

Manager's Commentary

Greg Taylor, CFA

Market Insights

Momentum is a wonderful thing, and that was seen in abundance in 2025, with global equity markets experiencing their third straight year of strong performance.

Of course it wasn't all smooth sailing, as we now know that nothing with the current leadership in Washington will be easy. That was made abundantly clear in early April as the barrage of 'liberation day' tariffs hit markets resulting in equity markets looking at risk of losing their multi-year winning streak. Yet after one of the stronger rallies on record, we ended December with most markets at all-time highs.

For a year of many positives, it's sometimes difficult to find what was the most impactful. But after the prior years' rally being led by only a handful of companies, seeing it broaden out is a development all should cheer on.

The AI revolution continues as a driving force in all our lives and dominates the headlines, yet the story is evolving. Elsewhere in the technology sector, we may finally have seen the end of the dominance of the so called 'MAG7' stocks theme, as only two of the seven (Nvidia and Alphabet) beat the S&P500 index.

Real concerns around the financing and profitability of data centres are beginning to pop up, with cracks appearing in the bond market first. The rise and fall of Oracle is one of the high (or low) lights to take note of. Semiconductor companies continue to dominate and will set the tone once again in the new year. We continue to watch for more ways to gain exposure to the AI theme.

In terms of predicting what will be the dominant story for 2026, it's hard to look past the Federal Open Market Committee (FOMC) and geopolitical threats. The US finally joined the rate cutting party in 2025, and more cuts could be coming, but we need to first find out who will be leading the FOMC going forward. The new Fed chair decision will be one of the most politically driven in history and investors will be watching closely.

Markets hate uncertainty, and there seems to be more of that risk from Washington than ever. What might become the lasting legacy of President Trump is that global investors are finally starting to allocate to other markets to get away from these headlines. Many international markets outperformed the US in 2025, and given their valuation discount, look situated to do so once again. Observers calling 'the end of American exceptionalism' are picking up.

These concerns around the US have been most acutely felt in the currency market. The US dollar has been under pressure for the last few years, acting as a great tailwind for real assets. This move helped to super charge the winning trade of the year: precious metals.

A lower dollar, combined with easy money, sticky inflation and increased central bank reserve buying, has driven gold and silver to record levels. Gold was higher by 60% for the year, silver by over 150%. An asset that many had written off as a historical relic, suddenly was leading the pack.

The strength of the materials sector drove the TSX higher by 1.3% during December 2025 and 31.7% for 2025, and brought more attention to the Canadian market. However it wasn't only resources. It can't be overlooked that many financial stocks were among the top performing. As several wise market watchers have stated, 'good things happen when banks lead'.

Much like preview notes looking forward to 2025, earnings growth will be needed to keep the positive momentum. But seeing a market less dependent on a few themes or companies is a massive positive. As rates continue to drift lower and policy remains market friendly the setup for the new year remains healthy. But don't look for the old leaders to take us higher, this move should see the lagging sectors join in the fun.

Fund Update

The Pender Alternative Select Equity Fund was higher by 3.2% in December to finish the year up 40.2%¹. The S&P/TSX composite was up 1.3% for the month and 31.7% YTD. By many metrics the Fund had a strong year. We were positioned to capture the strong performance in gold to start the year, and while we may have taken down exposure a little too soon, this was still the top contributor for the year. The move towards real assets has been a trend we have been involved in for several years and while it came to fruition this year, we don't see it ending anytime soon. There remain many concerns around inflation and the US dollar, which is a great setup for commodities. Combine that with over a decade of underinvestment in exploration and development and the commodity cycle is still in the early innings. Entering 2026, uranium continues to be our top exposure as, under many scenarios, power demand is continuing to increase and nuclear power is looking very well positioned to benefit from the AI capital expenditure boom.

Beyond commodities we see opportunities in several sectors. We generally don't hold banks in this fund, but within financials we are seeing great opportunities in the investment banking space. Mergers and acquisitions as a theme should dominate in the coming years and we look to benefit from that via companies such as **Evercore Inc. (EVR)**. There is also a continued push to build infrastructure in North America, this is both for energy and national security. We believe this trend should be around for multiple years and as space becomes more of a focus, holdings such as **MDA Space Ltd (MDA)** and **Telesat Corporation (TSAT)** should benefit.

Looking ahead to the new year is always a tricky question. After such a strong run over the last several years it's normal to expect some sort of reset. The problem is that cash has been one of the worst performing asset classes over this period and getting off the train too early can be a problem. With volatility at low levels, we are using options overlays to protect on the downside. Global macro headlines remain unsettling but the underlying trend for asset valuations remains higher, we expect sector rotation to be a dominant theme and sectors that lagged last year to do better. This should help overall indices to do well. It's difficult to expect another 20% plus year for markets but barring a massive shock we don't see the negative scenario either.

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¹ All Pender performance data points are for Class F of the Fund unless otherwise stated. Other classes are available. Fees and performance may differ in those other classes. Standard Performance Information for Pender's Liquid Alternative Funds may be found here: <https://penderfund.com/fund/pender-alternative-select-equity-fund/>