

Manager's Commentary

Greg Taylor, CFA

Market Insights

Many consider the month of January as a good leading indicator of how the year will play out. Well, if this year is going to follow that pattern, we had better all buckle up, as it could be quite the ride.

January finished with a whimper as markets fell on the last trading day to close slightly positive on the month, but that comes nowhere close to telling the whole story. It was one of those months during which weeks felt like years.

Following such a strong year as we saw in 2025, many came into 2026 expecting some sort of reset. A nice year end rally had many stocks overbought and investors were nervous that sellers would hit the market to start the year. That wasn't the case.

The year started with a bang as markets launched out of the gate. Only to be quickly followed by an actual bang as the Americans launched an attack on Venezuela. The staggering success of that mission, which resulted in the US effectively taking over the government, stunned the world and emboldened President Trump.

With a 'win' under his belt, the President quickly turned his attention to other matters. First, further pushing his pressure on the FOMC by hitting Chair Powell with legal action. Then relaunching his attempts to take control of Greenland from a NATO ally. When the EU and other nations pushed back, we suddenly entered what seemed like 'Tariff War 2.0'. Markets responded accordingly with a quick drop, but following the script we all learned last year, TACO Trump turned, a deal was reached, and markets celebrated.

The World Economic Forum at Davos should have been a stage to see calmer heads prevail and tensions de-escalate. Yet it seemed the opposite as PM Carney's speech pushing back resulted in the full wrath of the President turning towards Canada, bringing with it tariffs and concerns about the upcoming USMCA negotiations.

Yet somehow the TSX ended the month with a decent performance. The volatile actions coming from Washington seemed to ignite the 'sell America' trade. Global investors, who had been selling down US exposure seemed to pick up the pace, deploying some of those proceeds into Canada.

We believe the real winner of the 'sell America' trade has been commodities. This builds on the gains of last year as the combination of dollar weakness, central bank buying and uncertainty powered gold and silver to record levels. This led the related companies higher and even more interest in the S&P/TSX.

Of course, when things go parabolic you have to expect some sort of check back, which we got to finish the month. Yet this could be looked at as an opportunity until the trends in the background reverse.

This year was always expected to be volatile given the state of global affairs but it's safe to say January exceeded those expectations. So now what?

We finally got clarity on who should be the next FOMC Chair, but so much uncertainty remains. Bond markets are not calm; yield spreads remain tight. Japan is on the verge of a fiscal crisis and who knows which country will be the next target of a tariff tantrum (probably Canada after we win a few gold medals)?

Yet one signal coming out of Davos that should not be ignored was a comment from President Trump predicting gains in the stock market. While there is only so much he can do to deliver that, if he is back using the stock market as his scoreboard it's hard to get too bearish. That is not to say there will not be volatility but IF that's the case, the strategy of buying dips remains on the table.

Fund Update

The Pender Alternative Select Equity Fund was higher by 10.7%¹ in January compared to the S&P/TSX composite which was higher by 0.8%. Our positioning in the commodity sectors contributed to the positive start. We entered the year with uranium being the commodity we had the most exposure to and benefited from this positioning, particularly through **NexGen Energy Ltd. (NXE)** and **IsoEnergy Ltd (ISO)**. We have trimmed our uranium exposure into strength and eliminated **Cameco Corporation (CCO)** on valuation.

The precious metals group caught a lot of attention for the month and experienced elevated volatility. We have had exposure to this group over the last year but have been rotating our positions, shifting away from the senior producers towards the mid-tier and junior producers, as well as silver. This benefited us during the month as excitement grew in the sector and silver caught the attention of speculators globally. We took the opportunity to sell into this strength, eliminating most of our silver exposure and taking profits in many of the junior gold companies. We still like the Real Asset theme for the year and would look to come back to this sector on further weakness.

Given the favourable gains to start the year, and the profit taking in the commodities, the Fund enters February in a more defensive stance with higher levels of cash than normal. We have also increased hedges to provide downside protection in the event of further volatility. One sector we have been adding to lately is energy. Oil and natural gas prices have been doing better while the equities have lagged, this could be an opportunity. We remain cautious on the financials and are looking for better levels before adding to technology.

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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/>