of the market outlook. In early 2026, global currencies gained ground on the U.S Dollar in global trade settlement and purchasing power, but the conflict triggered a sharp flight to safety that strengthened USD and reversed earlier currency trends. We will continue to monitor currency movements and adjust our hedging strategy accordingly.

Central bank sentiments on monetary policy will also be a driver of returns going forward. With early-2026 markets expecting a loosening stance in the year ahead, central banks' recent indications have dampened this expectation. We will continue to monitor changes in policy rates and their impacts on equity and fixed income markets, to ensure we are well-positioned to navigate any potential volatility.

We remain focused on managing volatility and maintaining a well-diversified portfolio positioned to compound through multiple scenarios. Our private market holdings are now fully operational and complement our public equity and fixed income exposure with differentiated return streams. We will continue to evaluate opportunities selectively, with an emphasis on quality, valuation discipline, and long-term alignment with client objectives. Currency positioning, the evolution of our private market exposure, and the ongoing monitoring of trade and geopolitical developments will be central themes in our due diligence. We appreciate your continued confidence and look forward to updating you on progress.