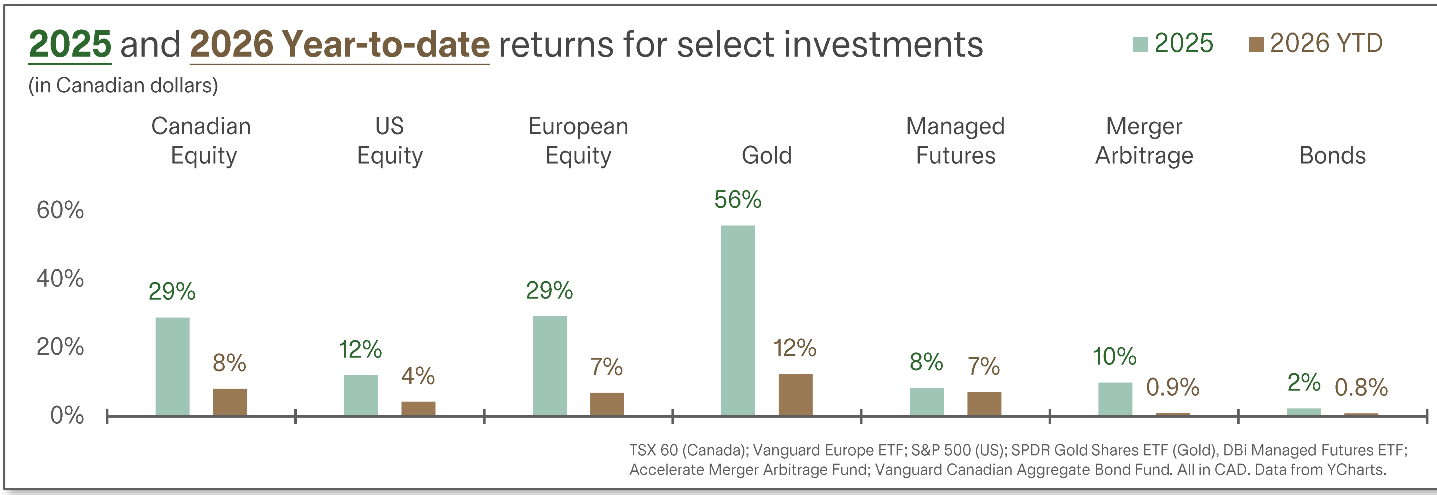
Quarterly Update

First Quarter of 2026

What's *Current*?



This chart paints a picture of a market that continues to defy expectations. 2025 produced stellar returns in the face of a deteriorating economic reality and the trend has continued into 2026. That disconnect must be reconciled. After all, the economic challenges of 2025 haven't been resolved, and we've added another war to the mix.

Necessarily, this update starts in the Middle East. The ongoing conflict is an objectively tragic human situation, but our role is to understand how this event could affect the value of your portfolio.

The disruption of the Strait of Hormuz sent a shockwave through commodity markets and threatens to have a lasting impact on inflation around the world. Aside from higher prices at the gas pump, consumers in the West aren't feeling the effect of the disruption yet. This is temporary.

The Strait is the only maritime route for some of the world's largest exporters – Saudi Arabia, Iraq, Kuwait, the UAE, and Iran itself. Before the conflict, 25% of global ocean oil trade and 20% of global ocean liquid natural gas trade passed through the strait.

The effect on us is delayed because more than 80% of that cargo is destined for Asia and most of the rest goes to Europe. The effect is inevitable because Asia is a hub of the global supply chain and they depend on energy from this specific waterway. In short, the closure acts as a massive brake on global economic activity. History suggests it's only a matter of time before we feel it.

Bottom line: Energy is used to make everything, so when energy gets more expensive, everything gets more expensive.

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Back to the West

Not everything that comes out of the Strait of Hormuz goes to Asia. North America is more exposed when it comes to fertilizer than energy. Fertilizer normally makes up between 15 and 25% of crop input expenses. In many years it's the single biggest expense item. Nitrogen (in the form of urea) and phosphorus are the two main building blocks. Estimates peg that somewhere between 9% and 17% of US urea supply and about 20% of phosphate fertilizer supply used to move through the Strait and is now disrupted.

While Canada doesn't rely on the Gulf for most of its fertilizer, it still feels the pinch because Canadian farmers pay prices that are pegged globally, so a disruption that tightens Gulf supply pushes Canadian costs higher even when product is available.

Anecdotally, we've heard from some farmers that the price of fertilizer has doubled since the war began. Farmers who ordered fertilizer for the 2026 season before the conflict started are in luck, but many had not.

All else equal, this will result in higher food prices come fall and winter. And the effect will likely extend beyond food.

While helium holds a place in many child's hear for making floaty balloons and funny voices, the biggest uses are actually in scientific research and semiconductor production.

Helium is a byproduct of refining natural gas. That's basically the only way humans get it. Qatar accounts for roughly a third of global helium supply, and much of that capacity is concentrated in one area at Ras Laffan. Facilities there closed in the first week of March and weeks-long restart procedures at the helium plants add a big delay to the return of supply even after the conflict is (hopefully) resolved.

The trouble is that helium isn't held in reserve like oil or gas. Most helium that's produced is used within weeks because the liquid form slowly boils away and it can't be stockpiled easily. So now the clock is ticking to get the supply back online.

Importantly, these cases do not amount to an all-out collapse of the global supply chain, but because the Strait of Hormuz carries so much global trade – oil, gas, fertilizer, helium, and more - it's hard to see how inflation will stay subdued through 2026.

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Back to financial markets

Surprisingly, broader equity markets have largely shrugged off the war. The US and Canadian equity markets (S&P 500 and TSX 60) are both higher today than the day before the war began. That is far more resilient than most news coverage would suggest. Even more, market analysts expect future corporate earnings to grow, not decrease.

So, how do we reconcile a chaotic global economy with solid stock performance?

As it turns out, we may not have to because strong corporate earnings aren't actually so surprising. In our 2025 Q2 update, we talked about government deficit spending being a good thing for stocks. That statement isn't rooted in hopes and dreams; it's just math.

To help bring that idea home, consider that the outstanding balance of the Canadian national debt is around $1.5 trillion dollars. That's how much it borrowed from others and should eventually repay.

Because the government disburses every dollar that it borrows, we can follow the money:

1. Some money goes directly to companies who supply the government with goods and services, and who provide social services like healthcare.
2. Some goes to people through social services and government salaries. That money is either saved or spent – there are no other options. Spending is ultimately giving money to a company.

   Aside: Household savings are decreasing, so people are really spending more than they get.
3. The rest of the money goes to pay interest on the national debt. Interest is paid to owners of government bonds, which are either people or companies (i.e. buckets 1 and 2).

Recap: Government money either goes to corporations directly, or to corporations via people.

Take-away: Government deficits result in corporate profits. Astoundingly, it is that simple.

Corporate profits will continue to be strong as long as deficit spending continues. This is the reason that we are not selling all your stocks and hiding your money under a rock.

The wildest part of this situation is that when we talked about government deficits in 2025 Q2 (in July), the total US national debt was US$36 trillion. Today it is US$39 trillion. They added US$3 trillion of debt in just over nine months – that's more than twice the total Canadian national debt.

If your neighbor borrows 3 trillion dollars, then of course the stores they shop at will make money.

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