

Manager's Commentary

Greg Taylor, CFA

Market Insights

The equity market rally that closed out the month of March continued through April. This rally has baffled many and is becoming a notable example of what is referred to as the 'pain trade'. Given recent headlines, many investors had gone defensive. Yet against all odds markets finished the month near all-time highs.

With the number of negative indicators, most would have expected (and did expect) the equity market to be lower. But this might be a case where most of the 'bad news' was already priced in during the March sell-off, and the rally may reflect the fact that nothing 'worse' has occurred.

Recent reports suggest tensions between the US and Iran have reached an uneasy stalemate, and it is hard to argue that anyone 'won'. The Strait of Hormuz remains closed, and it's unknown the extent of damage done to energy infrastructure. The price of crude oil, which had sold off on the pause in the war has resumed its advance, finishing the month near its recent highs. After a few weeks in which oil and equities showed a negative correlation, that relationship has not held up over the last few weeks.

While the equity market seems to have ignored the move in energy prices, the bond market did not. Bond yields moved higher most of the month broadly in line with oil prices. This was expected to be the year of rate cuts, but those odds have collapsed as inflation is beginning to increase. Again, these are events that more recently would have resulted in lower stock prices, but for some reason that did not happen.

So what is keeping the bid under the stock market? For one the mega-cap technology stocks that were sold aggressively, beginning in February on concerns around 'peak AI' have rebounded. The business case for the massive spend on AI data centres has yet to be proven but the spending has not slowed and appears to have kicked off a capital expenditure boom in the US. Semiconductors related to this rose significantly over the period, leading the Nasdaq 100 to a gain of nearly 15% for the month.

In Canada, the surge in oil prices has finally led to a bounce in the energy sector, offsetting some of the weakness in materials, as gold fell for the month. In one of the more positive developments in years, Shell PLC expanded in Canada with the acquisition of ARC Resources Ltd. After over 10 years of foreign capital exiting the country, there is optimism that trend will begin to reverse, bringing back spending on new projects.

So what to do next? Get ready to hear a lot of 'sell in May and go away'. It is a trading saying that has not worked in years but there is a reason it exists and there is potential for it to work this year.

Cash is being pulled off the sidelines and shorts are being covered. There is still an underlying belief that the energy crisis will go away as quickly as it started. The longer this isn't the case the riskier the market becomes. There is a lot of evidence that the bulk of the buying during the month was driven by systematic investing. If these models flip to sell, or pause, we could see a mirror image of this month. The trading relationships around higher yields and oil, that were ignored in April, could begin again at any time. You just never know when.

Fund Update

For the month of April the Pender Alternative Select Equity Fund was higher by 3.4% to bring the year-to-date return to 19.8%¹. This compares to a return of 3.8% for the S&P/TSX Composite during the month and 7.9% year-to-date. Sector rotation has been the story of the year. While exposure to commodities has helped us on the year, materials (gold) exposure held us back this month.

The risk on rally we saw in April was led by technology, and in particular semiconductor companies. We have exposure in SHOPIFY Inc. (SHOP), Arm Holdings PLC (ARM) and Lam Research Corporation (LRCX) but have trimmed other names, only to watch them climb higher. As the month closed out, we added to hedges in the Nasdaq which we believe are among the higher-risk areas of the market.

Energy has been a bright spot this year with higher commodity prices. We have been focused on uranium but adding to oil-exposed names more recently as we believe these prices could be higher for longer. The acquisition of ARC Resources Ltd. (ARX) kicked off another leg higher and is helping natural gas names, such as Tourmaline Oil Corp. (TOU), which have lagged the rally.

We have maintained our overall defensive positioning while attempting to keep up with the market through sector rotations. As we have taken profits in technology we have been adding to industrials and financials. We believe these rotations will continue through the year and volatility will increase as we approach the US mid term elections.

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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/>