

Newsletter

Spring 2026

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Navigating a changing world

Volatility returned to start the year, not only to financial markets but also to shifting U.S. policy stances driving new geopolitical uncertainty and expanding global conflict. Even before recent events, precious metals saw notable swings, with gold and silver posting sharp gains and reversals, while the U.S. dollar weakened. These moves reflect a broader trend as nations increasingly focus on sovereign resource security. Technology stocks were penalized for elevated capital expenditures despite solid earnings, even though returns can take years to materialize. Concerns over the impact of artificial intelligence (AI) also spread beyond the tech sector: Is AI set to disrupt the world around us?

Indeed, the near-constant stream of surprising geopolitical events has come to feel almost routine. For now, equity market indices have largely held their ground. Perhaps investors have learned from the policy-driven disruptions of 2025 to better separate signal from noise. In this environment, maintaining a longer-term perspective can be a prudent strategy.

Trade policy has been no less volatile. Though a U.S. Supreme Court ruling against U.S. tariffs is unlikely to change the current administration's approach, it has intensified debate over the broader effects on U.S. households and businesses. Attention is now turning to the U.S.-Mexico-Canada Agreement (USMCA) as renegotiations approach. With Canadian exports to the U.S. accounting for roughly 20 percent of Canada's GDP, investors are watching closely to see whether political threats translate into policy change.

While many economists expect the agreement to survive in some form, a complete collapse would not be catastrophic. Oxford Economics estimates that such an outcome would lower Canada's GDP by about 1.8 percent below baseline and reduce private investment by 6 to 7 percent.¹ The impact would be significant, but Canada has endured far more severe shocks and recovered. In the early 1980s recession, output fell by around 5 percent, and unemployment climbed to 12 percent. Elevated Canada-U.S. trade barriers are also not unprecedented, having persisted for long stretches during the 19th and 20th centuries.

More broadly, the renegotiation of USMCA serves as a reminder that we must navigate a changed world. Prime Minister Carney captured this shift at the World Economic Forum in January: **"The old order is not coming back. We shouldn't mourn it. Nostalgia is not a strategy."** In response, the government has been focused on reorienting the economy, doubling defence spending, signing new trade and security agreements and deepening ties with global partners.² There's significant work to be done, but even as a middle power, Canada's foundational advantages shouldn't be overlooked: vast energy and resources, abundant fresh water, three coastlines, the world's most educated population and political stability.

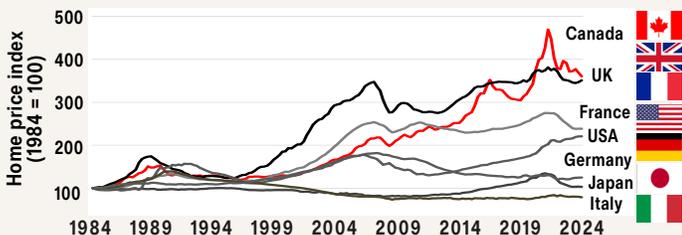
The broader lessons translate into investing. Conditions that appear stable can shift quickly; markets are inherently volatile. No economic cycle, policy regime or market trend is permanent. In that context, diversification is a necessity for managing risk. At a time of amplified uncertainty from increasingly reactive global policymaking, discipline matters more than ever, particularly when the range of possible outcomes is wide. Conviction, paired with flexibility, allows investors to remain positioned through short-term volatility while adjusting to fundamental shifts. In a world where change continues to feel persistent rather than episodic, this balance will ultimately support long-term investment success.

¹ <https://www.oxfordeconomics.com/resource/usmca-scenarios-north-american-trade-at-a-crossroads/>
² <https://www.cbc.ca/news/politics/carney-davos-speech-9.7052725>

Spring perspectives: A brief look at the housing market

Spring marks the start of the home-buying season. While price growth has slowed, and even reversed in some markets, Canadian home prices have risen faster than those in any other G7 country (Group of Seven advanced economies), nearly quadrupling over 40 years. As a result, many view Canadian real estate as one of the best-performing long-term asset classes.

Home prices, G7 countries, 1984 to start of 2025 (Inflation adjusted)



<https://www.dallasfed.org/research/international/houseprice>

While housing has delivered attractive returns, an interesting comparison emerges since the start of the millennium: Despite a more volatile return path, the S&P/TSX Composite has generated higher annualized total returns than many real estate markets. The chart (top) shows performance through the start of 2025, as real estate prices moderated in major markets, in part due to higher interest rates.

Without a doubt, various factors make a direct comparison between real estate and stocks difficult. Investing in real estate comes with various challenges, including limited liquidity, significant capital outlay (partially offset through leverage, such as a mortgage), transaction costs (commissions, legal fees and land transfer tax) and ongoing maintenance (property taxes and repairs). Stock market participation is generally more accessible in terms of initial capital, transaction costs and liquidity, while offering greater diversification. Yet, the stock market can be more volatile, making downturns difficult for many investors. Different tax treatments and risk profiles further complicate direct comparisons.

S&P/TSX Composite vs. select housing markets 1999 to 2025, hypothetical \$300,000 investment

Market	End value	Annualized return
1. S&P/TSX Composite	\$2,385,049	8.3%
2. Vancouver	\$1,673,943	6.8%
3. Toronto	\$1,547,687	6.5%
4. Montreal	\$1,504,716	6.4%
5. Halifax	\$1,420,609	6.2%
6. Ottawa/Gatineau	\$1,304,786	5.8%
7. Calgary	\$1,092,897	5.1%

Sources: 1. S&P/TSX Composite Total Return Index (dividends reinvested); 2. to 7. Teranet-National Bank House Price Index, <https://housepriceindex.ca/>; 02/99 to 02/25, based on Bloomberg/RBC Wealth Management analysis.

The recent moderation in housing markets serves as a reminder that even long-standing trends can shift. Yet, Canadians have been fortunate that both real estate and equities have offered substantial wealth-building opportunities over recent decades.

Be aware: FHSA contribution room may be incorrect

If you've helped a young family member open a First Home Savings Account (FHSA), be aware that the Canada Revenue Agency (CRA) may have inaccurate contribution data. The consequence? The one percent per month penalty on excess contributions, which quickly adds up. A recent Globe & Mail article highlighted the issue: "Schedule 15—FHSA Contributions, Transfers and Activities" must be attached to a tax return whenever a contribution or withdrawal is made.* This form was introduced in 2023 and some tax software did not automatically include it, leading certain 2023 contributions to be misclassified as 2024 overcontributions. To fix this, it is advised to contact the CRA and amend the 2023 return using Schedule 15.

* "How we fixed a \$1,000 FHSA tax penalty," B. Leung, Globe & Mail, 01/30/26, B11.

Happy 130th birthday, Dow: Does the Dow still matter?

The Dow Jones Industrial Average (DJIA, or "Dow") crossed the 50,000 threshold at the start of the year. Since November, it has outperformed the S&P 500 and NASDAQ, prompting one headline to read: "The Dow, the Uncool Index, Has Its Moment in the Sun."

Celebrating its 130th birthday this spring, the Dow was launched in 1896 by Charles Dow, then-editor of The Wall Street Journal. It originally tracked 12 heavy-industry companies, hence the name "Industrial Average." Today, it comprises 30 companies, updated periodically to reflect leaders of the modern economy.

What distinguishes the Dow is its "price-weighted" methodology. The index is calculated by adding component share prices and dividing them by a divisor that accounts for stock splits or other structural changes. By contrast, indices such as the S&P/TSX Composite, S&P 500 and NASDAQ are weighted based on share of total market capitalization (share price multiplied by outstanding shares).

Is the Dow a good gauge of the U.S. economy? Throughout its history, it has faced criticism. Some argue that 30 companies provide too narrow a representation of the market. Others suggest its price-weighted methodology is flawed because

higher-priced stocks tend to have greater influence over lower-priced counterparts.

Composition & size of select major indices

Index	# of constituents	Market cap*	% Tech sector
DJIA (Dow)	30	\$22.1T	18.6%
S&P/TSX Composite	218	\$3.7T	7.9%
S&P 500	503	\$61.9T	33.4%
NASDAQ	3,324	\$39.3T	62.3%

*Market capitalization of components, USD, as of 01/31/26, except for NASDAQ, at 12/31/25.

What is particularly notable today is that the Dow's rise may signal stronger market breadth beyond technology, which makes up 62 percent of the NASDAQ, 33 percent of the S&P 500, but only 19 percent of the Dow. Taking a broader perspective, while all indices have limitations, they remain useful barometers. The Dow's long history and continued growth highlight the enduring trajectory of economic progress.

Tax season reminders: Planning for instalment payments

Most individuals pay a significant amount of their income tax through source deductions, which are amounts withheld from their income. Employers deduct and remit income tax on a taxpayer's behalf throughout the year with each paycheque. However, many newly retired or self-employed individuals are surprised to learn that they must make quarterly instalment payments, since retirement or self-employed income is often received without tax withheld at source.

If your net tax owing is more than \$3,000 (\$1,800 for Quebec) in the current year and in either of the two preceding years, you generally must make instalment payments by March 15, June 15, September 15 and December 15 (with exceptions for farmers and fishers).

Planning ahead is important

Planning ensures you have sufficient cash flow to meet each quarterly payment and avoid interest or penalties. Interest on late or insufficient instalments compounds daily (for Q2 2026, the prescribed rate is 7 percent federally), and penalties may apply if total instalment interest exceeds \$1,000.

If your income varies from year to year, planning allows you to adjust instalments to avoid overpaying, which is effectively giving the government an interest-free loan. For example, a large one-time capital gain, such as from selling a vacation home, might cause government-suggested instalments (based on your most recent assessed tax return) to exceed what your expected income would warrant in the following year.



Three practical tips

Here are three practical tips to consider if you are managing instalment payments:

- 1. Overpay when needed.** If you've forgotten an instalment payment, you can reduce or eliminate accrued interest by overpaying subsequent instalments or making payments early. Early instalment payments earn instalment credit interest, which is not refundable but can offset interest charged on late instalments in the same year.
- 2. Choose your calculation method.** Instalments may be based on government-calculated amounts, your prior-year tax return or your current-year income estimates. Selecting the appropriate method is particularly important if your income fluctuates, ensuring you pay enough without overpaying (providing a tax-free loan).
- 3. Adjust withholdings, if possible.** Instalments can sometimes be reduced or eliminated by having tax withheld at source, or by increasing the amount withheld from OAS, CPP/QPP benefits, EI or employer-sponsored pension income. Requests must be made through Service Canada or Retraite Québec (QC). Note: tax cannot be withheld from certain types of income, including self-employment, investment and rental income or capital gains.

How has purchasing power changed? Reflecting on 30 years of inflation

Canada has recently earned the title of "food inflation capital" of the G7, after food prices rose 6.2 percent in 2025 alone. In response, Prime Minister Carney recently introduced the Canada Groceries and Essentials Benefit (CGEB) rebate (an expansion of the existing GST/HST rebate) targeted at low-income earners.

Many of us have noticed how quickly grocery bills have risen in recent years. It's hard to believe a kilogram of chicken once cost \$3.75 and a carton of eggs just \$1.60...but that was 1995. While the Consumer Price Index (CPI), the federal government's official measure of inflation, shows average prices have risen roughly 88 percent over three decades, your grocery bills probably tell a very different story (chart).

Inflation becomes especially troubling when incomes fail to keep up. For a growing portion of the population, this is the reality. When expenses, especially those like education and housing, become harder to afford, the impact is not just financial; it can influence confidence in economic opportunity and heighten social divides.

While household affordability has come under increasing pressure, long-term investment performance tells a different story. Throughout the same period, investors have seen the S&P/TSX Composite Index rise more than 573 percent, even before accounting for reinvested dividends. That growth has outpaced the price increases across every category on the chart, including average home prices during a prolonged housing boom.

Of course, this growth did not come without volatility, including four bear markets spanning a combined 40 months, two of which saw declines of more than 45 percent. Still, for those who stayed the course, equities have proven to be one of the most effective

Changes in (nominal) prices of select items: 1995 & 2025

	1995	2025	Change
Ground beef (1 kg) ¹	\$3.80	\$15.54	+309%
Chicken (1 kg, breast) ¹	\$3.75	\$15.19	+305%
Eggs (1 dozen) ¹	\$1.64	\$4.74	+189%
Coffee, roasted (300g) ¹	\$3.86	\$8.25	+114%
Oranges (1 kg) ¹	\$2.30	\$4.46	+94%
Unleaded gas (reg, c/L) ²	52.4	137.0	+161%
Consumer price index ³	88.01	165.4	+88%
University tuition (undergrad) ⁴	\$2,384	\$7,734	+224%
Cdn. family income (median) ⁵	\$41,343	\$130,120	+215%
CMHC median home price ⁶	\$170,000	\$740,000	+335%
S&P/TSX Composite index ⁷	4,661.18	31,382.80	+573%

1. Statistics Canada, Table: 18-10-0002-01 (November 1995 data); Table: 18-10-0245-02 (November 2025 data)

2. Table: 18-10-0001-01, November 1995 & 2025

3. <https://www.bankofcanada.ca/rates/price-indexes/cpi/>

4. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3710004501>

5. <https://open.canada.ca/data/en/dataset/cf5a0c30-8893-11e0-b0f5-6cfo49291510>; Stat Can T-1110019101 for 2025, \$121,000 (2023), with 3.6% (2024) & 3.8% (2025) wage growth assumptions

6. CMHC New Build Median Price; <https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research>

7. At close 11/30/95 and 11/28/25

tools for building wealth and offsetting inflation over the long run. If history is any guide, that's encouraging news for long-term investors looking ahead to the next 30 years.

70 is the new 50! The longevity shift & planning to live to 100

Canadians are living longer than ever. Today, our average life expectancy is 82, and those who have reached 65 can now expect to live to over 86.¹ Our “centenarian population,” or those who reach the esteemed age of 100, has more than tripled since 2000. This is the fastest-growing age group, projected to increase nearly tenfold in the next 50 years.²

We’re not just living longer, we’re living healthier, more active lives. A recent report by Goldman Sachs found that a 70-year-old in 2022 had the same cognitive ability as a 53-year-old in 2000, highlighting remarkable improvements in health and vitality.³ Accordingly, longevity has become a thriving field of innovation and investment. From Dr. Nir Barzilai’s work on healthspan to Bryan Johnson’s highly publicized biohacking experiments, billions are being invested in research, technologies, therapies and products aimed at adding quality years, not just more years, to life.

As lifespans increase, the financial question shifts from “Do I have enough?” to “How do I optimize what I have for 30 or 40 years of income, tax efficiency and financial security for loved ones?”

A good start? An investment plan

Having an investment plan puts you ahead of most Canadians. Nearly 60 percent of working Canadians believe they’ll never be able to retire, according to a recent Globe & Mail article.⁴ Anxiety and financial instability are real concerns, but a long-term plan helps mitigate both. Here are some additional considerations for longevity planning:

- **Personal longevity literacy** — Understanding your longevity risk is a good place to start. Family history, lifestyle and medical advances influence longevity, and how long your plan should last.
- **Extending the financial horizon** — Your plan should account for additional years of spending, balancing today’s needs (such as helping children, supporting education or making charitable gifts) with tomorrow’s, while factoring in inflation and rising costs. It may also mean working longer, by necessity or by choice. The average working life has risen from 34 to 38 years since 2000.⁵
- **Health care inflation** — Health and long-term care costs continue to outpace inflation, putting pressure on savings if care is needed for extended periods. Some high-net-worth retirees choose to insure against this risk.
- **Strategic decumulation** — This is where strategy meets sustainability: structuring withdrawals that optimize for taxes, longevity and flexibility over time.

The tactics may also change as plans adapt to longer lifespans, such as:

- **Delaying government benefits** — For instance, deferring CPP/OAS to age 70 provides a higher guaranteed lifetime income, which can serve as valuable “insurance” if you expect to live past 90.
- **Using the Tax-Free Savings Account (TFSA) as a longevity backstop** — Tax-free growth and withdrawals make the TFSA a powerful vehicle for later-stage income and estate flexibility.
- **Maintaining a growth tilt in retirement** — A longer retirement horizon may justify keeping a higher equity exposure to support growth and hedge inflation, while diversifying across asset types to better manage longevity risk. The appropriate mix depends on individual risk tolerance, liquidity needs and financial goals.

Of course, every plan depends on individual circumstances. However, thoughtful guidance and careful planning can make a difference. As lifespans continue to increase, retirement planning is no longer just about reaching a target age; it’s about building flexibility for a life that may continue to extend. Strategies should adapt over time to maintain financial security, improve tax efficiency and address the challenges of greater longevity.

The encouraging news? We’ve got plenty of chapters left to write.

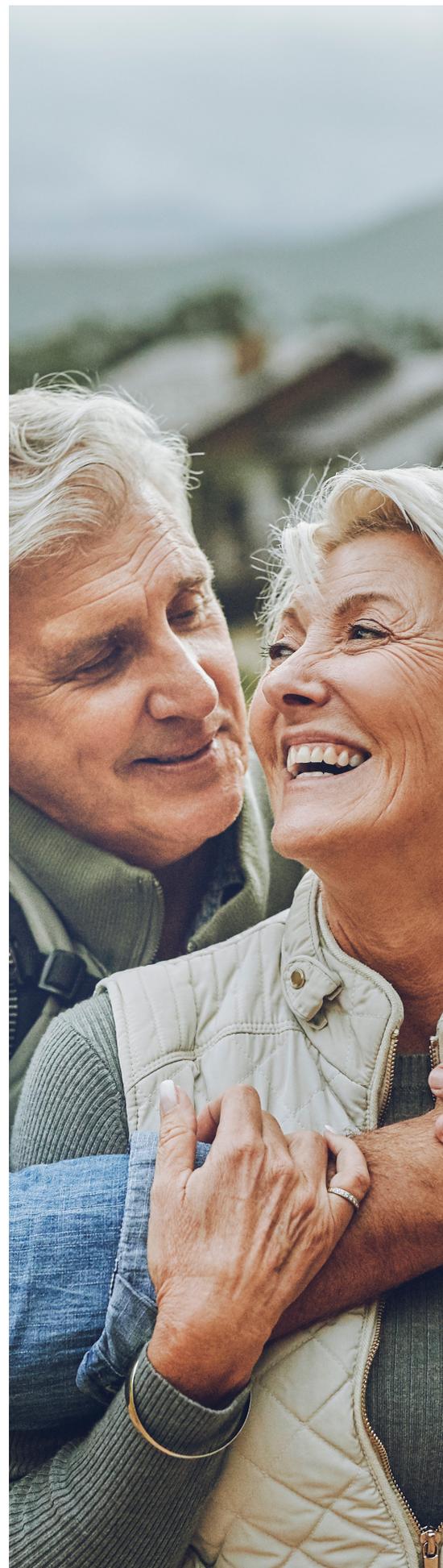
1 Statistics Canada, Table: 13-10-0114-01

2 <https://www.cbc.ca/news/canada/british-columbia/canada-centenarians-fastest-growing-1.7246790>

3 <https://www.goldmansachs.com/insights/articles/aging-population-not-a-risk-to-the-global-economy-after-all>

4 “Our Retirement Dreams Are Slipping Away,” Globe & Mail, Meera Raman, June 17, 2025

5 <https://www.goldmansachs.com/insights/articles/aging-population-not-a-risk-to-the-global-economy-after-all>



Are shorter market cycles becoming the norm?

A recent op-ed in the popular press recalled a time when boredom was simply part of daily life. There was no “on demand”: entertainment meant rewinding cassette and VCR tapes, playing board games or just staring out the car window. Growing up in the 1980s and 1990s, before the internet or social media, nothing competed for our attention.

Today, ultra-short attention spans have reshaped behaviour, creating an almost reflexive need to escape boredom. This shift has had meaningful implications for investing. While discount brokerages have democratized investing access, they have also democratized short-term behaviour. It’s something we’ve pointed to before: average stock holding periods have collapsed from years to mere months; the median self-directed investor reportedly spends just six minutes researching a stock before buying it; and a recent CBC article described young investors as “investing on vibes.”

As advisors, these trends are concerning, and they raise an important question: Are shorter market cycles becoming the norm, or has a decade of rapid recoveries conditioned investors to expect them?

For more than a decade, “buy the dip” has been rewarded, while policymakers have repeatedly cushioned economic slowdowns with monetary and fiscal stimulus, dulling the markets’ sensitivity to underlying weakness. As a result, we haven’t experienced a significant recession for a long time, nor have we endured an extended bear market. Yet history reminds us that prolonged bear markets can emerge when deeper structural weaknesses ultimately surface. Over the past 53 years, we’ve seen eight bear markets lasting a cumulative 77 months (chart). Underlying structural vulnerabilities, such as growing national debt and weakening balance sheets, can eventually assert themselves over time.

The Global Financial Crisis of 2008-09 is one such reminder. In the U.S., the economy required years, not months, to heal, and markets reflected this reality as confidence took time to rebuild. The S&P 500 fell roughly 57 percent from peak to trough and took nearly 66 months, or five and a half years, to reclaim its previous high. Canadian markets fared somewhat better but, based on monthly figures, the S&P/TSX Composite Index still declined by 45 percent. Many investors, particularly young ones, exited the markets; some permanently.

This is not intended to provoke near-term worry. Corporate earnings remain solid, and household balance sheets are among the strongest in recent times. However, several enduring lessons are worth repeating. Severe dislocations can take time to heal. Financial institutions and capital markets did not stabilize overnight, but they ultimately recovered. Corporate earnings responded similarly. While fiscal and monetary intervention prevented a depression-like outcome, the recovery still required patience, and valuations only became attractive with time. Yet memories also fade, demographics shift, and new marginal buyers eventually emerge.

So, what happens if we face a prolonged bear market? The short attention spans cultivated by the internet and social media suggest that patience during an extended recovery may be far more challenging. At the same time, the growing influence of younger retail investors could signal a new era, potentially shortening future bear markets compared with historical norms.

The inevitability of bear (and bull!) markets since 1973

Time period		# Months	Return
November 1973 to September 1974	Bear	11	-37%
October 1974 to June 1981	Bull	81	183%
July 1981 to June 1982	Bear	12	-42%
July 1982 to July 1987	Bull	61	195%
August 1987 to November 1987	Bear	4	-26%
December 1987 to December 1989	Bull	25	33%
January 1990 to October 1990	Bear	10	-22%
November 1990 to April 1998	Bull	90	149%
May 1998 to August 1998	Bear	4	-28%
September 1998 to August 2000	Bull	24	103%
September 2000 to September 2002	Bear	25	-45%
October 2002 to May 2008	Bull	68	138%
June 2008 to February 2009	Bear	9	-45%
March 2009 to January 2020	Bull	131	113%
February 2020 to March 2020	Bear	2	-23%
April 2020 to Current	Bull	71	157%

Source: Based on monthly S&P/TSX Composite Index close, 11/73 to 02/26.



The defensive trade: What has been happening to start 2026?

Growing economic uncertainty, rising geopolitical risk and persistent trade and policy tensions are driving a shift toward more defensive positioning across markets. This comes against a backdrop of historically elevated equity valuations following a multi-year run, while returns from bonds and money-market funds remain subdued.

Gold and silver: A debasement hedge

The start of 2026 has been remarkable, though volatile, for gold and silver. In January, gold reached an intraday high of almost \$5,600, marking a rise of over 92 percent year over year. Gold futures posted the largest single-day dollar gain on record, rising by about \$231 per ounce, before sharply correcting in early February. Silver, long considered undervalued due to the dominance of paper contracts over physical bullion, also saw its biggest one-day percentage move in about 45 years, with a jump of more than 5 percent. By the end of January, silver had surged to around \$120 per ounce, up 63 percent in the month of January alone, and over 248 percent year over year. It, too, fell significantly from its record highs at the start of February.

Some attribute this to the “debasement trade”: an effort to preserve purchasing power amid monetary expansion and fiscal overreach. The investment thesis is simple: when governments expand the money supply aggressively, keep interest rates below inflation or run large fiscal deficits, the real value of cash and fixed-income assets erodes. Recent developments have reinforced this concern. In Japan, yields on long-term government debt surged to record levels after the government unveiled a plan to increase spending and cut the consumption tax in January. Those worried about weakening currencies are increasingly turning to gold and silver as stores of value, as precious metals represent a defensive, tangible asset class.

Deglobalization and the commodities imperative

At the same time, trade wars, tariffs and geopolitical tensions are also reshaping capital flows and reserve strategies. The broader trend of deglobalization, with nations prioritizing self-sufficiency and national security over international interdependence, is driving demand for precious metals and other real assets. Since 2022, central banks in countries like Poland, Turkey, India, China and Kazakhstan have markedly increased gold reserves, partly in response to geopolitical tensions or threats of sanctions. This has raised the question: Could a commodities supercycle be underway?

fiscal stimulus, leaving the Swiss franc as one of the few stable currency alternatives.

What next?

Is the enthusiasm for these defensive trades overextended? Indeed, gold and silver’s gains to start the year were stretched by historical standards. That said, maintaining diversified exposure to defensive sectors, including commodities, other alternative investments and resilient segments of the equity market, can help protect against inflation, currency debasement and geopolitical shocks. This may be especially relevant given that, for at least the next 2.5 years, the global landscape is likely to experience continued unravelling of the post-Cold War economic and political order.



Precious metals surge: Silver & gold prices, January 29, 2026*

	Intraday high	Closing price	January gain	2025 Performance	Year-over-year
Silver	\$121.67	\$115.79	63%	+141%	+248%
Gold	\$5,594	\$5,377	25%	+64%	+92%

* Silver & gold intraday highs marked a historic peak in the early-year precious metals rally. <https://tradingeconomics.com/commodity/>
At close 01/29/26, 12/31/25, 1/27/25.

The U.S. dollar and U.S. treasuries: Under pressure

Historically, the U.S. dollar and U.S. Treasuries have been the ultimate safe-haven assets. However, this is changing. The dollar hit a four-year low in January, prompting headlines like “How Trump Is Debasement the Dollar and Eroding U.S. Economic Dominance.” With interest rates at low levels and pressure for further cuts by President Trump, returns on Treasuries may be further losing appeal. Beyond the U.S. dollar, the traditional appeal of other safe-haven currencies is under strain. The Japanese yen, once a classic refuge, has been weakened by inflationary pressures and

A rotation into small caps: The start of lasting momentum?

Since October 2025, there has been a notable rotation into U.S. small-cap stocks. Investors are moving away from years of large-cap growth dominance, particularly with the “tech mega-caps.” What’s fuelling this renewed momentum in the small-cap sector?

First: Small caps vs. large caps

In the U.S., small-cap stocks are generally defined as companies with a market capitalization (share price multiplied by shares outstanding) between \$300 million and \$2 billion. The Russell 2000 and S&P 600 are the most commonly used U.S. small-cap benchmarks. In Canada, where markets are smaller, small caps are generally considered to have a market capitalization of \$1.5 billion or less. In contrast, a large-cap stock generally refers to a company with a market capitalization value of more than \$10 billion.

In the past, small caps were seen as attractive opportunities for those investors who were willing to take on more risk to potentially enhance portfolio returns. These firms were seen as having higher growth potential, as well as strong merger and acquisition prospects.

Yet, since 2010, small caps have largely underperformed large-cap stocks (see graph for relative performance), having some of the lowest relative valuations seen in years. The current cycle happened for a reason. Large caps have had stronger earnings and better free cash flow margins, while small caps have much lower profitability. Small caps also have higher debt positions (relative to earnings), leaving them more exposed to interest rate changes due to a higher prevalence of floating-rate debt (and shorter average maturities). With interest rates rising between 2022 and 2024 to combat inflation, this put pressure on many small caps with rate-sensitive debt. In addition, small caps tend to be more sensitive to economic cycles than their large-cap counterparts.

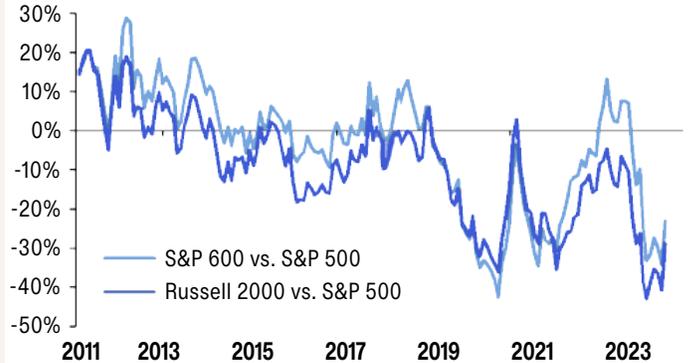
At the same time, many higher-quality small-cap companies are not listing publicly, instead being taken private by private equity firms before they ever reach scale. The growth in private markets has been significant: In 2000, private equity and venture capital firms managed around \$600 billion in assets; today, this exceeds \$10 trillion. This has also resulted in a flow of lower-quality companies into small-cap indices, which has presented challenges for the asset class’s returns.

Why the rotation into small caps over recent months?

With valuations of tech mega-cap growth stocks soaring well above historical averages, investors are increasingly looking for undervalued sectors as momentum shifts. Cyclical headwinds, particularly higher interest rates that weighed on small-cap

valuations in recent years, have eased, creating a more supportive environment for small-cap performance. A weaker U.S. dollar has further supported small-cap firms with foreign revenue exposure. Improvements in the U.S. regional banking sector have bolstered small-cap business activity, while fiscal stimulus measures continue to provide additional support.

**Rolling small cap performance vs. large cap (S&P 500)
Relative 3-year rolling return**



Source: <https://cdn.jpmorganfunds.com/content/dam/jpm-am-aem/global/en/insights/eye-on-the-market/the-lion-in-winter-amv.pdf>

While several months of gains don’t establish a trend, they do raise the possibility that small caps may be entering a more sustained period of improvement. Even so, economic uncertainty and structural challenges continue to shape the landscape. As a result, success in the sector will likely depend on a deliberate focus on higher-quality businesses with stronger balance sheets, earnings resilience, and durable competitive positions.



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