CIBC GLOBAL
ASSET MANAGEMENT

Oh Canada! The case for Canadian equity outperformance in the new world order

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Key takeaways

- Geopolitical fragmentation, vulnerabilities in energy and critical mineral supply chains, and low-cost drone warfare should support investment demand in technology, defence, natural resources, and infrastructure.
- Inflation risks are likely to remain elevated as military conflicts increase commodity supply risks and structural investment raises demand for capital, labour, energy, and natural resources beyond normal cyclical patterns.
- Canada is well positioned to benefit from stronger allied demand for secure energy and critical minerals, alongside a domestic investment push that could support potential growth.
- These forces should create spillovers for Canadian equities, particularly in the energy, materials, and industrials sectors, while wider return dispersion strengthens the case for active management.
- Canadian equities also offer diversification and inflation-hedging benefits through their sector mix and commodity exposure.

1. A new geopolitical regime for investors

Several forces are reshaping the geopolitical landscape. The US has less capacity and political willingness to single-handedly maintain a stable world order, while technology is reshaping warfare. Cheap drones, and eventually AI-enabled swarms, are increasing defence costs and the risk of significant losses in military equipment and infrastructure. Iran's drone capabilities have exposed vulnerabilities in Middle East energy infrastructure and the Strait of Hormuz, while Ukraine has used drones to damage Russian military and energy assets. China's dominance in commercial drone production and key supply chains creates another vulnerability for US allies, many of which have underspent in defence and remain net energy importers.

Since 2022, the war in Ukraine and the conflict in the Middle East involving Iran and the US have triggered sharp commodity price spikes while accelerating global investment in defence, technology, and supply-chain diversification. Countries are increasing military and strategic spending to reduce reliance on the United States, bolster deterrence, and secure access to critical natural resources.

Taken together, these forces point to a significant, multi-year shift.

We view this backdrop as constructive for Canadian equities because of two reinforcing demand shocks: stronger external demand for energy and critical minerals, and a domestic investment push across infrastructure, defence, energy, and natural resources.

2. Tailwinds for the Canadian economy, equities, and active management

Stronger allied demand for secure resources and domestic investment—from natural resources to military capacity—could support trend growth and improve the outlook for Canadian equities, particularly in the energy, materials, and industrials sectors. Energy companies should benefit from expanded capacity; materials companies, from friend-shoring and demand for critical minerals; and industrials companies, from defence spending and demand for the engineering, construction, and services required to deliver new supply capacity.

Energy and natural resources

Large-scale Canadian projects are expanding export capacity and strategic infrastructure. Projects tracked by the Major Projects Office (MPO) total nearly C$200 billion, or about 6% of gross domestic product (GDP). Examples include:

- The West Coast Oil Pipeline would expand oil export capacity by more than 20% over the medium term and diversify crude exports to Asia, while Ksi Lisims LNG could support Canada's natural gas exports to Europe.
- New mines and mine expansions for critical minerals such as copper, nickel, and zinc provide another channel. The Red Chris mine expansion project is expected to increase Canadian copper production by 15%. Tungsten production is also targeted: the metal is used in defence, industrial applications, and chip production, but China controls roughly 80% of global tungsten supply and has tightened export controls as defence demand rises.
- Nuclear power adds another channel. The Darlington small modular reactor (SMR) program would expand clean baseload capacity, support energy security, and build exportable Canadian expertise in nuclear development, licensing, engineering, and operations.

Beyond individual MPO projects, Canada's resource base strengthens its allied-supply chain advantage. The country has meaningful reserves or production capacity in nickel, copper, lithium, rare earth elements, tungsten, oil, and natural gas. It also produces about one-quarter of global uranium supply and is home to the world's largest potash producer. Excluding MPO projects, Natural Resources Canada listed nearly 350 natural-resource projects in 2024 that were announced, planned, or under regulatory review but not yet under construction, totaling nearly C$250 billion, or about 8% of GDP, over the next decade. The investment pipeline's total dollar value was up 11% from the prior year.

Canada's advantage is not only its resource base. It also offers a more transparent environmental, social, and governance profile than competing sources, including Middle Eastern energy and China-dominated critical materials, supporting its role as a trusted supplier for allies.

Industrials: Defence tailwinds and broader spillovers

Canada is also on a path to materially increase military spending over the next decade, moving from roughly 2% of GDP in core defence spending toward NATO's 5% target by 2035. That target includes core defence spending of 3.5% of GDP, with the remainder allocated to security-related investment, including infrastructure. Ottawa also aims to modernize equipment, reinforce domestic defence industries, and upgrade dual-use infrastructure such as airports, ports, and telecommunications.

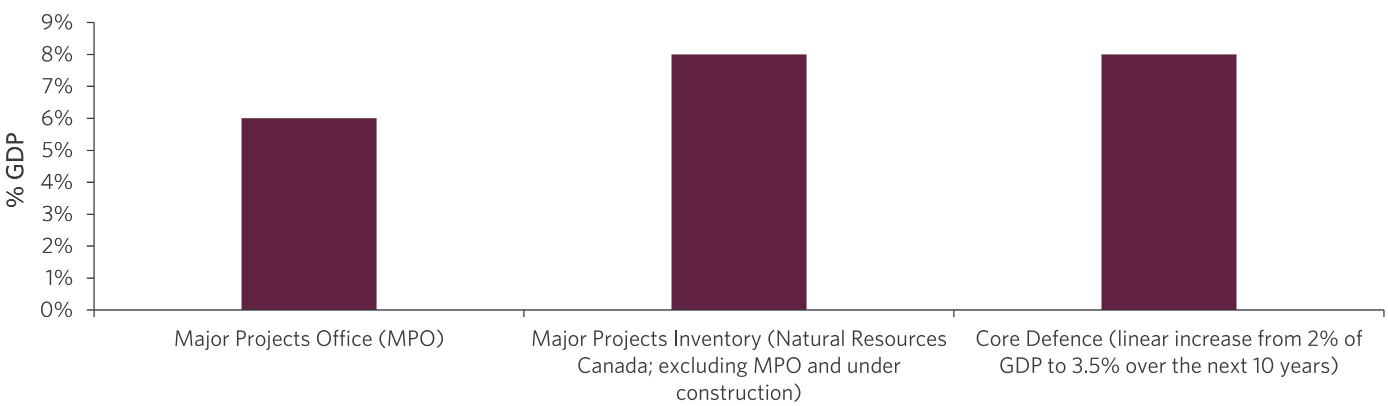
The projected increase in core defence spending from 2% to 3.5% of GDP would be equivalent to a cumulative spending impulse of about 8% of GDP over the next 10 years, assuming a linear increase. Ottawa has also pledged to award 70% of defence acquisitions to Canadian firms, creating direct demand for domestic manufacturing, engineering, and technology services, as well as indirect spillover effects through supply chains.

Broader infrastructure and investment demand should further support the industrials sector. Pipelines, liquified natural gas (LNG) terminals, small modular reactor (SMR) units, mine expansions, and power-intensive data centres create opportunities for domestic engineering, construction, project management, and advanced manufacturing firms. Canada's energy resources and dedicated power infrastructure are also attracting AI infrastructure, including Meta's recently announced C$13 billion, one-gigawatt data centre in Alberta, creating another source of demand for power, construction, and engineering services.

Macro spillovers: A multi-year growth tailwind

The cumulative pipeline from the Major Projects Office (MPO), defence spending, and projects highlighted by Natural Resources Canada totals more than 20% of today's GDP over the next decade **(Figure 1)**, making it a meaningful multi-year source of macroeconomic support.

Figure 1. Cumulative size of strategic investment in Canada, next 10 years, % GDP



For illustrative purpose only.

Source: The Privy Council Office, Natural Resources Canada, CIBC Global Asset Management. Data as of August 13, 2026.

Net of imports, and accounting for likely implementation delays this combined investment pipeline could lift trend growth by about 0.3 percentage points, on average, over the next several years, equivalent to about one-fifth of potential growth.

Equity spillovers from these macro tailwinds are expected to be sizeable over the medium term, although difficult to estimate. A simple historical relationship between Canadian GDP growth and the TSX suggests that a 0.3 percentage point increase in trend growth could raise annualized equity returns by about 1 percentage point. A large-scale macroeconomic model that captures second-round effects suggests a potential annualized gain of about 2 percentage points over the next three to five years. (This would raise our long-term expected return estimate for Canadian equities to 8.2%). While our expectations for the broad Canadian market have risen, the larger opportunity exists in actively identifying the sector and company beneficiaries.

Active management: Dispersion creates opportunity

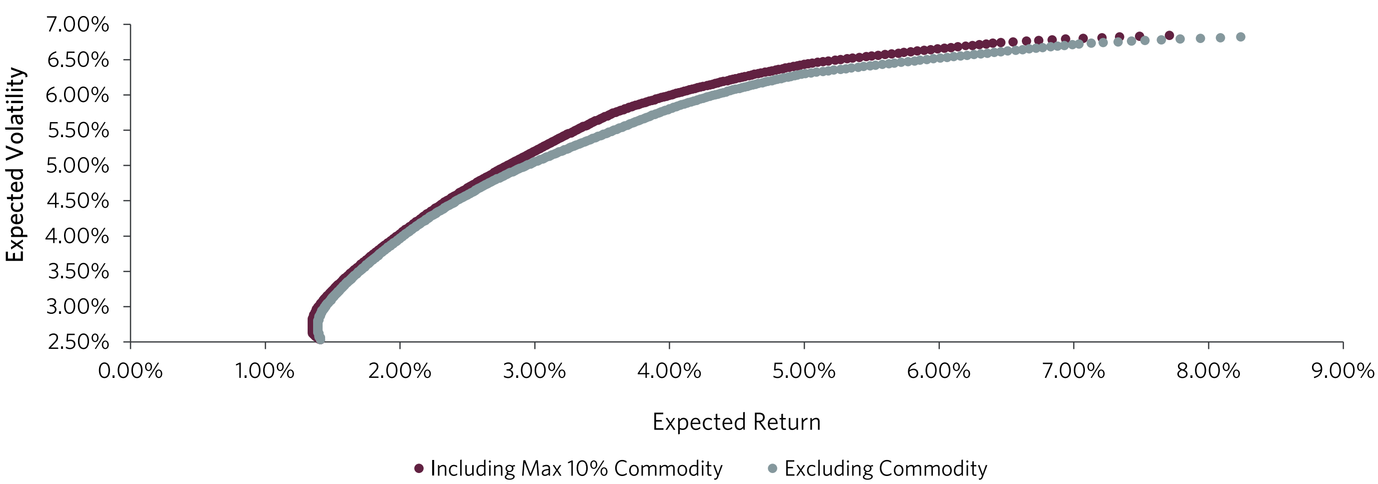
These macro tailwinds are unlikely to benefit all sectors and companies equally or at the same time. As a result, broad index exposure should remain useful, but active sector allocation and security selection should add value as fundamentals, execution, and policy exposure become more important. Procurement, permitting, project execution, cost control, external demand, balance sheet strength, and policy support should create clearer winners and losers within and across sectors, strengthening the case for active management.

3. Canadian equities as a geopolitical and inflation hedge

Recurring military conflicts are another source of inflation risk. Canadian equities can serve as a hedge against geopolitical and inflation risks through their exposure to the energy and materials sectors.

An analysis of portfolio efficient frontiers illustrates the potential diversification benefit to a Canadian-based investor of a strategic allocation to a basket of commodities. For illustrative purposes, we assume a 10% strategic allocation to commodities, proxied by the BCOM Enhanced Roll Strategy and funded by primarily through a reduction in portfolio equity exposure. Commodity exposure improves the efficient frontier **(Figure 2)**, with potential upside in a more multipolar order because the frontier is based on historical data. Historical analogues are limited as the world transitions away from Pax Americana, the US-led and stable global order. However, Canadian energy, materials, and industrials outperformed following Russia's invasion of Ukraine in 2022 and amid Middle Eastern tensions involving Iran and US interests in 2026 **(Figure 3)**.

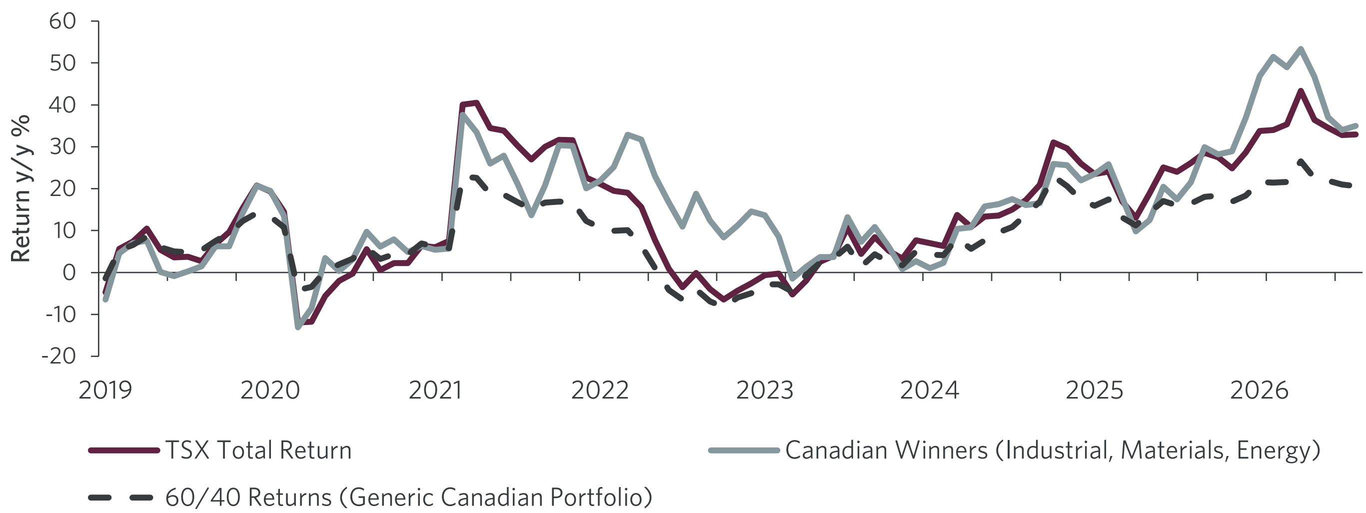
Figure 2. Commodities have important diversification properties



For illustrative purpose only.

Source: CIBC Global Asset Management, Bloomberg. Data as of August 13, 2026.

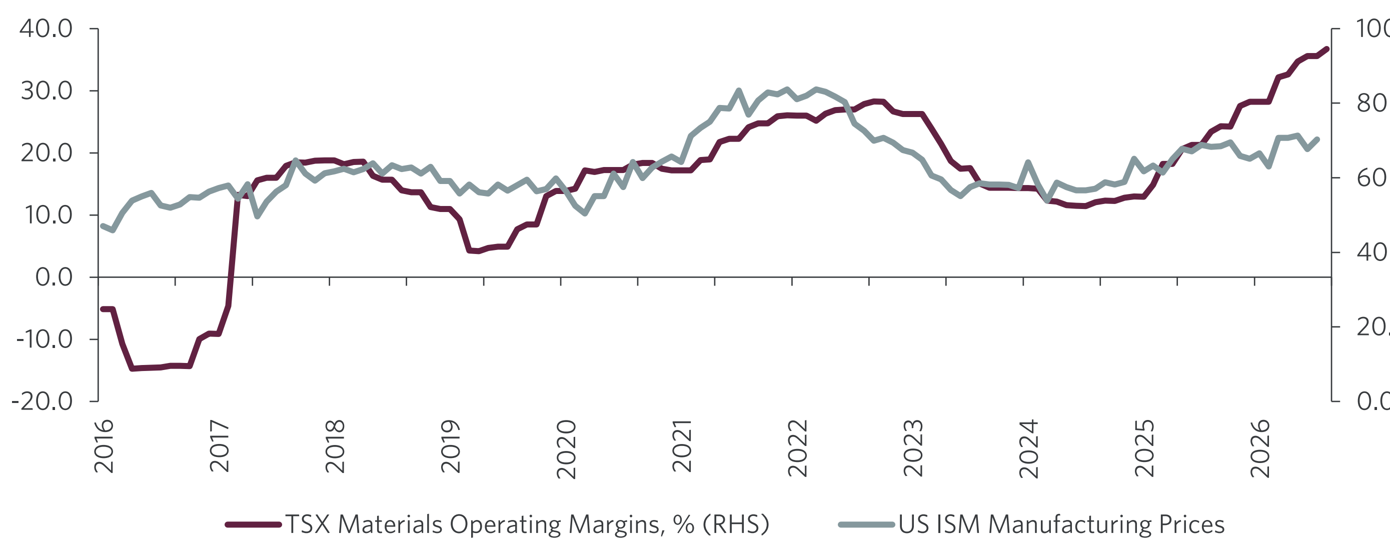
Figure 3: TSX Industrials, Materials, and Energy as geopolitical and inflation hedges



Source: CIBC Global Asset Management, Bloomberg. Data as of August 13, 2026.

Beyond conflict-related shocks, strong investment is another source of inflation risk. Geopolitical fragmentation is driving structural demand for capital, labour, energy, and natural resources beyond normal cyclical patterns. This dynamic should keep inflation sticky and support materials prices over the medium term. Reflecting this, the Canadian materials sector provides a natural hedge, as its operating margins have tracked the Institute for Supply Management (ISM) Manufacturing Prices Index closely **(Figure 4)**.

Figure 4. TSX Materials as a demand-driven inflation hedge



Source: CIBC Global Asset Management, Bloomberg. Data as of August 13, 2026.

Conclusion

In sum, Canadian equities look well positioned in a more fragmented world. Stronger allied demand for secure resources and domestic investment should support trend growth and create stronger opportunities in the energy, materials, and industrials sectors. Wider return dispersion strengthens the case for active management, while Canada's sector mix and commodity exposure provide diversification and inflation-hedging benefits.

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[1] CIBC Global Asset Management (previously known as TAL Global Asset Management Inc.) was founded in 1972 as a privately-owned investment manager. CIBC took an ownership stake in 1994, eventually assuming 100% in 2001.

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