



Quarterly Commentary

Q1 2026

HIGH-FREQUENCY GEOPOLITICS

The American author, Michael Lewis, wrote a book on high-frequency trading (HFT) in 2014 called *Flash Boys*. The book chronicles the rise of automated trading systems by large Wall Street banks and brokerage firms after the Great Financial Crisis of 2008. These firms hired PhD computer scientists, physicists, and engineers to develop highly complex trading algorithms designed to exploit short-term price inefficiencies in the stock market, all without any human involvement in the process. The systems would flood the market with thousands of trades at a time, execute those trades in milliseconds, and hope to take small profits on each one. Over millions of trades, profits added up quickly; many HFT firms continue to realize hundreds of millions—and even billions—of dollars in annual profits.

When I first read *Flash Boys*, I recall being struck by the fact the whole architecture of high-frequency trading was so entirely opposite traditional investing. Specifically, making quality investments and allowing those investments the opportunity to grow and compound over the long-term, with success often being measured in years. In contrast, these firms were optimizing systems to save microseconds, with all outstanding positions closed out by the end of the day. Business cycles, earnings, and growth outlooks continued to move markets, but underneath these slow, low-frequency trends was a constant undercurrent of high-frequency transactions designed to take the smallest of profits, yet the sheer mass of which moved markets all the same.

Fast forward to the first quarter of 2026 (Q1), and the near-instantaneous reaction of markets to headlines is once again on full display. The difference is, during the first three months of the year, the headlines seemed to move faster than the trades. In just 90 days, we have seen the forceful U.S. capture of Venezuelan President, Nicolas Maduro, on his home soil; the threatening overtures of the U.S. taking control of Greenland and the intense strain of Western alliances in response; the formation of President Trump's Board of Peace, ostensibly proposed as a replacement for the United Nations; the near collapse of the 47-year-old Iranian regime brought on by its own people, followed by the subsequent U.S./Israeli attack designed to achieve the same (but which has instead pushed the world toward the brink of an energy crisis). We seem to have moved into the realm of high-frequency geopolitics, and algorithms and investors alike are working hard to keep up.

Beyond geopolitics, Q1 also saw a recalibration of the market's appetite for the incredible capital spending being put towards Artificial Intelligence (AI), as well as the first real tremors of the potential disruption this technology may have on the job market and established industries, as demonstrated by the selloff in global software firms. The latter also served to exacerbate the widening cracks spreading throughout the private credit market, a situation which saw some of the largest firms in the world limit investors' redemptions for the first time in Q1.

Although there were a multitude of noteworthy events in Q1, we have chosen to focus this letter on the ongoing war in Iran and its potential implications. We will also touch on the significant shift in sentiment towards the outlook for software, AI spending, and jobs.

COLLATERAL DAMAGE: IRAN AND THE STRAIT OF HORMUZ

On February 28th, the U.S. and Israel commenced Operation Epic Fury, launching surprise airstrikes on strategic targets across Iran, devastating infrastructure, and ultimately leading to the death of Iranian Supreme Leader Ali Khamenei. In a war that is now progressing through its second month, Iran has proven resolutely defiant. The long-standing theocratic regime was quick to promote Ali Khamenei's son, Mojtaba Khamenei, as the new Supreme Leader, has completed extensive missile- and drone-strike operations on civilian & critical energy infrastructure in neighbouring Gulf states, and, perhaps most critically, has maintained the near complete closure of the Strait of Hormuz.

Beyond the human tragedy that inevitably accompanies war, the closure of the Strait of Hormuz poses significant challenges for the world economy given its role as one of the most critically important waterways for the supply of physical commodities in the world. Approximately 18.5 million barrels of

oil per day and approximately 9 billion cubic meters of liquefied natural gas (LNG) per month (representing roughly 20% of global consumption in both cases) pass through the Strait. In addition, roughly 20% of global aluminum, and over 30% of global fertilizer volumes pass through as well, among numerous other important commodities.

Benchmark West Texas Intermediate (WTI) oil prices spiked 35% in the first week of the conflict and have largely traded between \$90 and \$110 USD per barrel since; the highest since 2022. WTI oil futures are up more than 50% since the war began, the largest increase since May 2020, when oil briefly traded in negative territory during the depths of the pandemic. The European Brent Crude oil benchmark has fared even worse, jumping nearly 70% since the start of the war.

Despite global efforts to move away from fossil fuels over the past 50 years, they remain critically important in the functioning of the global economy. Global shipping, vehicle, and air transportation remain almost entirely dependent on fossil fuels. Much of the world's heating, and just under a quarter of total electricity production, depends on oil and gas. Petrochemicals derived from oil and gas are used to make the plastics in nearly every product we use. With higher energy input costs, production of raw materials, food, and manufactured goods all rise. Such costs are generally pushed through to consumers in the form of price increases (as anyone that's visited a gas station in the last month can attest to), and thus pose a significant risk for another global inflationary shock.

Accordingly, the closure of the Strait of Hormuz is one of global importance, however the effects are asymmetric. Energy-importing nations, such as many throughout Europe and Asia, face more acute impacts related to higher prices as they scramble to secure supplies; a reality made worse by the strengthening USD in response to the war. In addition, with

approximately 80% of oil and 90% of LNG exports from the Gulf destined for Asia, the risk of running out of supply altogether is considerable. In contrast, net energy exporters, such as the U.S. and Canada, remain relatively buffered from outright supply risks, though they, along with the rest of the world, remain exposed to the realities of higher prices and associated inflationary pressures, even if to a lesser degree. The longer the Strait remains closed, the more extreme supply shortages will become, the higher commodity prices will go, and, ultimately, the more pressure brought to bear on the global economy.

From a high level, there appear to be strong incentives for a resolution on both sides. The Iranian regime entered the war in a fragile state, and, by many accounts, their position of power remains tenuous. Prolonged conflict will inflict considerable economic pain on the country and growing psychological strain on its citizens; not conditions particularly suited to bolstering support. On the U.S. side, it is estimated this conflict is costing upwards of \$1 billion per day. Consumers are feeling the immediate impacts of higher energy prices at the gas pumps, but higher costs of food and goods will almost certainly follow. In a mid-term election year, with a President that has an acute desire for lower interest rates and has claimed to have 'won affordability', a prolonged inflationary shock is surely not part of the campaign plan.

At the time of writing (April 2), evidence points to the two sides remaining far apart on the negotiating front, with hopes for a quick resolution beginning to fade. Even if active military engagement ceases, the reopening of trade through Strait of Hormuz will remain the critical factor. Even then, significant questions will remain:

- To what extent, and over what timeline, will Iran allow the flow of goods through the Strait to return to normal?

- With significant damage to Gulf energy infrastructure endured during the war, what is the sustained effect on prices resulting from curtailed supply?
- How long will the cumulative supply disruptions and the subsequent rebuilding of spent inventories take to work through markets before commodity prices return to pre-war levels?
- With commodity-supply risk being brought into acute focus, will prices remain structurally higher as nations prioritize security over cost?

Time will tell how enduring the impacts of this conflict prove to be. However, we believe many will be taking that last point very seriously indeed.

AI CAPEX AND THE FUTURE OF SOFTWARE

We entered 2026 with expectations for the five major AI hyperscalers (Amazon, Microsoft, Alphabet, Meta and Oracle) to spend \$600 billion in total annual capital expenditures (capex) on the continued buildout of AI infrastructure. In the first quarter alone, that forecast increased to \$700 billion. Additionally, as anticipated in our year-end letter, these companies are increasingly turning to debt to cover the costs. During the week of March 9th, approximately \$116 billion USD of new U.S. investment grade (IG) corporate bonds were issued, including a new single-day record totaling \$66 billion USD issued on Tuesday, March 10th. A significant portion of this debt was issued by hyperscalers, with Amazon alone issuing \$37 billion USD. Earlier in the quarter, Alphabet (Google's parent company) even issued £1 billion of a 100-year bond; the first so-called century bond issued by a tech company since Motorola in 1997. Indeed, the waterfall of debt prompted Bank of America to lift their total annual issuance forecast for the hyperscalers to \$175 billion from \$140 billion.

All but Meta traded off when the expanded budgets were released, demonstrating investor enthusiasm is straining under the weight of such enormous spending and the prospect of blown-out debt loads.

The Technology sector was also dealt a blow in the first quarter with the release of various updates to Anthropic's AI coding agent, Claude Code. Claude Code is an AI assistant that can write, modify, and debug computer code based on descriptive inputs, effectively bringing software development into the realm of the lay person with no prior coding experience. Perhaps more importantly, though, it also allows advanced coders to build complex computer programs more cost-effectively and at a much faster pace. Theoretically, this means large, incumbent software companies may face expanded competition from startups, or even be replaced by a small team of engineers hired to build bespoke software directly for a company.

The market was quick to grasp onto these themes. Speculation around the future revenues of major software firms—which have historically commanded healthy valuation multiples—swirled. Software titans like Microsoft, ServiceNow, and Salesforce tumbled 23.0%, 31.7% and 29.5% over the quarter, respectively. The iShares Expanded Tech and Software ETF (a proxy for the broader Software sector) was down over 24% on the quarter, and 30% off its peak in January, in what was eventually dubbed the SaaSocalypse (software-as-a-service apocalypse).

New technology can be disruptive. Artificial intelligence is very new and has the potential to be very disruptive. Will AI coding agents allow plucky startups and in-house engineers to supplant entrenched software mega-firms? Perhaps. But it may also allow those mega-firms to operate with fewer engineers, produce better and more integrated software at a lower price, and charge lower fees while maintaining profit margin. Will companies truly be willing to risk the critical operations

of their business to unknown and unproven tech versus established, highly reputable, specialized firms with a long history of exemplary performance and service? As is generally the case, the answer is likely to land somewhere in the middle. Nonetheless, while the SaaSocalypse may be one of the first real disruptive blows AI has dealt to an established industry, it is certainly unlikely to be the last.

GUWM STRATEGY AND POSITIONING

A Note on Process during Geopolitical Shocks

Traditionally, the effects of geopolitical shocks on markets have proven to be relatively fleeting in terms of duration and long-term impact. Nonetheless, reactions to such shocks typically follow a similar narrative: Risk assets sell off as investors seek so-called safe-haven assets to ride out the uncertainty, while the U.S. dollar (USD), gold, and bonds rise given their traditional status as reliable havens.

The sheer importance of the Strait of Hormuz to global commodity supply increases the potential for a more widespread, prolonged impact. However, in some respects, the Iran conflict has followed a similar playbook. Risk assets have sold off, with the S&P500 and NASDAQ Composite Indexes falling 5.1% and 4.8% from the start of the war to the end of the quarter, respectively. European and emerging-market equities fared even worse, falling 8.0% and 12.3% (as measured by the Stoxx Europe 600 Index and MSCI Emerging Markets Index, respectively). The U.S. dollar appreciated considerably against global currencies, re-establishing itself as a global haven following a year where that status faced substantial questioning. In contrast, gold proved vulnerable, ending a phenomenal run fueled by those same questions around the U.S. dollar's haven status. Bonds struggled, too, as the outlook for inflation rose alongside commodity prices, and central banks around the world began speaking about potentially needing to raise interest rates to keep inflationary pressure under control.

In times of volatility, investment process becomes all the more important. In contrast to the High-Frequency Traders, we focus on the long-term objectives of our clients. We generally defer making major portfolio moves during such times, as emotions and headlines can drive irrational behaviours within markets which are focused only on the very short-term. Discipline in the face of rhetoric and headlines has become even more critical given President Trump's affinity for quick narrative shifts, strategy adjustments, and major about-faces on policies, which can lead to considerable swings in market sentiment.

Entering 2026, we summarized our equity strategy with the following:

- We maintain a cautious view overall with concerns around elevated valuations and a high likelihood for geopolitically induced volatility
- Maintain exposure to AI momentum and growth in the U.S. market but do so selectively with continued overweight to strategies with downside-mitigation mechanisms built in
- Diversification is our friend – Continue to increase exposure to global equities with a preference for strategies focused on quality companies and productive regions versus broad index exposure
- Prioritize Canadian equity investments in high-quality, dividend-paying companies and seek to minimize potential risks related to Canada-U.S. trade negotiations

Overall, our positioning throughout the first quarter has fared well, helping our portfolios avoid much of the volatility and mitigating the downside. Going forward, we believe these themes remain relevant, though we will continue to adjust positioning to manage risks as new information comes available (such as the potential for amplified stress in international markets in a prolonged commodity shock). We will also be looking

to take advantage of opportunities provided by such volatility, though we will do so strategically and—as much as reasonably possible—from an informed perspective.

MARKET PERFORMANCE

After being nearly the only game in town for the better part of three years, the first quarter of 2026 saw the mega-cap technology and AI trade finally give way to more value-oriented and defensive sectors—as well as, of course, commodities. Waning enthusiasm for eye-watering AI capex and the SaaSocalypse led investors to shift towards 'old-world', asset-heavy industries deemed less susceptible to AI disruption during the quarter (eventually deemed the HALO trade—Heavy Assets, Low Obsolescence). Meanwhile inflationary concerns related to the Iran war sent commodities soaring. The general risk-off tone pushed the S&P500 Index down 4.3% over the quarter, while the tech-heavy NASDAQ fared worse, falling 7.0%. Notable performance came from Energy (+38.1%) and Materials (+10.5%) sectors, while the Information Technology (-7.6%), Consumer Discretionary (-8.6%) and Financials (-9.4%) sectors lagged.

Canadian equities built on a stellar 2025, pushing the S&P/TSX Composite Index (the TSX) to a new all-time high in February, before geopolitical risks weighed in. Still, the TSX was one of the few bright spots among global equities during the quarter, eventually finishing up 3.9%, with Energy and Materials being the standouts, up over 40% and 10%, respectively. Gold, which had a record year in 2025, sold off heavily during the quarter, with prices plummeting from all-time highs of \$5,589 USD per ounce on January 28th to \$4,397 on March 26th, before finishing the quarter at around \$4,700 USD (Spot Price).

Similarly, international equities entered 2026 with plenty of momentum following a banner year in 2025, only to reverse with the onset of the Iran conflict and the inherent risks associated with commodity pricing and

supply. Emerging Markets fell over 10% during the quarter (as measured by the MSCI Emerging Markets Index) as investors pulled back on risk. After leading global markets in 2025, the South Korean KOSPI Index was one of the poorest performers, down 19% on the quarter, as semiconductor stocks faced significant pressure. Meanwhile, the Euro Stoxx 50 finished the quarter down 3.49%.

Bonds experienced a volatile quarter as well, with yields rising across the board in March due to renewed inflation concerns stemming from the war. Yields on 10-year U.S. Treasuries were stable at 3.97% as of February 27th, but rocketed higher through March, eventually reaching a high of 4.44% on March 27th. The U.S. Investment Grade Bond Index ended the quarter down 0.7% YTD, while the Canadian Investment Grade Bond Index finished with a 0.07% gain. Going forward, central banks around the world will be weighing the inflationary risks associated with skyrocketing energy prices against the risk of a global economic slowdown as a result of the same. In other words, the potential for stagflation will once again be top-of-mind, making future interest-rate policy decisions much more complicated.

Q1 2026 Market Performance (Local Currency, Total Returns):

S&P/TSX Composite Index: 3.94%

S&P 500: -4.33%

NASDAQ: -6.96%

Euro Stoxx 50: -3.49%

Japan Nikkei 225: 2.18%

Shanghai Stock Exchange (SSE) Composite: -1.80%

Source: FactSet as of March 31st, 2026

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