Equity Team commentary: Contrasts, opportunities, and outlook

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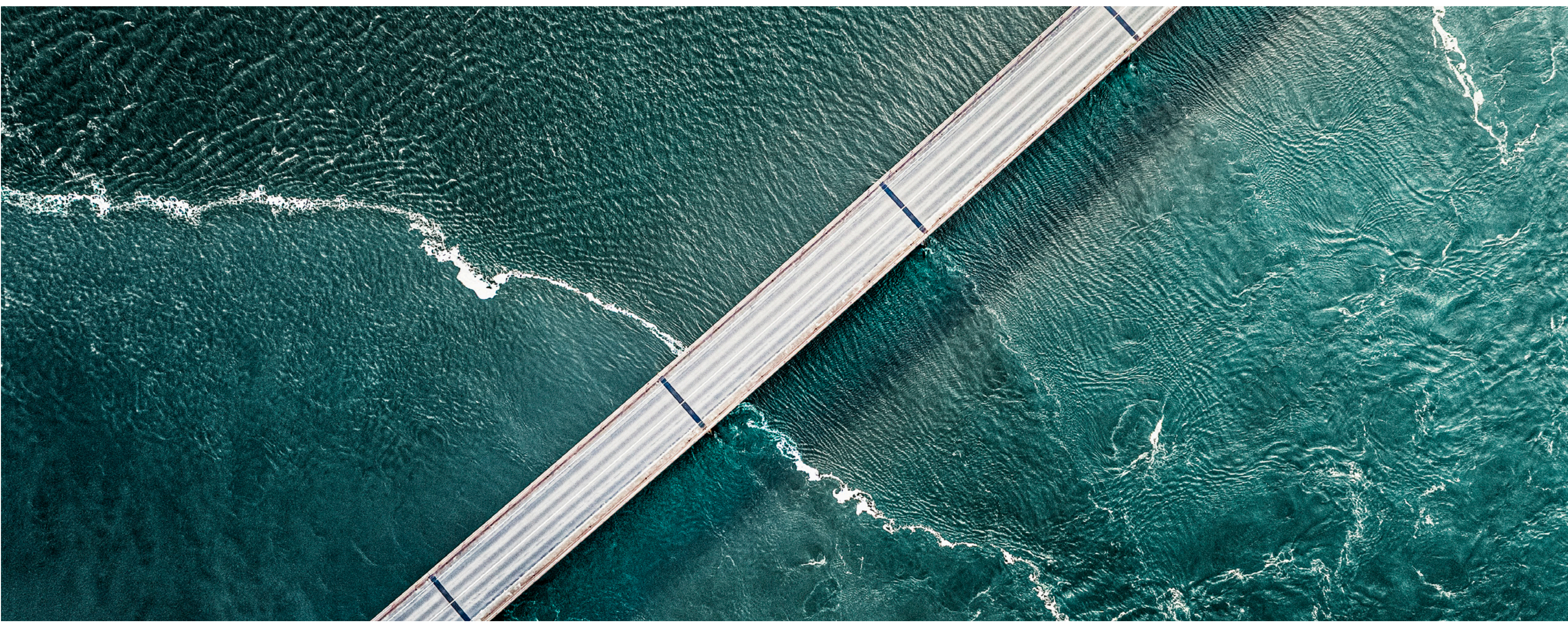

Key takeaways

- S&P/TSX has significantly outperformed the S&P 500 year-to-date, driven by strong corporate earnings and broad AI adoption.
- Elevated oil prices and geopolitical tensions have made the energy sector the standout performer, with notable gains in both E&P (Exploration and Production) and midstream companies.
- Canadian tech stocks faced sharp declines due to concerns over AI disruption, but companies with strong proprietary data and customer relationships, like Shopify and Thomson Reuters, are expected to benefit from AI in the long term.
- Continued market volatility, driven by geopolitical events, trade negotiations, and potential US Fed rate cuts, presents opportunities for active stock selection and management throughout 2026.

February was a month of sharp contrasts with S&P/TSX year-to-date (ending February 27, 2026) 7.6% performance far outstripping the tech heavy S&P 500's flat 0.5% performance. Our core expectations for 2026 are for strong corporate earnings to be driven by margin expansion and a broadening of AI adoption across all sectors. This thesis was reinforced throughout the February Q4 earnings season. With approximately 70% of TSX Composite constituents having reported, 62% of companies saw above consensus results and continued strong guidance outlooks. In total the TSX reporting cohort posted a blistering average earnings and sales growth of approximately 23% and 8% respectively.

Strong operating performance combined with higher oil prices, fueled by increased geopolitical tensions, made energy the sector star of the month with across the board strength in both E&Ps and midstream. Canadian Natural Resources and Cenovus rose 18% and 13% respectively during the month and Enbridge and TC Energy were up 9% and 9.8% respectively. Expectations of continued strength in global manufacturing taking the global oil market from surplus to deficit by mid-2026 augurs well for continued strong equity performance in E&P in the back half of the year.

Angst over AI disruption to business models resulted in carnage across Canadian tech stocks with the sector down approximately 23% year-to-date, including Shopify and Constellation Software each down 26% and 24% respectively while Thomson Reuters was both down approximately 23% year-to-date. However, we expect that companies with strong proprietary data moats and customer relationships will ultimately be the winners in AI creating opportunities in Shopify and Thomson Reuters. Both companies have very strong data driven franchises and defensible competitive advantages. We believe that similar fears of AI. disruption in engineering and construction companies, where concerns that AI productivity could reduce available billing hours, are missing the pricing power of proprietary data. We anticipate incremental revenue opportunities from AI data mining in companies such as WSP (from digital twinning of infrastructure for instance).

Looking forward we remain focused on bottom-up stock picking. We continue to expect opportunities for active management to take advantage of volatility associated with an ongoing stream of market moving events throughout the balance of 2026. This includes repercussions on oil prices, gold and the USD from the escalation of hostilities between the US and Iran. Potential drivers of volatility include on-and-off CUSMA trade negotiations, US mid-year primaries, further escalation of Iran/US nuclear standoff and the Russia/Ukraine war, repercussions from the February 20 US Supreme Court ruling against IEEPA tariffs as the US accelerates the use of other sector specific tariff tools, and the potential for US Fed rate cuts in the back half of 2026 post nominee, Kevin Warsh, becoming Chair.

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