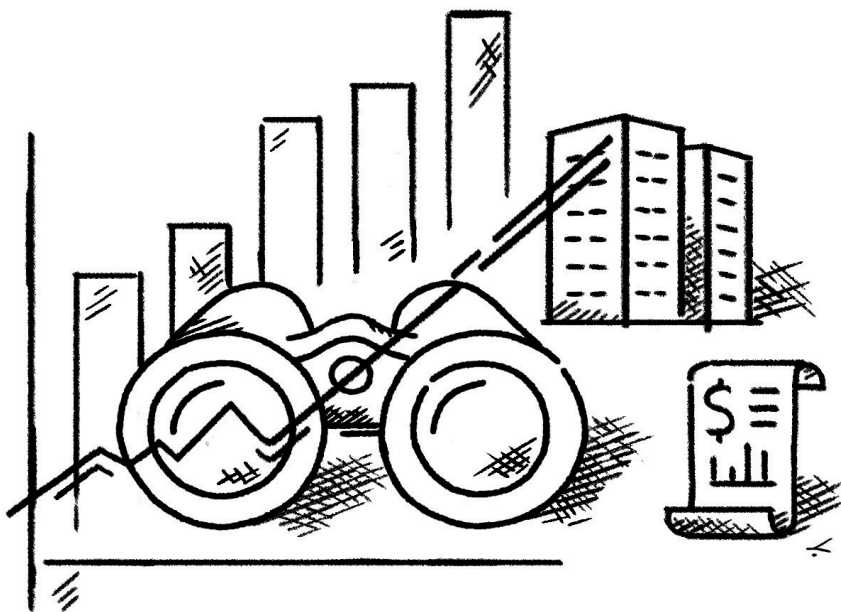


# The Nexus Report

*Navigating the  
Extraordinary:  
Maintaining  
Discipline Through  
Geopolitical Shocks  
and Shifting Markets*



First  
Quarter  
2026

Investment  
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## A Three-Ring Quarter

The first quarter of 2026 was extraordinary. Investors faced almost every spectacle imaginable, short of a lion leaping through a flaming hoop. Geopolitics took centre stage, with a military operation in Venezuela, tense exchanges about Greenland, and ultimately war in the Middle East. Investors also faced a barrage of market developments, including signs of trouble in private credit markets, concerns about AI's disruptive potential, and a related \$1 trillion selloff in software stocks. Masked ICE agents roamed America's streets, gas prices spiked, Mark Carney went on a global trade diversification tour, and Canada won five gold medals at the Winter Olympics. Perhaps the only unsurprising development was that the U.S. Supreme Court overturned the President's signature tariff policy, ruling it an unconstitutional overreach of executive power.

In sum, there was no shortage of drama to command investor attention.

For markets, the most consequential of these developments was the war in Iran. In January and February, prior to the coordinated strikes by the U.S. and Israel, market sentiment had remained remarkably positive. During that period, the S&P 500 was largely unchanged in Canadian dollar terms and the TSX Composite had gained 8.6% (mostly due to gold prices). However, the outbreak of conflict marked a turning point, taking the S&P 500 down nearly 3% and the TSX about 4% in

March. By quarter's end, the S&P 500 had slipped 2.7%, while the TSX managed to finish up 3.9%.

Investors' response to the Iran war appears rational. The first order effect was to push up energy prices, with the price of oil surging more than 35% in the first week of March, topping US\$90 a barrel for the first time since early 2022, when Russia invaded Ukraine.<sup>1</sup> In turn, this oil price spike rekindled investor worries about inflation, just when many observers thought price pressures might be abating. Rising energy prices also cast a shadow over consumer spending and global growth, as investors feared that sustained high oil prices would siphon capital away from future spending and investment, stalling the economy. Lastly, the energy shock reduced the odds of central bank cuts, given that high inflation limits the ability of central bankers to lower interest rates.

In short, oil spiked, inflation risks returned, global growth prospects declined, consumer spending concerns intensified, and the outlook for rate cuts dimmed. As a result, volatility surged, equity markets retreated, and sectors most sensitive to energy prices and inflation regained the spotlight.

All of this in only 90 days! If you blinked this quarter, you'd be forgiven for missing a few of the market's twists and turns.

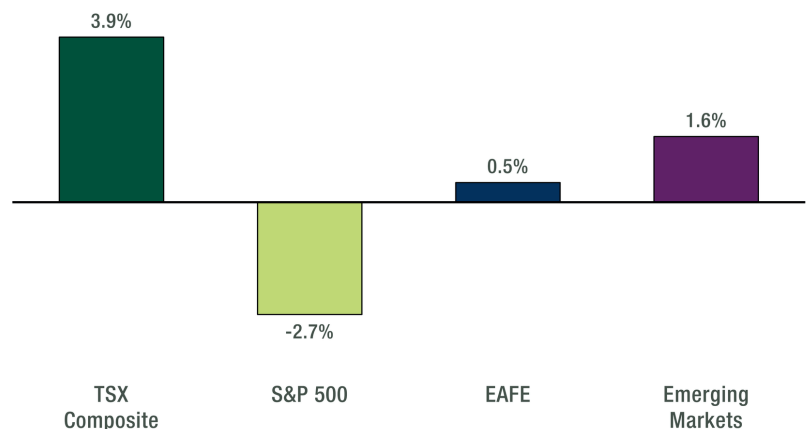
## Slowing Momentum

The situation in Iran has also clouded the overall economic outlook. Since the onset of hostilities, economists have struggled to assess the effects on inflation and growth. For now, only one conclusion is certain: the ultimate impact depends on how long oil prices remain elevated.

Before the outbreak of war, the U.S. economy was showing signs of deceleration, most notably in the labour market. February's jobs report delivered a sharp negative surprise, with payrolls falling by 92,000 and the prior two months being revised down by a further 69,000.<sup>2</sup> While the March report showed a solid gain, all the gain can be traced to an unusually positive weather effect. Without the weather bump, U.S. jobs would have declined again.<sup>3</sup> Between persistent tariff-induced trade disruptions, and the turmoil encountered in the first quarter, it is understandable that businesses are cautious about hiring and, in some cases, reduced their workforces.

Canada's labour market told a related, though distinct, story. After a strong stretch through the fall, employment declined by 24,800 in January and then fell sharply again in February, dropping by 83,900. The unemployment rate ticked up to 6.7%.<sup>4</sup> These numbers pre-date the war in Iran and, given that the decline was broad-based across industries and regions, indicate an economy losing significant momentum as trade pressures mounted.

**Total Returns – 3 Months Ended  
March 31, 2026 (C\$)<sup>5</sup>**



NOTE: Unless indicated otherwise, all Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees (which are charged to client accounts and vary by client). Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Stock-specific returns are price-only returns, and for U.S.-listed stocks are in U.S. dollars. Past performance is not indicative of future results. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

<sup>1,5</sup> Bloomberg.

<sup>2</sup> U.S. Department of Labor, Bureau of Labor Statistics.

<sup>3</sup> Derek Holt, "Daily Points", Scotiabank Economics, April 6, 2026.

<sup>4</sup> Statistics Canada, Labour Force Survey.

Economists expect a mild recovery in March, but that data was not available at the time of writing.

Inflation was another key issue for investors and policymakers before the war. That focus has only intensified since hostilities began. Although both Canada and the U.S. had experienced a cooling trend from their respective peaks, both had seen persistent pressure in specific categories like food and shelter. In September, headline inflation was 3.0% in the U.S. and 2.4% in Canada, dropping to 2.4% and 1.8% by February. However, with oil prices rising, it seems likely that inflation will resume its upward march, unless the Middle East conflict is resolved quickly.

The Purchasing Managers' Index (PMI) are among the key indicators used to monitor economic conditions in real time. This forward-looking survey tracks changes in demand, production, and prices, with readings above 50 signaling economic expansion and below 50 indicating contraction. While PMI data for the period before the war suggested a resilient global expansion, the consensus has shifted because of the "Gulf shock". March PMI readings now signal weaker growth and higher inflation ahead: Australia's composite PMI cratered by 5.4 points into contraction territory (47.0), and the Eurozone (50.5) and Japan (52.5) both dropped by 1.4 points. In the U.S., a headline expansion of 52.7 offered little comfort as rising energy costs have sent input prices for business soaring.<sup>6</sup>

While all this recent data has raised concerns about economic momentum, it might not be all doom-and-gloom for the economy. Wealth among high-income consumers is at record highs due to a strong stock market. Additionally, major AI companies are continuing their extraordinary capital spending, which not only boosts the tech sector but also fuels growth in construction, advanced cooling systems, and upgrades to electrical grids. What's more, war in the Middle East has prompted renewed focus on energy security, which could expedite investments in stable Canadian energy resources, as well as in energy transition initiatives such as renewable and nuclear power. Collectively, these economic tailwinds have the potential to offer substantial support to the economy.

Looking ahead, negotiations regarding the Canada-United States-Mexico Agreement (CUSMA) should remain top of mind. These discussions will have major repercussions for the North American economy. All that can be said at this point is that they promise uncertainty and challenge. But, if we're lucky, they may eventually yield some much-needed clarity.

## Market Outlook

The fog of war is thick and seems to have drifted into the countless research and strategy reports that our investment team receives daily. It is indeed a thankless task for Bay Street and Wall Street to try to forecast short-term outcomes when the justifications for the war are constantly shifting, the end goals are unclear, and official statements – to put it gently – are unreliable. At the time of writing, it seems impossible for anyone to correctly predict if, how or when the conflict might end.

Thankfully, longstanding clients will be aware that the Nexus investment approach does not depend on such short-term predictions. We've declared many times that we have no unique ability to tell what comes next. However, we can prepare and structure our portfolios to endure the unforeseeable events of the future, whatever they may be.

The first quarter was an unsettling period, marked by myriad reasons for concern. Although it is natural to want to take action in periods of turmoil, doing so rarely yields good investment results. In our experience, the benefit of long holding periods and patience far outweigh any potential gains from sudden short-term reactions. In fact, for most investors, those quick reactions usually turn out to be misguided.

The more productive path is to own fundamentally strong companies with durable advantages that can prosper in the long term. Unfortunately, market volatility is something we simply have to accept along the way. As author Morgan Housel has aptly stated: "Volatility is the price of admission. The prize inside are superior long-term returns. You have to pay the price to get the returns."

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<sup>6</sup> Derek Holt, "Daily Points", Scotiabank Economics, March 24, 2026.

## Acrobatics Through the Fog of War

Stock market investors were forced to traverse a fog of war while juggling a volatile barrage of headlines. Sky-high AI investment continues to underpin economic growth, but this collided with a spike in energy prices, a cooling North American economy, and a softening labour market. If sustained, higher energy costs will raise transportation, food, and petrochemical input costs. That increases the risk of compressing corporate margins and curbing discretionary spending. Investors reacted accordingly.

Canadian and U.S. stock market performance began the quarter positively, but both turned downwards from mid-February onwards. For the first quarter of 2026, the S&P/TSX gained 3.9% while the S&P 500 declined 2.7%. This performance gap was driven primarily by the Canadian index's heavier exposure to the Energy and Materials sectors which surged, versus the U.S. index's vulnerability to cyclical sectors like Technology which declined.

## North American Equities

Our Canadian holdings outperformed, gaining 7.5% versus 3.9% for the S&P/TSX. Oil supply disruptions via the Strait of Hormuz and damage to Middle East energy infrastructure propelled oil prices up by over 65%. This development served as a tailwind for our energy holdings. Additionally, Finning and Toromont delivered significant gains, benefiting from robust demand for mining and construction equipment and the expansion of their power businesses to support AI data centers. Our underweight position in the Canadian Technology sector shielded us from broader weakness stemming from AI-driven disruption fears.

Our U.S. holdings rose 1.3% compared to a 2.7% decline in the S&P 500 Index. Performance was driven by our allocations to the Consumer Discretionary, Utilities, and Health Care sectors. Ross Stores, a discount clothing retailer, was a standout as the company's operational improvements coincided with an uptick in price-conscious consumer activity. We had limited exposure to volatility in the software space, where investors are increasingly pricing in AI-related disruption. Further, our lack of exposure to private credit proved advantageous, as that sector faced mounting scrutiny.

During the quarter we trimmed Alphabet and several energy holdings due to elevated valuation and position sizing. We exited South Bow, which is a pipeline company that was spun out of TC Energy.

## International Equity Investments

International markets experienced elevated volatility in the quarter, although finished in positive territory despite a sharp pullback in March. We continue to hold two externally-managed pooled funds.<sup>7</sup> EQIT (international developed market equities) increased 2.5%, while EMEC (emerging market equities) rose 4.3%. Similar to the North American experience, international performance was bifurcated between energy producers and net importers. Furthermore, regions supporting the AI hardware supply chain outperformed those perceived as susceptible to AI-based disruption.

Developed stock markets gained. Performance was tilted heavily toward energy-producing nations. Continental European

markets were inhibited by their status as net energy importers and fears regarding software disruption. Conversely, U.K. markets outperformed due to their higher weighting in the Energy sector, and Japanese equities rose following the election of a new pro-growth government. Across most developed regions, the interest rate outlook remained clouded by these energy-driven inflationary concerns.

Emerging markets also posted gains with even wider regional dispersions in performance. Exposure to the AI supply chain provided a tailwind for Taiwan and South Korea for much of the quarter. However, as net energy importers, these markets (along with India) faced a sharp reversal in March as energy prices climbed. In contrast, net energy exporters, primarily in Latin America, benefitted directly from the rise in oil prices. China underperformed the broader index, weighed down by AI-disruption fears within its Technology sector and its vulnerability to rising energy costs.

International equity exposure remains an important diversification tool within our portfolio. While international performance may occasionally deviate from North American trends, this exposure provides essential access to a broader universe of companies with distinct growth profiles and attractive valuations.

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NOTE: The overall and geographic level return data in this section are for the Equity Fund. Equity returns within the Balanced Fund were similar. For specific performance, please refer to your own quarterly report.

<sup>7</sup> Both pooled funds are managed by teams from J.P. Morgan Asset Management in the U.K. and are held in our International, Equity, and Balanced Funds.

## Two Steps Forward, Two Back

The Canadian bond market ended the first quarter almost exactly where it started, with the FTSE Canada Universe Bond Index gaining 0.2%. However, that headline number understates the volatile ride. Broadly speaking, Q1 played out in two distinct phases – the bond index gained 2.2% in the first two months, only to give back 2.0% in March. Our bond portfolio performed in line with the index in the quarter but experienced a smoother ride.

Entering 2026, the conditions for bonds were constructive. Canada's economy was muddling through. GDP nudged up 0.1% month over month in January and an estimated 0.2% month over month in February.<sup>8</sup> The job market softened, with 94,600 jobs lost over the quarter, erasing all the gains made in the second half of 2025.<sup>9</sup> Manufacturing and trade-exposed sectors bore the brunt of it, a sign that tariff uncertainty was doing real damage to business activity. Inflation had moderated, hovering near the Bank of Canada's 2% target.

Against that backdrop, the 10-year Government of Canada (GoC) bond yield drifted down from 3.4% to 3.1% as the market priced in a weaker growth outlook and slowing inflation. Bonds did what they're supposed to do when the economy softens. They rallied: bond prices increased and bond yields declined.

## March: The Reversal

The Iran war broke out at the end of February. The Strait of Hormuz, the chokepoint through which roughly 20% of global oil supply flows, was blockaded, and oil prices spiked sharply. The concern shifted from weak growth to inflation risk, and bond yields moved accordingly. The 10-year GoC yield climbed from 3.1% to 3.5% by the end of March, unwinding most of what had been gained in the first two months of the year.<sup>10</sup> Interestingly, bonds did not enjoy a safe haven bid amidst the uncertainty, as investors focused on potential inflation risks stemming from rising oil prices.

<sup>8</sup> Statistics Canada, Gross Domestic Product by Industry.

<sup>9</sup> Statistics Canada, Labour Force Survey.

<sup>10,11,12</sup> Bloomberg.

## The Bank of Canada's Stance

The Bank of Canada (BoC) held its policy rate steady at both meetings in the quarter, which was widely expected. What was more notable was Governor Macklem's tone. He was explicitly dovish – signalling patience on inflation, particularly if price pressures prove temporary. That posture makes sense to us given the current economic fragility. Raising rates into a weakening labour market and tariff-hit manufacturing sector carries real risk.

The market, however, isn't fully buying the BoC's patience narrative. Prior to the start of the war, the financial markets expected the BoC to hold its policy rate unchanged through the year. At the time of this writing, the financial markets now expect a rate hike by the end of the year. Accordingly, short-term bond yields have risen in response to these rate hike expectations. The 2-year bond yield moved from 2.4% to 2.8% in March.<sup>11</sup> We think it's a bit premature to expect rate hikes yet. The Canadian economy has barely kept its head above water and raising rates in that environment might be difficult.

The BoC itself captured the dilemma plainly in its latest statement: raising rates to slow inflation risks weakening an already soft economy, while cutting rates to support growth risks pushing inflation above target. It's a genuinely difficult position in which most central banks find themselves right now.

One underappreciated risk for the rest of the

year is the CUSMA review. Trade agreement uncertainty is already weighing on business confidence and capital spending. Depending on how those negotiations unfold, it could either ease or amplify the pressure on Canada's trade-exposed sectors, and by extension, the Bank of Canada's path.

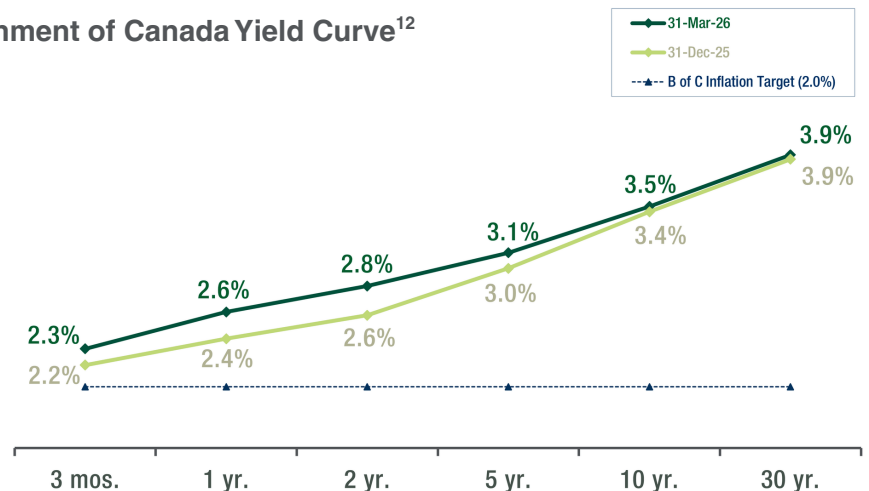
## Narrow Spreads Amid Risk

Canadian credit spreads tightened to multi-decade lows in January before reversing in late February through March as the Iran war and tariff uncertainty drove a risk-off tone. The spread widening added to the headwinds from rising GoC yields for corporate bonds. Still, credit spreads remain well below their long-run historical averages. Said differently, credit spreads may not fully reflect the elevated level of uncertainty in the economy and financial markets.

## Portfolio Positioning

In the quarter, we added to government and provincial bonds, and to a lesser extent corporate bonds, where we focused on high-quality issuers, including the Canadian banks. Our bond portfolios are positioned with a shorter duration than the broad bond index, which provided meaningful protection when yields rose sharply in March and served our clients well.

Government of Canada Yield Curve<sup>12</sup>





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