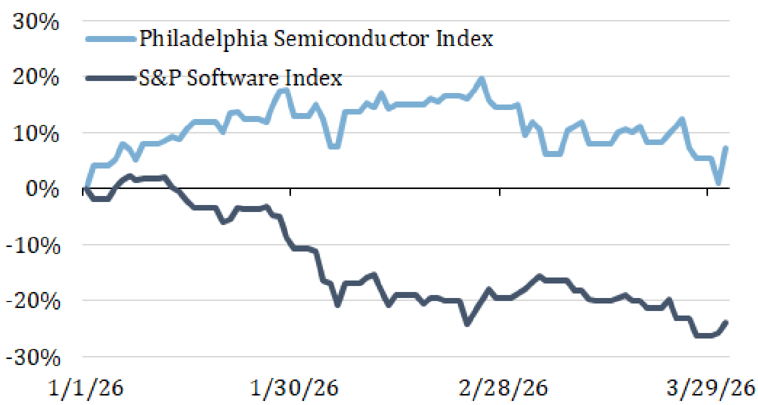
GLOBAL MARKETS

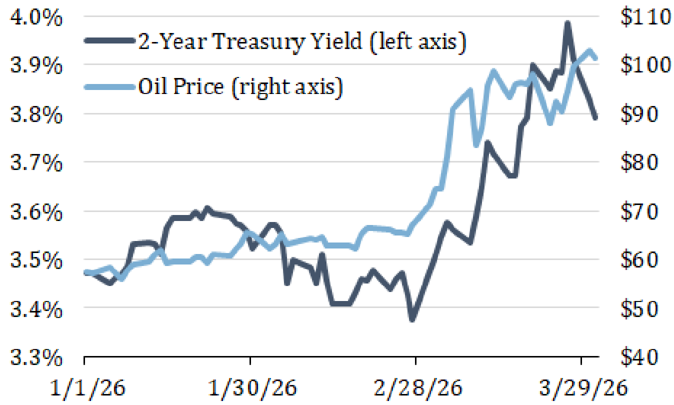
IRAN CONFLICT REVERSES MARKET MOMENTUM IN Q1

The first quarter of 2026 began on a broadly positive note, with most global markets advancing through the end of February. Through February, 40 out of the 47 MSCI country indexes were in positive territory, with international and emerging markets leading the way. Korea and Taiwan continued their momentum and pushed the MSCI EM Index up 14.8% in the first two months, while the UK and Japan helped the MSCI EAFE Index gain over 10%. While large cap US stocks lagged the early year rally (S&P 500 +0.7% YTD through Feb), smaller cap stocks were up over 6% heading into March. Despite the early-year market calm, two major forces disrupted markets in Q1. First, investors grew concerned that new AI capabilities would threaten the software-as-a-service (SaaS) business model, causing substantial intra-market shifts that ultimately led to the underperformance of mega cap tech stocks. Second was the outbreak of conflict in the Middle East which sent oil prices surging and injected a new level of uncertainty into global financial markets.

AI Infrastructure vs. SaaS: Q1 2026

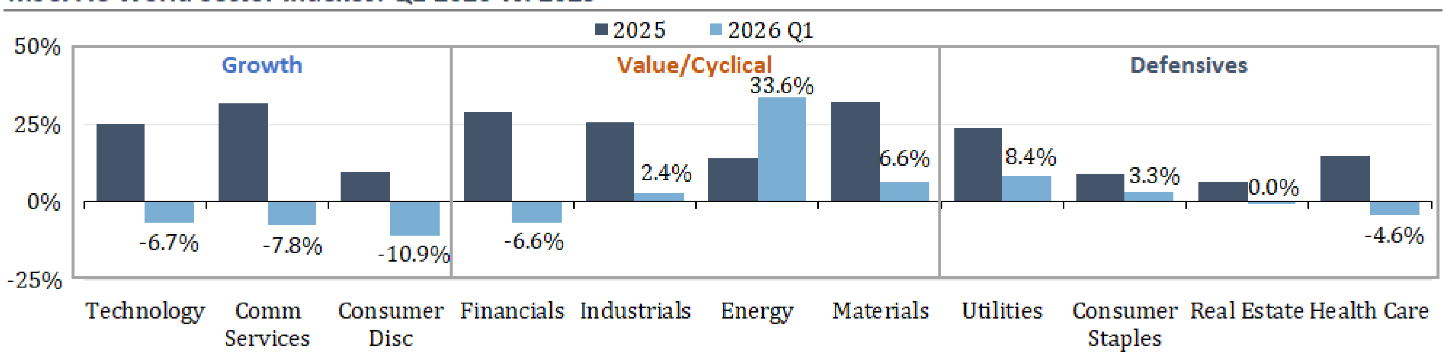


Rate Expectations Rise on Oil Shock



The geopolitical shock proved severe and far-reaching. The Strait of Hormuz was effectively closed, with tanker traffic rerouted and energy infrastructure repeatedly targeted, causing Brent crude to surge above $100 per barrel, fueling global inflation fears and prompting central banks to reconsider anticipated rate cuts. This led to a sell-off across both fixed income and equity markets, as investors focused more on upside inflation risks than downside growth risks. The conflict had major implications for oil-importing countries, with European and Emerging Markets stocks giving back their double-digit gains in Jan/Feb to finish the quarter slightly down. Despite losing over 10% in March, non-US markets remained ahead of the US, where the S&P 500 declined 4.3% for the quarter.

MSCI AC World Sector Indexes: Q1 2026 vs. 2025



By sector, losses were concentrated in areas of the market that had outperformed in 2025. Growth sectors saw the largest declines, while commodity-related and defensive sectors generated meaningful upside. Credit markets also weakened following the start of the conflict, with spreads widening across high yield and investment grade bonds globally. Despite the turbulence, corporate earnings were revised higher by 3.6% after the Iran conflict began, suggesting that the fundamental economic backdrop remained more resilient than the headline market moves implied – reinforcing the importance of diversification and a long-term perspective for investors navigating a volatile environment.

SMALL CAP FOCUS

US: Resilience in the Face of Geopolitical Uncertainty

US small cap stocks were one of the standout performers of Q1 2026, bucking the broader market's decline to finish the quarter in positive territory. The Russell 2000 gained 0.9% despite wild market swings, with energy and industrials helping the value index (+5.0%) outperform growth (-2.8%) for the third consecutive quarter. The quarter's resilience was rooted in a structural shift that had been building for months. Small cap stocks trade at historically low EV/EBIT multiples relative to large-caps and are expected to deliver higher earnings growth in 2026, while robust CapEx cycles, continued infrastructure spending, and AI-driven opportunities for both suppliers and adopters are seen as key drivers. With their predominantly domestic revenue profile, small caps were largely insulated from the global supply-chain disruptions triggered by the Middle East conflict that weighed heavily on US mega-cap tech names.

Europe: Energy Status Drives Relative Performance

Similar to the headline markets, European small caps saw upside in January and February erased in March by the conflict in the Middle East. Europe's dependance on foreign sources for energy contributed heavily to the sharp correction, especially for major markets like the UK, Germany, Italy, and France. Pockets of outperformance came from the energy and utilities sectors, which benefited countries such as Norway and the Netherlands which have larger weights to those sectors.

Japan: Structural and Political Support

Japanese small caps held up relatively well in Q1 2026, gaining 3.5% and outperforming their large-cap counterparts for structural reasons that have been building for some time. Supporting factors including limited exposure to tariffs and exchange-rate fluctuations compared to large-cap stocks, an expansion of corporate governance reforms reaching smaller companies, and attractive valuations. The small-cap index also carries a higher weighting in value stocks relative to large-cap indices, which contributed to its relative outperformance as value names led the market. The political backdrop also helped. With the election of Prime Minister Sanae Takaichi, whose administration is focused on pro-growth fiscal policy, expectations built that domestically oriented small-cap companies would be primary beneficiaries. While yen weakness remained a headwind for import-reliant smaller firms, it was broadly offset by expectations for a growth recovery in domestic-oriented small cap stocks, keeping the asset class among the more stable performers in the region during the quarter's turbulent final weeks.

Canada & Australia: Energy and Mining Rally Tempered by Rate Hikes

Performance was shaped by the dramatic movements in commodity prices following the outbreak of Middle East conflict. In Canada, continued strength in the precious metals mining market boosted performance in January and February, while oil and gas stocks took over in March to insulate the index from a reversal in gold prices. The net result was a gain of 6.9% for the MSCI Canada Small Cap Index. Australian small caps told a more mixed story, as the MSCI Australia Index fell 6.3% in Q1 despite a rally in the energy and mining sector. The 2026 pullback was largely explained by the Reserve Bank of Australia raising interest rates twice during the quarter, pushing the cash rate back to 4.10% — a particularly painful development for smaller companies that carry more floating-rate debt and are generally more sensitive to rate moves than large caps.

Emerging Markets: AI and Energy Independence Themes Outperform

Emerging market stocks followed the path their larger cap peers, albeit with less volatility. Performance varied by country, with energy independence as the key driving factor. Beneficiaries were focused in Latin America, where small caps gained 8.2% in Q1. On the other end of the spectrum, India's combination of elevated valuations and energy importer led to a decline of -18.5%. Of note, positive AI sentiment remained supportive of Taiwanese and Korean stocks prior to the conflict, but both markets came under heavy selling pressing in March as risk-off sentiment prevailed and markets evaluated Asia's exposure to energy imports – more than 80% of global oil and gas flowing through the Strait of Hormuz destined for Asia. However, these markets both finished Q1 with double digit gains and remain at the epicenter of the AI infrastructure boom.

DISCLOSURES

notice, and does not contain certain material information including important conflicts disclosures and risk factors associated with an investment which are described in the Fund Documents. In the event of any inconsistency between this document and the Fund Documents, the Fund Documents will govern. Compliance ID: 5140137