

1Q26 | PULLING BACK FROM THE BRINK TO CRAFT ANOTHER PATH FORWARD

INVESTMENT ENVIRONMENT

- Economic momentum tested by AI disruption, volatility in private credit, and conflict in the Middle East. Ceasefire provides a platform for optimism to resume.

EQUITY MARKETS

- Agentic AI disruption fears spurred rotation from software to cyclical sectors. Canada may help reduce trading partners' dependence on Middle East.

FIXED INCOME MARKETS

- Calmness in bond markets upset by the rise in geopolitical tensions. Fed Chair Powell stated an inclination to look through near-term energy spikes.

INVESTMENT ENVIRONMENT | WILL THERE BE SMOOTHER SAILING AHEAD OR MORE DIRE STRAITS?

The year started out on an eventful and volatile note. While economic momentum remains intact, it is being tested by concerns over AI disruption, volatility in private credit, and the escalating conflict in the Middle East. **On a positive note, manufacturing surveys indicate the industrial economy started 2026 with strength. This momentum remained resilient through the March readings, despite the onset of hostilities in Iran (Figure 1).** The timing and pace of de-escalation will dictate sentiment from here and the extent of the impact on the global economy.

Although various technology and knowledge-based industries have faced pressure from Generative AI in recent years, the first quarter saw a new wave of challenges. This shift stems from the arrival of Agentic AI models capable of proactive task completion and the management of multi-step workflows. This resulted in markets becoming wary of certain high-multiple software stocks, as the durability of their competitive moats has come into question. Interestingly, this environment of caution toward software has shone a light on industries deemed undisruptable, termed as Heavy Assets, Low Obsolescence (HALO). Key sectors falling within the HALO classification that have benefited include natural resources, utilities, heavy industrials, and infrastructure.

Once a niche product, private credit has become increasingly integrated into the financing landscape, filling a mid-market lending void created as regulatory shifts prompted banks to scale back their presence. Expansion was further aided by yield-hungry institutions whose long investment horizons allowed them to capture the illiquidity premiums conducive to their risk-return objectives. The sector now faces headwinds from a combination of retail investor expansion and concerns that AI could disrupt certain software-heavy portfolios. Institutional investors, with broadly allocated books and long-term mandates that allow them

to hold to maturity, are generally unconcerned. However liquidity management protocols have led to gated redemptions for retail investors and unfavourable media coverage for the sector and its leading managers. Systemic concerns appear well contained with private credit comprising under 5% of real-economy lending, provided default rates stay within reasonable bounds for the 20% of the sector exposed to the software industry.

A fundamental geopolitical shift occurred in late February as joint U.S.-Israeli strikes on Iran pivoted actions from negotiations to open conflict. Iran immediately sought to externalize the cost of war by targeting regional energy infrastructure and effectively closing the Strait of Hormuz, which is the primary conduit for ~20% of world oil production. These actions started a timer for a potential economic shock as oil prices immediately spiked, causing worry in particular for oil importing nations (Figure 2). IEA (International Energy Agency) member countries responded with a commitment to a staged release of 400 mm bbl from strategic oil reserves in an effort to stabilize the global energy market. Progress toward a fully operational Strait of Hormuz appears instrumental to any framework to resolve current hostilities given the waterway's role as a central strategic asset and primary point of leverage. While much uncertainty remains, back-channel discussions are underway. Despite ongoing rhetoric, both sides share an interest in ending the war, though a significant gap between their respective demands has yet to be bridged.

As we go to print, a two-week ceasefire has been announced. While many sticking points remain to achieve a more durable peace, it is clear that both sides have a vested interest in forging a path forward. Forecasting a specific timeline for resolution is difficult, though it appears much more in hand than a few short weeks ago.

FIGURE 1: UPTREND IN INDUSTRIAL ECONOMY SURVEYS

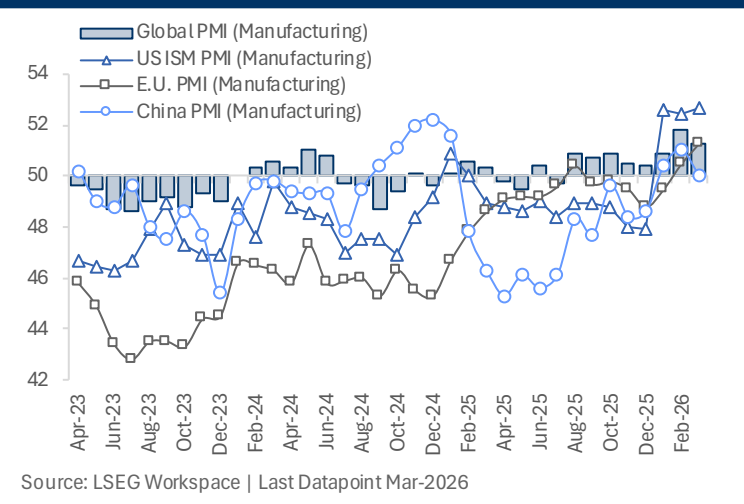
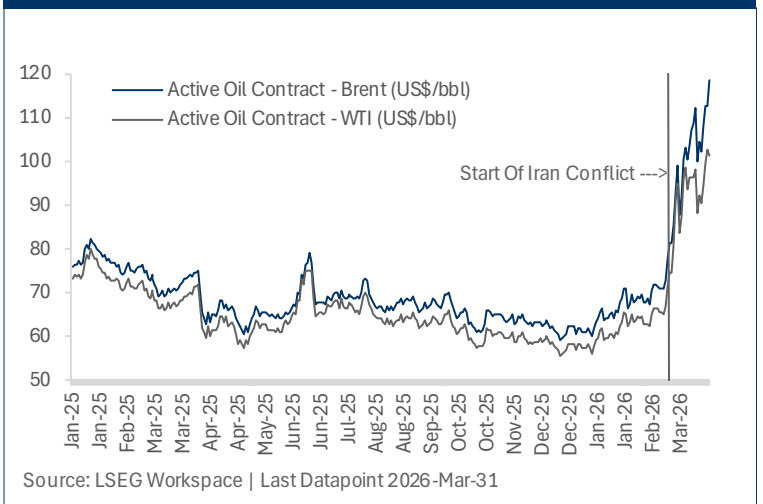


FIGURE 2: OIL PRICES REACT TO MIDDLE EAST CONFLICT



EQUITY MARKETS | A CEASEFIRE OF SORTS TAKES THE EDGE OFF DOWNSIDE SCENARIOS

Equity Index Returns				
	1Q26 (CAD)	1Q26 (USD)	YTD26(CAD)	YTD26(USD)
Global (Net)	-1.8%	-3.6%	-1.8%	-3.6%
Canadian	4.0%		4.0%	
CDN Small Cap	11.4%		11.4%	

The year began with a renewed sense of economic optimism. As the tariff pressures that weighed on growth in 2025 faded, markets anticipated an acceleration in activity and potential monetary policy support. Concurrently, the rapid evolution of Agentic AI capabilities challenged investor perceptions of the business models and competitive moats of many software companies. These developments catalyzed a market rotation away from software and into more economically sensitive sectors, including consumer discretionary, industrials, and resources. The breakout of conflict in the Middle East disrupted this early momentum, though the recently announced two-week ceasefire should limit economic fallout, provided progress is made toward a more lasting peace. Global interest rates moved higher in response to the war as central bank easing timelines were repriced, with more pronounced moves in energy-importing regions across Europe and Asia (Figure 3).

BIM EQUITY FRAMEWORK

Moving forward, despite divergent negotiating points, both the U.S. and Iran are motivated to bridge their differences. While a resolution may take some time to obtain, it should enable the theme of broadening economic growth to reassert itself.

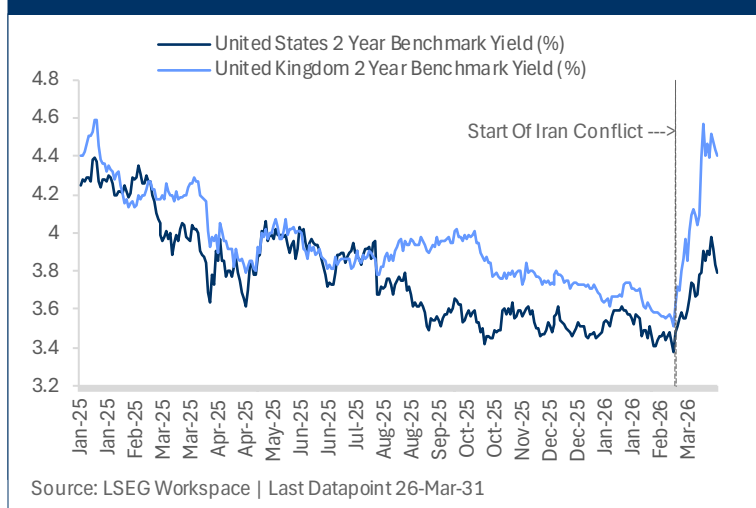
Where available, we looked to add exposure to companies impacted by the March downdraft that were demonstrating improving fundamentals likely to persist following a diplomatic settlement.

GLOBAL MARKETS

Against this backdrop, we remain constructive on industrial companies, particularly those that build, power, and maintain the physical economy, and whose business models face limited risk of digital disruption. We also see attractive opportunities in select consumer-exposed businesses. A firmer macro backdrop and improving corporate confidence should support employment, wages, and sentiment, while eventual rate relief would provide an additional tailwind to spending. Our positioning therefore reflects a preference for businesses leveraged to resilient demand, especially in markets with stronger energy security.

That said, caution remains appropriate. Even if the conflict involv-

FIGURE 3: YIELD BACKUP GREATER FOR ENERGY IMPORTERS



ing Iran is resolved in the near term, the timing and durability of any settlement remains uncertain. This is why a barbell approach remains appropriate, it allows us to participate in a broadening recovery while retaining exposure to companies that should hold up better if markets remain unsettled. Schneider Electric and NextEra reflect this balance well. Schneider provides exposure to an improving industrial and capital-spending backdrop, while NextEra offers the defensiveness and structural growth we value in a more unsettled environment.

Alongside this barbell positioning, within Industrials and Consumer Discretionary we remain focused on high-quality businesses with strong cash generation, durable balance sheets, and consistent records of returning capital to shareholders. Valuation discipline remains central to portfolio construction, anchoring the strategy in companies that can withstand near-term volatility while still participating in a broader expansion. We see these characteristics in holdings such as Wabtec and Somnigroup. Both companies illustrate the quality-value discipline that underpins our investment process.

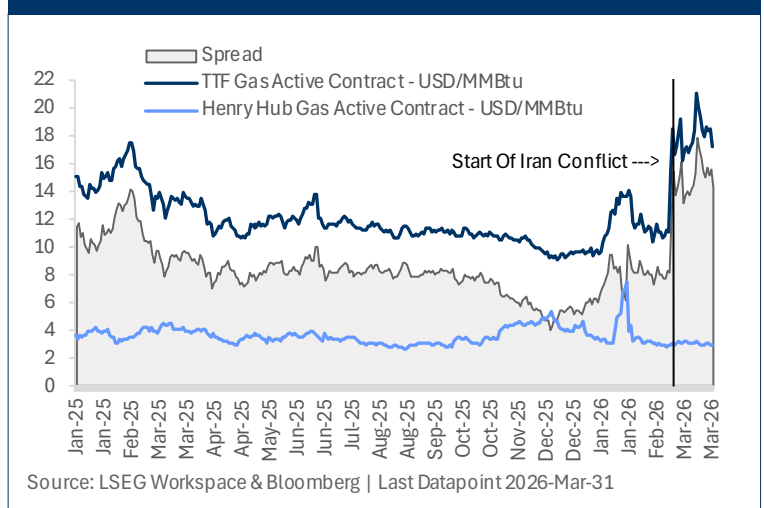
CANADIAN ALL-CAP MARKET

We have previously opined on the importance of nation-building initiatives to serve Canada's best interests. Recent developments in the Middle East highlight that some of these projects, notably in the LNG space, are also strategic to the long-term stability and growth of our trading partners. Natural gas-importing nations are feeling the pinch of higher prices as the current conflict impacts one-fifth of global LNG supply (Figure 4). Additionally, Qatar has experienced damage to its current production capacity, and timelines for its growth projects have been extended.

Two of our midstream holdings with exposure to Canada's increasing role in LNG exports include TC Energy and Pembina Pipeline. Energy projects are one piece of the infrastructure with resource-related buildout gaining momentum. Engineering and construction expertise will be required to execute this expansion. Companies such as Bird Construction, profiled in the "BIM Equity Thesis Spotlight" that follows, are well-positioned to thrive in this environment.

As touched on earlier, certain areas of the industrial economy, including the freight sector, have shown an uptick in sentiment. Our holding in TFI International provides exposure to this development as increased regulatory enforcement is helping to rationalize supply-side capacity. This shift has translated into improved spot pricing which could indicate further strength ahead.

FIGURE 4: LNG PRICING OFFERS HEALTHY SPREAD



CANADIAN SMALL-CAP MARKET

Positive momentum from 2025 continued into the new year, with a broadening of returns and notable strength in small-cap and value stocks. The tech/AI sell-down or SaaS-pocalypse caused investment flows to shift away from areas that had seen sustained gains and toward previously underappreciated market segments. Portfolio holdings in construction (Aecon Group, Bird Construction—see ‘Bim Equity Thesis Spotlight’), aerospace and defence (Calian Group, Exchange Income, MDA Space) and critical infrastructure (Westshore Terminals) all delivered strong performance with underlying earnings acceleration. We highlighted the valuation opportunities within small caps and our enthusiasm for market normalization throughout 2024 and 2025. This thesis has now begun to play out over the last six months.

March brought open conflict between the U.S. and Iran, causing markets to shift firmly to a "risk-off" stance. Counterintuitively, gold sold off aggressively and sent the junior mining complex sharply lower after rallying strongly for the first two months of the year. This reaction highlighted the momentum in the trade and indicated just how overbought the sector had become, as conflict risk is typically a tailwind for gold. The unwinding of this crowded trade is a positive for our small-cap portfolio, as we focus on managing a diversified basket of quality-value companies rather than chasing any single hot sector. Our oil-weighted energy holdings (including Headwater Exploration, and new addition Spartan Delta) provided offset benefit from the disruption in the energy markets resulting from the conflict in the Middle East.

FIXED INCOME MARKETS | GEOPOLITICAL TENSIONS DISRUPT THE EARLY YEAR BOND MARKET CALM

Fixed Income Index Returns		
	1Q26	YTD26
Canadian	0.2%	0.2%

Volatility in the bond market hit a trough early in the year, reaching levels of calmness not seen since 2021. Yet, by the end of the quarter, volatility moved sharply higher in response to rising geopolitical tensions. Yields in Canada and the U.S. rose across the curve: up over 20 basis points at the front end, roughly 10 in the "belly," and 5 at the long end (Figure 5). Both the Bank of Canada (BoC) and the U.S. Federal Reserve (the Fed) reiterated that policy decisions will remain data-dependent. GDP growth has outperformed forecasts, while employment data has been weaker than anticipated. Inflation in both economies continues to run above target, although recent readings have surprised slightly to the downside. Of note, Chair Powell stated an inclination to "look through" near-term energy price spikes caused by the conflict involving Iran, provided that longer-term inflation expectations remain anchored. For now, both central banks appear comfortable keeping rates unchanged until they gain conviction regarding the direction of their next move.

New issue activity remained robust, with approximately \$54.5 billion priced during the quarter. The market absorbed this supply with limited stress. Credit spreads widened modestly: BBBs by 5 basis points and single-As by 2, while AA bonds tightened slightly. Attributing these movements solely to issuance is difficult given concurrent macroeconomic and geopolitical uncertainties. Provincial spreads varied by term: short maturities tightened by 2 basis points, while the mid-curve and long bonds widened by 3 and 4 basis points, respectively. By quarter end, most provinces released fiscal updates highlighting larger deficits but plans to restore balance mid-term. Ontario and Alberta maintain the strongest outlooks, supported by disciplined expense management and natural resource exposure. The upcoming USMCA review remains a potential risk to provincial outlooks.

BIM EQUITY THESIS SPOTLIGHT

Bird Construction (BDT) has been held in small-cap portfolios for some time and is a more recent addition across other Canadian mandates. The company operates country-wide, providing a comprehensive range of construction services and innovative solutions to the industrial, buildings, and infrastructure markets.

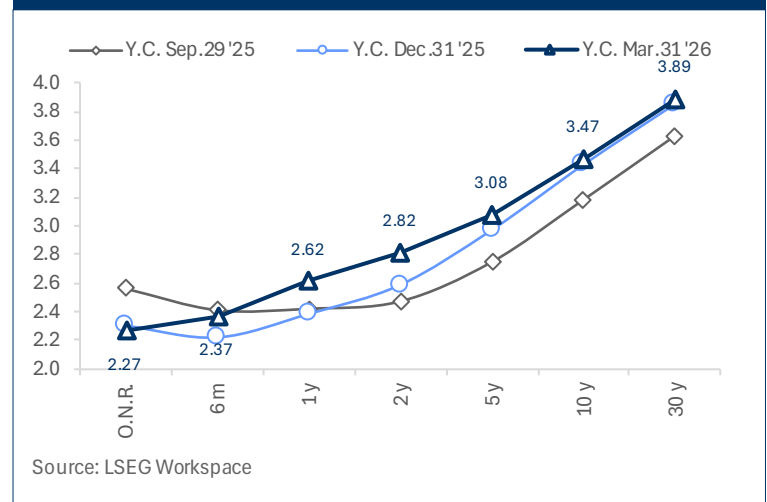
The construction sector has often been disparaged for its thin margins, though industry and company-specific developments have driven Bird toward consistently higher returns. Investment in technology, strategic acquisitions, an increased focus on collaborative project delivery, and greater self-performance of services (versus the use of subcontractors) have aided in this regard. We expect continued execution of these self-help margin initiatives to unlock additional valuation rerating upside.

Beyond self-help momentum, the demand outlook for Bird is exceptionally bright. Federal acceleration of "nation-building" projects supports spending in resource exports, nuclear energy, ports, and infrastructure in sectors where Bird competes. Additionally, the mandate to strengthen defense and Northern security will require significant construction investment. While private sector "green shoots" were already appearing, geopolitical instability has further highlighted Canada as a relatively stable jurisdiction for supply chains. Bird is well positioned to provide services related to the construction of data centers in Canada, which has the potential to grow significantly. Overall, we see significant potential for upside surprises to organic revenue growth in the years ahead.

BIM FIXED INCOME FRAMEWORK

Within the portfolio, we maintained an overweight position in corporate bonds, emphasizing the mid-part of the curve to capture spread compression and incremental yield. A modest allocation to infrastructure debt reinforces our focus on higher-quality, lower-risk holdings, providing stability amid market volatility and offering relative value with minimal default risk. We remain underweight on government bonds at both the federal and provincial levels; however, our provincial exposure is concentrated in the mid and long segments of the curve to capture term premiums. Supported by disciplined liquidity management and rigorous credit assessment, we effectively navigated rising volatility, preserving capital while capturing alpha through selective relative value opportunities.

FIGURE 5: CANADIAN YIELD CURVE (%)



BARRANTAGH

Investment Management

100 Yonge Street, Suite 1700
Toronto, Ontario M5C 2W1
(416) 868-6295
www.barrantagh.com

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