



Review and Commentary – Q1 2026

Canadian equity markets continued to outperform their U.S. counterparts during the first quarter. One of our predictions for 2026 was that oil and materials sectors would outperform this year. While pleased, this prediction was made without the geopolitical upheaval in the Middle East in mind. Oil prices will likely remain elevated for the remainder of the year, even if the conflict is resolved to the satisfaction of all parties, given how vulnerable crude prices are to any supply disruption. Higher oil prices should be a net benefit to the Canadian economy and investors in 2026.

Higher oil prices will translate directly to higher-than-anticipated inflation. While stagflation is a possibility, such an outcome will depend on when and how the conflict in the Middle East is resolved. Higher inflation should continue to support assets such as metals and other materials. Several metals, including copper and uranium, continue to be in structural supply deficits, which should support prices regardless of future geopolitical outcomes.

Given the rise of Artificial Intelligence (AI), future sources of electricity supply requirements needed to meet demand for these technologies are an increasing focal point of interest to investors. Not only will this benefit utility companies, but also those producers of materials vital to energy transmission.

The influence of AI in the equity markets remains significant. One of the reasons for the relative underperformance of U.S. equity markets in the past quarter was the significant weighting of AI-related stocks in the U.S. indices, particularly the Magnificent 7. Three of them—Microsoft, Tesla, and Meta—were all down double digits in the first quarter. Investors are adjusting their expectations for many of these companies, given the future spending requirements. “Worldwide spending on artificial intelligence (AI), including AI-enabled applications*, infrastructure, and related IT and business services, will more than double by 2028, when it is expected to reach \$632 billion...”, according to a new forecast from the International Data Corporation. There are many reports that estimates AI spending to be much higher.

This indebtedness will not only affect current earnings and cash flows but also magnify the risks to those companies who don’t successfully invest for the future. While AI can provide significant productivity gains, it is not without a cost. Evident by weaker prices in the most recent quarter. Investors fear that AI may render a lot of existing software obsolete. Future technology trends are impossible to predict, but innovation is constant, and the dramatic reaction in market prices is likely to provide patient tech investors with an attractive buying opportunity.

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SIM's recent Reviews and Commentary's have emphasized that our more conservative investment approach, combining income and growth, should perform well, most notably, in uncertain markets. This has been evident recently and remains our expectation. As equity investor interest broadens beyond a narrow group of high growth companies,

-based industries is increasing. With the more influential energy and materials sectors, the Canadian equity market should become increasingly attractive to investors. Our political environment is less polarized, and our government, at least currently, is considerably more predictable when it comes to international and trade relations. SIM Ltd. has always been confident in the relative long-term attractiveness of the Canadian equity markets. More international investors are coming to the same conclusion.

Will the equity markets remain volatile? Indeed. Geopolitical tensions are rampant, and the effects are clearly being felt by all investors. According to the Investment Company Institute, as of the week ending March 26, 2026, total assets in U.S. money market funds reached \$7.8 trillion (which was down a mere \$53 billion from the prior week) suggesting investors remain cautious. While it is no indication of the future direction of equity prices, these historically high levels of cash suggest that investors are waiting for a better entry point. Historically, trying to time the market never works. Looking at data going back to 1930, Bank of America found that if an investor missed the S&P 500's 10 best days each decade, the total return would stand at 28%. If, on the other hand, the investor held steady through the ups and downs, the return would have been 17,715%.

SIM Ltd.'s investment style is well suited for turbulent times given our conservative posture, emphasizing primarily dividend paying large cap equities.