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Quarterly Commentary

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"I have learned that the great opportunities are the places that have been neglected, where other people are not looking."

Sir John Templeton, creator of the Templeton Growth Fund which earned 15% per year over a 38-year period.

MARKET TURBULENCE

Markets in January and February continued to rise after three consecutive years of gains. Corporate earnings reported in January came in ahead of expectations again and the U.S. and Canadian markets propelled themselves to fresh new highs. Gas prices and other commodity prices were coming down and inflation was subdued. It appeared the Federal Reserve was in line for two more rate cuts in 2026. The One Big, Beautiful Bill was set to elicit big retroactive corporate and individual tax returns. Capital spending to the tune of $700 billion on data centres and other computer components was also set to proliferate through the economy. Optimism was in the air.

Then, near the end of February, Israel and the U.S. decided to start bombing Iran. The initial strikes killed 48 members of the ruling party, including the Supreme Leader Ali Khamenei and members of the Iranian National Guard. Iran immediately retaliated and fired missiles and carried out drone strikes on 12 different countries in the Middle East including the UAE, Bahrain, Saudi Arabia, Qatar and Jordan. They also threatened to bomb any ship that passes through the Strait of Hormuz, where 20% of the world's oil and gas pass through on their way to global markets. The U.S. expected this to be a quick operation that would weaken or eliminate the ruling party, but it is turning out to be more of a prolonged regional conflict.

Wars are generally inflationary and this one is especially so, as it is in a major oil and gas producing region. Oil and gas prices have surged since the start of this conflict, and the U.S. markets dropped 5.1% from February 28 – when U.S. and Israel first bombed Iran – to March 31. Inflation expectations moved higher and interest rate cuts were no longer expected. The uncertainty of the war continues to create market turbulence and, at this point, there is still no end in sight.

Fortunately, our portfolios had exposure to energy and materials and some other sectors that went up in value over the course of the war, and had very good gains over the first three months of the year, despite poor performance of the U.S. markets and a relatively benign Canadian market. The Canadian market would have been zero for the quarter if the energy sector was not included. Performance of the Moderate Risk Equity Portfolio and Balanced Portfolio, in which many of you are invested, are shown on the next page. As you can see, there was significant outperformance in the quarter relative to the markets. I am very happy with this, given our goal is to achieve similar results to the market but with less risk.

MODERATE RISK EQUITY PORTFOLIO VS. CANADIAN AND U.S. MARKETS OVER THE LAST FIVE YEARS:

	THREE MONTH	ONE YEAR	THREE YEAR	FIVE YEAR
S&P TSX 60 Index	+2.4	+27.3%	+58.0% (+16.5%/yr)	+70.6% (+11.3%/yr)
Dow Jones (in CDN$)	-2.2%	+6.7%	+43.2% (+12.7%/yr)	+55.6% (+9.3%/yr)
Moderate Risk Equity Portfolio	+8.0%	+25.2%	+68.1% (+18.9%/yr)	+111.0% (16.1%/yr)

BALANCED PORTFOLIO RETURNS VS. BENCHMARK OVER LAST THREE YEARS:

	THREE MONTH	ONE YEAR	THREE YEAR	FIVE YEAR
Benchmark*	+1.3	+14.0%	+34.3% (+9.9%/yr)	+36.9% (+6.0%/yr)
Balanced Portfolio	+5.3%	+19.8%	+50.5% (+14.6%/yr)	+53.5% (+9.0%/yr)

50% S&P TSX 60 Index/50% Canadian Bond Universe Index ETF (XBB)

HISTORIC ENERGY SUPPLY SHOCK

Eric Nuttall, Portfolio Manager of Ninepoint Energy Fund since 2010, stated that the current oil supply outage is “the largest outage in human history.” Before the conflict, the world had above average levels of oil storage available and this has kept the world from experiencing a more severe oil supply shock and price rise. However, the world has now almost depleted these extra reserves, and the Strait of Hormuz is still shut down. Saudi Arabia has diverted four million barrels per day via pipeline to global markets, but this is a small amount relative to the 22 million barrels that the world will eventually be short, if the strait continues to be closed and the extra global oil reserves are used up. Iran continues to control this narrow strait. The land near the strait is mountainous and there are lots of places for Iran to hide missile and drone launch sites which have very good visibility to the strait but can be easily hidden from enemies. Ship owners do not want to take the risk of travelling through this area.

The U.S., despite its vastly superior military, cannot control this strait. Iran can continue to bombard the area with relatively inexpensive drones and mines set in the water. Removing these mines is a very slow and dangerous process and removing the drone threat would involve total control of the land in that area in Iran. This war is already unpopular in the U.S., so a full-scale invasion of Iran and the inevitable casualties and economic cost of this would likely be political suicide for the Trump administration and create devastating results for Republicans in the upcoming midterms this year. Oil prices are already up 54% in the last month and natural gas prices are up 71%. This is already a severe jump in prices that will have negative economic consequences. Already, the world is taking action to conserve energy. Here are some examples:

1. Pakistan implemented a four-day work week and closed schools to reduce fuel for commuting and electricity demand.
2. Philippines has declared a national energy emergency and intends to control consumption and ration fuel.
3. Myanmar has restricted cars to be allowed on roads only on certain days.
4. Thailand has mandated higher temperature settings on air conditioning.
5. China has ordered refiners to halt fuel exports and keep supply domestic in order to reduce fuel shortages in the country.
6. India, Japan and South Korea have increased use of coal to offset oil/gas shortages.
7. Egypt has ordered shops, restaurants, malls, cinemas and cafes to close by 9pm on weekdays and 11pm on weekends to reduce fuel consumption and electricity use.

These are a few examples of some pretty harsh measures implemented to reduce fuel use, but the situation is still likely to get worse. Eric Nuttall goes on to say, “Even if the Strait of Hormuz reopens, energy shortages will not ease right away.” Speaking of oil prices, he says, “It’s inevitable that we’re going meaningfully higher from here.” His reasoning is because global inventories are at very low levels and will soon be depleted, and the last ships carrying oil and gas away from the Strait of Hormuz have already unloaded their oil and gas. Even if the Iran conflict ended today, it would take about 30 days for these ships to return to the Persian

Gulf to load up on oil and gas and another 30 days to get that energy to market. That is if the conflict ended today. Currently, there seems to be no end in sight for the conflict with Iran.

LONG-TERM CONSEQUENCES

The cost of oil and gas is priced into almost every product and service in the world. This is why the economy tends to suffer right away when energy prices spike. There is a demand response. We are already seeing this with four-day work weeks, curfews and driving restrictions. This reduces spending and slows economies down. If it is prolonged, it can cause a global slowdown or a recession. Given the severe potential global consequences of this situation, I expect that there will be incentives to resolve the conflict. However, even if it is resolved right away and a recession is avoided, there will be some longer-term consequences. Oil and gas prices will likely not go back to where they were before the conflict. There will likely be a risk premium since it is now known that the world is vulnerable to Iran or another country terrorizing the Strait of Hormuz with drones or mines at a relatively low cost. This situation could be good for Canada and the U.S. The world will look for other sources of oil and gas from more politically stable areas of the world. Both Canada and the U.S. could ramp up production of energy. Canada also is a top producer of uranium, fertilizer and aluminum. The Middle East supplies 20% of the world's aluminum and one-third of the world's urea (used for fertilizer). The world may look to Canada to supply more of these materials in the future, if they want to avoid the dangers of the Middle East. If natural gas prices stay high, nuclear power plants will become more popular and Canadian uranium will become a hot commodity. Canada tends to do relatively better than the U.S. in environments where there is a little more inflation and higher commodity prices. This might be the environment we are entering.

PORTFOLIO POSITIONING

Given all this seemingly bad news, how is it that our Moderate Risk Equity portfolios are up 8% over the last three months? Over the last couple of years, I have maintained a fairly cautious stance. I reduced some exposure to the U.S. and invested in some more defensive industries such as healthcare and utilities, and maintained a healthy 15-20% in safe bonds and cash funds. I also looked for companies that had low stock prices relative to their earnings and added to those or at least maintained healthy levels of those. One of these sectors was energy. Last year at this time, there was a surplus of oil and gas around and lots of energy companies were trading at low prices. I maintained a healthy exposure in this sector and it generated tremendous returns in recent months.

It was the same situation with the materials sector. I have exposure to copper with Teck Resources and fertilizer with Nutrien. Both have done very well recently. I didn't anticipate a war with Iran when I bought these. I simply went where the prices were low compared to the earnings and quality of the company. This tends to yield good results over time. I also mentioned last year that some stocks in the U.S. were excessively valued at the time. Some of these were part of the Magnificent 7 and the technology sector in general. I avoided the most expensive and most popular companies but still maintained exposure to less expensive but related companies. Exposure to the hot technology sector came from Corning and Cisco, which are far less expensive and less exciting than others in the technology sector but ended up providing very good returns in the last couple of years. Sometimes, you can win by not losing. By avoiding the most popular stocks in the world, the Magnificent 7, I avoided the recent negative returns they had over the last six months and the underperformance most of them had in 2025. These are still some of the most profitable and scalable companies the world has ever seen, so I would like to own some of the below one day when the price is right. Microsoft, for example, is trading at the lowest valuation I have seen in years. Given its superior balance sheet, stable free cash flow and exposure to the build-out of data centres, it appears attractive at this point but I'm happy I didn't buy it three months ago.

MAGNIFICENT 7 PERFORMANCE IN THE LAST YEAR

	THREE MONTH RETURN (IN CDN$)	SIX MONTH RETURN (IN CDN$)
Microsoft	-21%	-28%
Nvidia	-4.5%	-4.5%
Apple	-7%	-2%
Tesla	-20%	-18%
Alphabet	-6%	+19%
Amazon	-12%	-7.5%
Meta	-11%	-20%

FINAL THOUGHTS

Spring is the season of hope, and even amid uncertainty around the Iran conflict and global economy, there is reason to remain optimistic about your portfolio. I do know that situations like this provide investment opportunities and your portfolios are in a very good position to take advantage of any opportunity that comes up. You are well diversified and you have companies that have made it through recessions before without much trouble. If energy prices continue to rise, I'll take some profits and redeploy that capital into something that is down. If there is a global recession, it often means bond prices rise. If that happens, I'll take some profits there and find a recession bargain. We don't know what will come at us in the next while, but I am ready to turn it into a win.

Hope you all have a wonderful spring!

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