

## Manager’s Commentary

Aman Budhwar

### Market Environment – Navigating a Volatile April

April 2026 has been a pivotal month as the US stock market continued to experience heightened volatility driven by a combination of geopolitical risks and shifting expectations for Federal Reserve policy. The ongoing conflict in the Middle East continued to impact oil markets, resulting in volatile price spikes, with Brent crude exceeding \$110 per barrel during the month. The energy shock revived fears of persistent inflation, fueling uncertainty around the Fed's path forward. These dynamics culminated in the FOMC voting 8-4 to hold rates steady at a target range of 3.5%–3.75%, a notably divided decision, with three dissenting members opposing the retention of an easing bias in the statement, signaling limited appetite for near-term cuts.

Several companies report Q1 2026 earnings over the last few weeks, with the hyperscale data centers once again revising higher capital investments. Both Meta and Alphabet announced sizeable increases to their full-year capex budgets, signaling continued, large-scale investment in artificial intelligence infrastructure – including data centers, servers, and AI chips. Amazon noted that it added more server capacity than any other company in 2025 and committed to accelerating its construction efforts through 2026. Microsoft indicated that quarterly capex is expected to exceed \$40 billion as the company continues to bring additional capacity online.

While it will probably take more to assuage market concerns around return on these investments, Q1 2026 points to an acceleration in earnings growth. As per Bloomberg, earnings growth for the S&P 500 companies that have reported earnings so far (70% by market cap or 317 companies) came in at 25.8% year-over-year, more than double the pre-season forecast and the strongest since Q4 2021. Excluding the Magnificent Seven, growth drops to 15.4%, underscoring the concentration (Communication and Technology sectors reported 53.6% and 46.4% growth, respectively).

Index / Fund (CAD)	April Return	1 Year Return
<b>Pender US Small/Mid Cap Equity Fund</b>	<b>5.6%</b>	<b>30.8%<sup>1</sup></b>
S&P 400 Mid Cap Index	5.2%	27.6%
Peer Group	6.0%	23.9%

Source: Morningstar, as of April 30, 2026

### A Theme we are tracking– Regional Banks

It is within this environment that we have been closely monitoring opportunities in US regional banks, a sector that has demonstrated resilience amid broader volatility. During April, first-quarter results began to roll in, with 35 of 44 banks beating consensus EPS by an average of 6%, despite ongoing pressure on deposit costs and net interest margins. Across earnings calls, management commentary broadly emphasized US consumer resilience in both spending and credit performance, stability in credit quality, and a constructive outlook for the remainder of 2026.

<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/>.

At the start of the year, midsize bank stocks began outperforming their larger peers after two years of underperformance. The KBW Nasdaq Regional Banking Index, which tracks 50 banks each with assets under \$100 billion, is up ~10% year-to-date, compared to a 3% gain for the KBW Nasdaq Bank Index. That said, larger banks continue to trade at a sizable premium: S&P 500 banks carry a roughly 20% price-to-book premium relative to S&P Mid Cap 400 banks. While that gap has narrowed from a peak of over 30%, it represents a notable reversal, midcap banks had traded at a premium through the 2010s and into 2024.

Looking ahead, we maintain a positive outlook on US regional banks, with the industry's demonstrated resilience during the Q1 2026 earnings season only strengthening our conviction. Despite the volatile macroeconomic backdrop, we see a potentially improving setup for the remainder of 2026, driven by a steepening yield curve, accelerating loan growth led by commercial sectors, and a potential shift toward a more "pro-bank" regulatory environment. While geopolitical tensions remain top of mind, our view on the sector remains constructive.

### Implications for the Portfolio:

We exited our position in **Webster Financial Corp. (WBS)** following the announced acquisition by Banco Santander at a 16% premium. We initiated a position in **Western Alliance Bancorporation (WAL)**, one of the country's better-performing banks with more than \$90 billion in assets. Over the last decade, WAL has been the leader in growing tangible book value per share (exceeding peers by 4.5x) and EPS producing long-term attractive total shareholder returns.

Headquartered in Phoenix, Arizona, WAL has built its reputation on an "all-weather commercial banking" strategy, combining its regional foundation with high-growth specialty segments, all unified under a single Western Alliance Bank identity. We believe WAL's specialty deposit verticals are a durable, structural advantage with differentiated, relationship-driven deposits that may support a lower cost of funds driving strong growth.

WAL reported Q1 results in April, with adjusted Pre-Tax, Pre-Provision revenue growth of 42% and tangible book value per share growth of 13% year-over-year to \$61.14 per share. The one negative in the earnings was an increase in loan charge-offs to \$209 million, 4.7x higher than last year due to two fraud-related write-offs. However, management stated they believe they are past peak stress and expect non-performing loans to decline in the back half of the year. Deposits reached \$83 billion in the quarter, a 7.2% sequential increase (+19% year over year). The company also completed \$50 million in share repurchases during the quarter.

### Additional Fund Updates

**Generac Holdings Inc. (GNRC)**, the Fund's largest holding, reported Q1 results that beat analyst expectations on both the top and bottom lines. Management also raised full-year guidance, with revenue now expected to grow in the mid-to-high teens and EBITDA margins forecast to come in 50 bps ahead of prior expectations. The key story this quarter was what management described as "generational" growth in the data center market, which drove a 28% increase in the Commercial & Industrial (C&I) segment. Generac continues to see steady demand from data center customers and expects to secure its first significant order from hyperscalers in the near term, in addition to a \$700 million backlog from co-locators. Generac contributed 137.6bps to Fund performance in the month.

**Aman Budhwar, CFA**

May 13, 2026