

## Manager's Commentary

Aman Budhwar

### Market Environment – (More) Energy Shocks and the Prevalence of the US Economy

March delivered a blunt reminder that geopolitics can reprice markets faster than fundamentals. The optimism that carried US small and mid-caps to outperformance in the early weeks of 2026 gave way to a more difficult backdrop as instability in the Middle East took center stage and stagflation concerns re-emerged. The Russell 2000 entered official correction territory by late in the month, pressured by rising energy costs and a hawkish recalibration of Federal Reserve expectations, the Fed held rates at 3.50%–3.75% at its March meeting, with the market now questioning whether cuts remain on the table at all. Despite the turbulence, the relative picture for small and mid-caps remains constructive. The S&P SmallCap 600 finished mid-March up 2.10% year-to-date and the S&P MidCap 400 up 1.00%, while the S&P 500 was down 5.00% over the same period. Energy has been the standout performer of 2026 by a wide margin, leading all sectors with a 34% YTD return, driven by Middle East-related oil and gas volatility.

Index / Fund (CAD)	March Return	1 Year Return
<b>Pender US Small/Mid Cap Equity Fund</b>	<b>-7.4%</b>	<b>16.6%<sup>1</sup></b>
S&P 400 Mid Cap Index	-3.2%	13.8%
Peer Group	-3.39%	12.14%

Source: Morningstar, as of March 31, 2026

### The Global Gas Market in Crisis

The conflict in Iran has done more than disrupt oil flows; it has fractured every node of the regional liquefied natural gas (LNG) supply chain in ways that may outlast the conflict itself. Over the last few years, LNG had become the quiet backbone of global energy security, now it has become the battlefield itself. Unlike crude oil, the world has no major strategic gas reserve to tap in an emergency, and even a negotiated end to hostilities will not quickly restore what has been lost. As consulting firm Eurasia Group has warned, a gas market that was widely expected to be oversupplied and cheap is now facing a structural deficit, and the consequences will likely be more profound and longer-lasting than those flowing from oil alone. These implications extend well beyond energy markets. Gas is a critical feedstock for fertilizer production, the source of helium used in semiconductor manufacturing along with other critical use cases. We have begun to see developing economies across Asia, which sourced the bulk of their LNG from the Gulf, being priced out of spot markets entirely, and Bangladesh already restricting energy consumption.

Europe is one of the most impacted regions with wholesale electricity prices having risen sharply as gas, being the marginal fuel, sets the price in several countries (especially Italy and Germany as well as in the UK). Having spent the years since Russia's invasion of Ukraine rebuilding supply chains around Qatari and US LNG, the European Union is once again faced with a severely compromised energy network of which the macroeconomic consequences are already visible. The European Central Bank (ECB) has signaled it is ready to raise interest rates if the inflation shock from higher energy prices broadens. In the UK, ten-year yields have surged to

<sup>1</sup> All Pender performance data points are for Class F of the Fund. Other classes are available. Fees and performance may differ in those other classes. Standard Performance Information for Pender's Equity Funds may be found here: <https://penderfund.com/fund/pender-us-small-mid-cap-equity-fund/>.

their highest level since 2008. Europe's largest economies face stagflation and have limited tools to respond.

On the other side of this equation, the United States appears to be uniquely positioned to benefit. As the world's largest natural gas producer, the US stands to capture a distinct and widening competitive advantage from the global supply shortage due to its access to low-cost domestic energy. This has already played out in markets with US natural gas priced at \$2.8/MMBTU<sup>2</sup> and European natural gas at \$16.8/MMBTU<sup>3</sup>. The US Energy Information Administration (EIA) has indicated that domestic natural gas prices are expected to remain relatively insulated from the global shock, as US export terminals are running at high utilization and cannot quickly redirect large additional volumes. The result is an energy cost structure for US industrial users that remains materially cheaper than anything available to European or Asian competitors. This advantage is structural, not cyclical, and the Iran war has materially extended its duration. The Qatari supply expansion that was expected to flood global markets with cheap LNG later this year will instead be delayed by years.

### **Implications for the Portfolio: Reshoring and the Data Center Buildout**

This is the context in which we hold our exposure to the reshoring and data center themes. Energy cost is not a peripheral input for data centers or advanced manufacturers; it is a primary driver of long-run competitiveness. The Iran war has not created this advantage for the US, but it has made it undeniable and has materially extended its duration. US companies levered to domestic power infrastructure buildout, industrial reshoring, and the capex cycle surrounding data center and semiconductor investment are already seeing this dynamic reflected in earnings. We expect it to deepen. The risks are real: elevated global energy prices can still feed US inflation, weigh on consumer spending, and dampen the broader growth backdrop. But for the specific businesses we own, we believe the current environment is a tailwind that is widening, not narrowing.

### **Fund Specific Updates**

**Dollar Tree Inc. (DLTR)** reported results in March and, in our view, remains a high conviction holding. The quarter validated the core thesis: US households shopping at Dollar Tree reached a record 102 million, adding 6.5 million net new households in Q4, more than double the prior quarter, as trade-down from higher-income households continues to expand the addressable market. Notably, the company's relative value proposition strengthened through the tariff and inflation cycle rather than eroding, with the multi-price strategy widening basket potential and deepening relevance across income cohorts.

**Copa Holdings, S.A. (CPA)** – This month we conducted some unintentional primary research, flying Copa from Toronto to Santiago with a layover in Panama, the hub at the centre of its hub-and-spoke model. The experience was excellent: professional and attentive staff, all flights on time, and luggage at the carousel before passengers. In our perspective, the Panama airport itself was modern, and every flight was full, consistent with recent management commentary that demand has shown no signs of softening, with booking visibility of two to three months remaining solid. Strong South American currencies are providing a further tailwind to travel demand. On the cost side, Panama's two-week jet fuel pass-through mechanism means Copa can likely absorb near-term fuel price volatility and recover higher costs with only a modest lag, a structural protection that matters in the current energy environment.

### **Aman Budhwar, CFA**

*April 9, 2026*

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<sup>2</sup> Henry Hub, April 6, 2026

<sup>3</sup> TTF Europe, April 6, 2026