FEBRUARY 2026 | ISSUE NO. 38

THE SCHOONER

The Official Newsletter of the Dalhousie Investment Society (DALIS)

Trade of the Month

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SOFR H6/H7 Steepener

Position Overview

Trade Rationale

In early February, we saw that the U.S. had two rate cuts priced over the next year and a half, a number that, with all the uncertainty in markets, felt extremely conservative. Volatility across macro assets, ongoing disinflation, and political pressures are exerting a persistent downward pressure on the policy rate. To summarize, the risk-reward favoured positioning for an increase in price cuts rather than a reduction.

To capitalize on this thesis, we decided to create a SOFR H6-H7 steepener by going long March 2026 SOFR futures (H6) and selling March 2027 SOFR futures (H7). Each contract represents about $25 of DV01 exposure. We sized the position to $25,000 of DV01, meaning each one-basis-point increase in the spread between the two contracts would generate a gain or loss of $25,000.

If our thesis was correct, we would see a more dramatic decrease in the longer-term future relative to the shorter-term future, thus generating profit as the spread between the two increases.

We entered the trade on the book ahead of the January CPI release.

The position was structured around the expectation that if CPI came in soft, markets would quickly adjust expectations and price a higher probability of additional and/or earlier cuts. It was clear that a downside inflation surprise could materially shift cut pricing, whereas an upside surprise would only reinforce the already conservative two-cut baseline.

On Feb. 13, the U.S. CPI for January was released, coming in soft (0.2 per cent vs. a 0.3 per cent consensus). The JOLTS report also came in well below expectations (6,542k vs. 7,250k consensus), with core inflation also showing moderation relative to expectations, which gave the market increased confidence that the disinflationary trend was here to stay.

The move generated about $400,000 in profit. This trade proves that positioning a macro trade around a clear catalyst while managing risk through DV01 matching can lead to asymmetric returns. By using relative-value positioning rather than directional betting on a single contract, we captured short-end curve steepening in a risk-mitigated fashion.

A Glimpse of What's Inside:

Alumni Spotlight

MBA, Finance, 2024

Sanjeev Makkar

Associate
Portage M&A Advisory

Can you tell us a bit about yourself and your career to date?

Born and raised in Nova Scotia, I was fortunate to complete all of my post-secondary education close to home. I earned my BBA in accounting from St. Francis Xavier University and later completed the corporate residency MBA at Dalhousie University. During my time at Dalhousie, I had the opportunity to intern at Portage M&A Advisory as part of my eight-month corporate residency, thanks to a connection with a Dal alum at the firm. I began my professional career in audit, working in my hometown of Truro, before eventually transitioning into M&A.

Today, I'm an associate at Portage M&A Advisory, a lower-middle-market M&A firm based in Ontario, where I work closely with founder-owned businesses on both sell-side and buy-side transactions, typically in the $5 million to $50 million enterprise value range. My role spans the full transaction process, from initial valuation and financial modelling to developing marketing materials, engaging with buyers, co-ordinating diligence and supporting negotiations through to closing. It's a hands-on environment that blends analytical work with relationship management, which is something I really enjoy.

Outside of work, I love spending time with friends and family, and I enjoy staying active by going to the gym and playing sports.

What tailwinds are you currently seeing in the lower-middle market M&A space?

One of the most significant tailwinds in the lower-middle market is what is often referred to as the "silver tsunami." A large cohort of baby boomer business owners are approaching retirement without formal succession plans, creating a substantial pipeline of companies expected to transition over the next decade.

In Canada alone, more than 75 per cent of small business owners intend to exit, representing over $2 trillion in business assets expected to change hands. This demographic shift is driving increased transaction activity as owners look to monetize the value they have built, address succession challenges and transition leadership to the next generation.

Another key tailwind is the expansion of the private capital ecosystem. The rise of search funds, independent sponsors and family offices targeting smaller transactions has materially increased buyer competition and expanded exit pathways for founders.

We are also seeing growing seller motivation to de-risk personal wealth. With significant net worth often concentrated in a single private company, owners are increasingly pursuing partial liquidity, minority investments or recapitalizations to diversify while retaining upside. This trend extends beyond retirement-driven exits and includes younger founders seeking strategic capital and wealth preservation.

Lastly, many lower-middle-market sectors, particularly business services, industrial services, food and beverage, and niche manufacturing, remain highly fragmented. Buyers are actively pursuing platform and add-on strategies to drive growth through consolidation, which supports sustained acquisition activity.

What advice would you give Dalhousie undergraduate or MBA students interested in breaking into M&A?

Focus on building a strong technical foundation. Understanding how financial statements connect, how cash flows drive value, and how businesses operate will give you a huge advantage early on. The technical base makes it much easier to learn the rest of the job.

Spend time networking and getting practical experience wherever you can. Many opportunities in this field come through relationships and internships, so reaching out to alumni, talking to people in the industry, and asking thoughtful questions can open more doors than you might expect.

Most importantly, stay genuinely curious about businesses.

The best M&A professionals are people who enjoy learning how companies work, what drives value, and the challenges owners face. If you have a real interest in understanding different industries and markets and helping entrepreneurs succeed, the rest tends to fall into place.

Are most of your mandates buy-side or sell-side?

70 per cent are sell-side, with the remaining 30 per cent being a mix of buy-side and other advisory work.

What drove your decision to leave accounting and pursue finance?

Accounting gave me a strong foundation, which I still rely on today. Over time, though, I realized I was more drawn to the forward-looking side of things, thinking about growth, strategy and where a company is going rather than where it has been.

Finance felt like a natural direction because it builds on that foundation while bringing you closer to decision-making and the bigger-picture questions businesses face. M&A was something I grew into over time, but the mix of analysis and strategy is what ultimately made it a great fit.

What are the most coveted skills you look for in a successful analyst?

From my perspective, the most important skills are a mix of analytical ability, attention to detail and strong communication. Analysts need to be comfortable working with numbers and financial information, but just as importantly, they need to explain what those numbers actually mean in a clear and practical way. Early in your career, that ability to connect the analysis to real business implications makes a big difference.

Curiosity and work ethic are just as important. The people who tend to stand out are the ones who ask thoughtful questions, take initiative to learn and genuinely want to understand how businesses operate. Finally, attitude matters a lot. Being someone others enjoy working with, staying open to feedback and maintaining a positive mindset goes a long way.

Looking back on your journey, what has been your biggest takeaway?

One of my biggest takeaways has been how important curiosity and relationships really are. While transactions are analytical, they are ultimately driven by people. Throughout my time at Dal and into my career, the moments where I learned the most came from asking questions and taking the time to learn from people with more experience. I give a lot of credit to the CRMBA program at Dalhousie for pushing me outside my comfort zone and encouraging that mindset early on. Staying curious, doing quality work and treating people well has a way of building trust, and trust is what ultimately creates opportunities.

Student Spotlight

Sam Collins

General Member

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Can you tell us a bit about yourself?

I'm a third-year finance student at Dalhousie University, minoring in statistics, and an avid sailor and skier. I'm originally from Halifax and didn't want to go inland for school, so choosing Dalhousie was a no-brainer. When I first got into finance, I enjoyed the quantitative side and took math and computer science courses, thinking I would switch out of finance and pursue quant research. It has not gone that way at all; I have done my past two co-ops in investment advisory and investment banking.

Why did you decide to go into IB?

I began learning about the sell-side the summer heading into my second year at Dal and started networking at the same time. I had a lot of great coffee chats early in the fall and, at the same time, joined DALIS as an analyst. I enjoyed engaging with markets and doing fundamental valuation, but I realized much of what you pitch is beyond numbers; it's the more qualitative storytelling aspect that demonstrates conviction. Investment banking is similar in this regard, but you aren't just pitching valuation and share-price catalysts; sometimes you're putting together materials on transaction synergies, takeover approaches, or a capital raise to the market.

You're on exchange at Oxford. What's been the biggest takeaway?

The academic system here is very different. You choose a couple of key areas to specialize in, which is the primary difference between Dalhousie and Oxford. I've been primarily studying financial derivatives. Reading much of the work in the field has given me a different, much deeper perspective than that of the typical textbook. Also, there are many amazing opportunities to hear from different speakers or attend events put on by top firms, so I have been making the most of them.

You worked in the NBCM office in Toronto; now you're moving to London. What made you want to do that?

I enjoyed my time in Toronto a lot and was lucky to be put on the mining team, especially given how busy the fall was. I think, given that mining is an incredibly international sector, working on the team in London will give me a much broader perspective, as the team's mandate covers EMEA. Geopolitics is a massive factor in the sector, and particularly in Africa, where it is evolving rapidly, as seen in Barrick's issues in Mali, for instance. I think that will be interesting. The team is relatively new and still has a fairly flat structure, so I'm hoping to get a lot of exposure over the summer.

What advice would you give to students going into IB?

Apart from the typical "network a lot and practice the 400 questions", which I think is just a minimum, be personable, and understand the work and dynamics of investment banking. Being able to put together a decent stock pitch may get you by, depending on the other candidates, but having a nuanced view of the rationale behind recent transactions and a solid understanding of corporate strategy in a given sector will set you apart. Also, get really good at PowerPoint before you start.

What is your biggest learning takeaway from joining DALIS?

What you put into DALIS is really what you get out. You're going to learn plenty by attending meetings and events, but joining a portfolio group or participating in case competitions is another vital step. The incremental time you put into each pitch reflects not just in interviews but also in the opportunities you get.

What is one opinion that you have that most people disagree with?

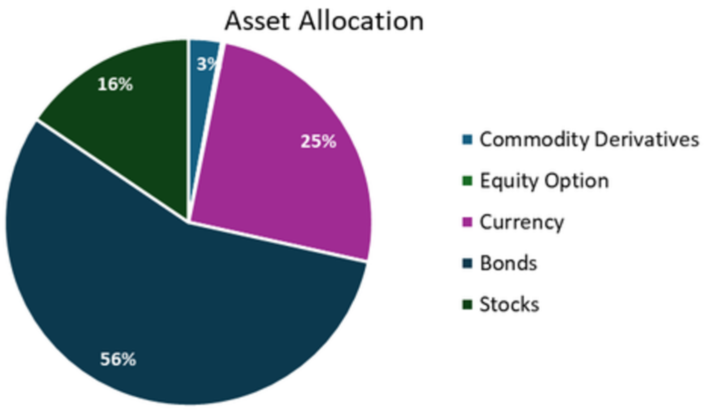
Lobster is not good.

The Maritime Fund

Portfolio Overview

Portfolio	Holdings	Market Value	Change TTD	% TTD	Benchmark
Long/Short Equities	32	$20,231,227	$231,227	1.16%	-0.84%
Commodities	17	$20,739,358	$739,358	3.70%	-5.17%
Machine Learning	6	$20,032,750	$32,750	0.16%	-0.10%
Global Macro Strategy	8	$60,176,232	$176,232	0.29%	0.50%
Maritime Fund	63	**$121,179,567**	**$1,179,567**	**0.98%**	**-1.40%**

Sector	Market Value	Weight
Industrials	$3,089,137	19%
Financials	$2,746,412	17%
Information Technology	$2,440,984	15%
Communications	$2,046,530	13%
Healthcare	$1,633,721	10%
Consumer Discretionary	$1,629,305	10%
Materials	$859,052	5%



Top 10 Holdings
1. Short Gold
2. Short 2Y Swiss Bonds
3. USD/CAD
4. Natural Gas Futures
5. Aluminium Futures
6. Shopify
7. Spotify
8. Veeva Systems
9. Google
10. Coca Cola

DALIS
DALHOUSIE INVESTMENT SOCIETY

The Maritime Fund

Portfolio Commentary

LONG/SHORT EQUITIES

The new semester means a new team and a fresh slate for the portfolio. Over the past month, the L/S team has built a portfolio of core holdings focusing on companies with durable growth and sticky revenues. Our portfolio performance has stayed consistent during a period of high volatility. Notable short positions have offset losses in tech-related long positions. Our portfolio has returned 1.16 per cent relative to our benchmark index of -0.84 per cent, while we maintain a cash-to-equity allocation of 35 per cent/65 per cent. Our strategy for the semester is focused on finding value in overlooked equities that can provide stable growth.

Key Long: Caterpillar (NYSE:CAT), +16.7%
We took a long position in CAT following a strong Q4/25 earnings report as a pair to our DE short. Our view is that as heavy machinery continues to ramp up on the back of strong manufacturing numbers in the U.S., CAT will outperform DE in the long run. As data centre spending continues to increase, CAT is seeing accelerating bookings not just in construction but also for its natural gas and diesel generators within its power segment. We continue to maintain a positive outlook on CAT, backed by strong F2026 guidance and continued convergence from backlog into revenue.

Notable Positions

- Long GE Vernova (NYSE:GEV), +30.1%
- Short MercadoLibre (NASDAQ:MELI), +9.4%
- Short Toll Brothers (NYSE:TOL), +6.3%

Key Long: Shopify (TSE:SHOP), +8.1%
The start of 2026 has seen a sharp decline in software stocks. Caught up in the falloff was Canadian e-commerce giant Shopify. We established a long position due to an undervaluation from the broader market decline that was not rooted in the company's strong fundamentals. Strong revenue guidance for F2026 and margin expansion show strong upside potential for Shopify. The company continues to develop its technology stack with the successful commercial adoption of Shop Pay. Additionally, Shopify continues to drive international expansion, pushing growth in Europe and the Asia-Pacific region.

Outlook on Equity Markets:
The Looking ahead, we continue to seek opportunities to diversify outside the U.S. as the combination of geopolitical risk and accelerating tech disruption creates an unpredictable backdrop. We remain sanguine on the EU, particularly in sectors like industrials, where structural tailwinds and the potential appreciation of the euro against the dollar could support relative outperformance. While markets may continue to grind higher, we expect winners to be identified by disciplined bottom-up selection. Our focus remains on companies with resilient balance sheets and diversified revenue streams — both across sectors and geographies — allowing us to navigate volatility while maintaining upside exposure.

MACHINE LEARNING

Over the past few weeks, progress has been steady, though slightly slower than usual due to Reading Week and midterm preparation. That said, meaningful groundwork has been laid across several initiatives. On the alternative data front, we have made solid progress automating data pulls from multiple weather networks, enabling the integration of environmental variables into our models. NORA ingestion continues to present formatting and consistency challenges, and resolving this remains our primary technical focus this week.

On the trading infrastructure side, we explored improving real-time signal distribution. We initially looked into extracting alerts directly from TradingView, but due to paywall limitations we pivoted toward building an independent signal pipeline using Python, pandas and yfinance data. The objective is to generate buy and sell signals internally and distribute them via email using scalable and cost-effective options. While it is not fully production-ready yet, the core architecture is in place and we are iterating on automation and reliability.

Most notably, the AI hedge fund multi-agent system continues to develop well. We are building a modular framework where separate agents handle signal generation, risk management, portfolio allocation and macro analysis. The goal is to replicate an institutional research workflow through coordinated AI agents. We are currently refining inter-agent communication and improving backtesting consistency.

The Maritime Fund

Portfolio Commentary

COMMODITIES

Amid what appears to be a persistent rise in geopolitical uncertainty, our current positioning reflects a deliberate balance between targeted exposure to specific macro outcomes and broader downside protection should tensions fail to escalate further.

We are increasingly focused on short-term global oil prices as the United States continues to apply pressure on Iran, creating potential volatility in energy markets.

In precious metals, entry timing was clearly suboptimal as positions were initiated on what proved to be one of the sharpest single-day drawdowns in recent history. While gold has since retraced much of that move and reaffirmed its role as a geopolitical hedge, silver has lagged meaningfully and remains a drag on overall performance. Despite this near-term volatility, both positions remain aligned with our broader risk-hedging framework.

Commodities Market Outlook:
Looking ahead, seasonal dynamics will play a more prominent role in energy positioning. As we move into the warmer months, energy exposure (natural gas) will require reassessment. Prices have fallen to six-month lows amid forecasts calling for sustained warmer-than-normal weather, potentially dampening near-term demand.

We believe global oil markets may be approaching an inflection point. Saudi Arabia is currently producing at record levels, which we interpret as an effort to capture market share. Combined with an existing supply glut, this dynamic leaves oil without a clear price floor and exposes the market to downside risk should geopolitical tensions in the Middle East ease.

We remain structurally bullish on precious metals as reserve-style assets in a financial environment increasingly defined by geopolitical fragmentation, financial sanctions risk, and elevated sovereign uncertainty.

Notable Positions

- Box spread on Crude Oil 2MM, +3.58%
- Put collar spread on URNM 1MM, +6.21%
- Protective put on Canola Oil 0.75MM, +3.06%
- Bull call spread on Copper 1.6MM, +6.32%
- Long positions on precious metals, -7.48%

GLOBAL MACRO STRATEGY

Notable Positions

- US$ 25,000 DV01 SOFR H6-H7 Steepener. ($C400,000 Profit)
- US$2,000 DV01 Short Swiss 2yrs long Brazil 10yrs, (C$200,000 profit realized)
- Short USD/JPY at 156.13 (exited at 153.15)
- US$2,000 DV01 Canadian 2s10s Flattener at 78 basis points.

Outlook on Global Markets:
With Oil supply shocks, we forecast macro volatility, particularly in Europe as they manage energy supply challenges. As multiple federal governments look for interest rate cuts to promote fiscal growth, central banks are concerned with cutting rates while rising inflation expectations and general uncertainty persist. We believe that with the current macro environment in both the US and Europe, Canada is uniquely positioned to attract new inflows of investors looking for safe haven investments and as such are long on CAD.

Agentic AI: When Software Becomes Labour

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The Shift from Tool to Operator.

The largest financial transformations do not begin with hype; they begin with capability.

Everyone has encountered AI through generative chatbots: prompt in, response out. These systems summarize documents, write emails, generate images and assist with code — impressive, but reactive. They wait.

Agentic AI does not wait.

An "agent" plans a task. It executes across multiple software tools, analyzes its own output, iterates independently and then only returns when the objective is complete. Not a complete draft, a complete deliverable. It behaves less like a search engine and more like an engineer sitting at a keyboard: running commands, drafting models, pulling data, testing assumptions, clicking through dashboards and adjusting its decisions.

Research from METR (Model Evaluation and Threat Research) tracking autonomous task completion shows state-of-the-art models expanding: from handling 10-minute assignments in 2024 to multi-hour workflows, with task duration doubling in under four months. If that trajectory holds, it implies a 16-times expansion in a year. Multi-day autonomous work becomes plausible within the year and multi-week capacity within two.

The systems are beginning to assist in their own construction. ChatGPT-5.3 Codex has been used in aspects of its own training and development. Anthropic CEO Dario Amodei has acknowledged that AI now writes a significant portion of the company's code. As he put it bluntly: "What we are seeing in AI is the kind of intelligence capable of improving itself without human intervention." This is not incremental improvement; it is widening the horizon of autonomy. At Zoho, engineers provided an agentic coding system with a written specification and about 100 lines of example code. The system worked from prompts for three days and produced a functional compiler: a project that previously required an expert team nearly three months. The agent then rolled the compiler out into a system that serves more than 100 million users.

When the time required to complete high-skill tasks collapses, the economics of those tasks change. In finance, time is not abstract. Time is yield, margin, capacity: time is money. If agentic systems produce equivalent output in a fraction of the time, markets inevitably begin to reprice whose time is worth paying for. Shay Boloor, an equities analyst in AI, calls this the inflection point, where millions of AI agents will soon handle tasks long tended to by people. Not as a wave replacing workers overnight, but as a shift in the background — like servers replacing filing cabinets or algorithms replacing trading floors. He argues, "We've never had a tech disruption at this scale before." His warning is not about panic. It's about mispricing. "The market is underwriting that future uncertainty in a doom-based scenario." In other words, investors sense the shift; they just don't know how to model it yet.

Capital Is Already Moving.

If agentic AI were speculative, capital allocation would be cautious. It is not. Between 2023 and 2025, AI-focused venture investments by major global banks grew 21 per cent annually, compared with eight per cent growth for broader technology investments. According to Accenture, nearly half of U.S. financial firms plan to increase their internal AI investment by more than 50 per cent, allowing agentic AI to move from early pilots to broad, at-scale adoption in fiscal 2026.

Leading banks are already deploying AI agents across operations, where they work alongside employees and independently handle defined tasks. The implication is clear: agents are not experimental, they are operational. Goldman Sachs has identified six core processes it intends to remake with AI to drive efficiency and unlock growth capacity. The goal is not better recommendations; it is faster execution.

This pattern extends beyond finance.

Google and Sea Limited have partnered to develop agentic shopping and payment systems embedded directly into Sea's Shopee platform, which held roughly 52 per cent of Southeast Asia's e-commerce market in 2024. Unilever has committed to a five-year transformation with Google Cloud to migrate its global data architecture to an AI-first platform. The stated objective is to deploy intelligent systems capable of executing complex tasks without human intervention, redefining how value is created inside the company. Real-time demand sensing. Dynamic pricing adjustments. Predictive supply chains. Automated marketing execution. Zero human input.

These are not dashboard analytics. It is autonomous control, and governments are following suit. Canada committed $925 million over five years to expand sovereign data centres exceeding 100 MW in capacity. The aim is not experimentation; it is to secure domestic access to high-performance computing — giving Canada the national-scale capacity to train, deploy and operate advanced AI systems.

Globally, AI-related infrastructure spending is measured in the hundreds of billions of dollars, spanning computing power, data centre construction, energy expansion and large-scale cloud migration. OpenAI CEO Sam Altman has argued that underinvestment poses a greater threat than overinvestment. He has an incentive to say that, but the scale of institutional capital backing the thesis suggests the concern is widely shared. When banks, multinational corporations and governments simultaneously commit at this scale, markets are replatforming.

The Collapse of Decision Cycles.

Every major productivity revolution reprices execution. The assembly line reduced the time required to produce goods. The internet reduced the time required to communicate and distribute information. Agentic AI reduces the time required to complete cognitive work.

Financial services illustrate the exposure clearly. The industry remains deeply process-driven and digital. Analysts construct models, draft investment memos, conduct risk analysis and iterate through revisions. As autonomous systems extend their reach from hours to days — and eventually to week-long, unsupervised tasks — large portions of this execution layer begin to collapse.

When underwriting cycles shorten, the capacity to advise expands. When research drafts materialize in hours rather than days, output increases without proportional headcount. When monitoring becomes continuous rather than periodic, risk frameworks shift. This is a structural collapse in decision timelines.

The implications extend beyond cost savings. Firms that integrate agentic systems gain velocity; faster iteration enables quicker capital allocation, tighter feedback loops and more adaptive risk management. In competitive markets, velocity compounds.

The job implications are real, and uncomfortable. Amodei has predicted that up to 50 per cent of entry-level jobs could be eliminated within one to five years.

That may prove aggressive, but the difference from prior automation is clear: AI is a substitute. It improves across domains simultaneously. If a job is primarily digital, it is exposed.

For future finance professionals, this is a story about leverage. The analyst who uses agentic systems effectively may accomplish in a day what previously required a week. That advantage will not last forever — adoption spreads — but during the transition, those who understand how to orchestrate these systems will be disproportionately advantaged. Markets price visible revenue growth quickly, yet they price structural shifts in productive capacity more slowly.

Agentic AI represents a structural shift. Software is becoming deployable labour. When labour becomes scalable, autonomous and compounding, capital does what it always does: it reorganizes around the new economics.

The question is not whether this shift is happening. It is whether you have positioned yourself to direct the agents, or compete with them.

Gold’s Return, Canada’s Absence

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Canada holds no gold.

Not a token reserve. Not a strategic allocation.

Meanwhile, it appears that at the same time every other central bank around the world is accumulating gold at the fastest pace in modern history. Annual net purchases have been around 1,000 tonnes for three consecutive years. To add insult to injury, gold is trading at record highs and Canada is now the only G7 country with an empty vault. A major gold producer with no gold reserves. On the surface this feels like a reporting error, but this is not a story about price appreciation or wrongful reporting. It is a story about regime. Canada’s decision to eliminate gold from its official reserves was not reckless. For decades, it was entirely rational.

The Old Reserve Playbook

Sovereign reserves are not designed to generate alpha, but to preserve liquidity, support confidence in the currency and provide ammunition for foreign exchange intervention. That framework reveals clear weaknesses for gold. It yields nothing. It generates no income. [LG1] It sits idle.

At the same time, U.S. Treasuries and other high-quality foreign government bonds are liquid, interest-bearing, and they can be quickly converted into cash if needed. They can be sold or pledged in seconds. They integrate seamlessly into global payment systems. In a world defined by dollar dominance and expanding globalization, holding interest-bearing reserve assets rather than bullion was an efficient form of capital management.

From the 1990s through the mid-2010s, that logic held. Even amid wars, financial crises and sovereign debt scares, the dollar-based reserve system proved durable. Global trade integration deepened. Financial markets grew more interconnected. The U.S. dollar cemented its role as the dominant reserve currency. Real yields were generally positive. Institutional trust, while never perfect, was largely intact across advanced economies.

Gold, in that regime, looked like a leftover from a pre-financialized era. Selling it to hold liquid, income-generating foreign currency assets was not an oversight. It was a pretty decent bet on institutional continuity.

That system has shifted.

When a country's foreign reserves can be frozen or restricted, reserve management stops being purely financial. It becomes strategic. Governments had to start thinking differently about where and how their reserves are stored. Gold held within domestic borders does not depend on another country's legal system, payment network or financial infrastructure. Foreign sovereign bonds do.

Payment systems have also become tools of policy. Access to settlement networks, cross-border messaging systems and clearing channels can be restricted. Currency infrastructure is no longer viewed as politically neutral by all actors. In such an environment, gold represents an asset outside the digital highway.

Global fiscal positions have also deteriorated. Debt-to-GDP ratios across advanced economies are materially higher than they were around a decade ago. Gold does not default. It is no one's liability. As sovereign balance sheets expand, the appeal of holding an asset with no counterparty risk increases.

Geopolitics Enters the Balance Sheet

The floor on which these decisions are being made has also changed. Globalization has become more fragmented, trade blocs are consolidating and supply chains are being re-evaluated as energy and commodity security move to the forefront of policy. In that environment, reserve management prioritizes durability over optimization.

These structural shifts are reflected in behaviour. Central bank gold purchases have averaged more than 1,000 tonnes annually in recent years, roughly double the pace of the prior decade.

This could be a short-term spike. But as we continue into 2026, I'm guessing it won't be.

Central bank demand has remained elevated even as gold prices reached record levels. That suggests reserve managers are responding to perceived regime risk rather than chasing momentum. It is also true that this buying is concentrated in emerging and geopolitically exposed economies. Advanced Western economies have not dramatically rebalanced their reserve compositions. That difference matters. Gold accumulation today may represent insurance against systemic fracture rather than a monetary revolution.

Yet the direction of travel is clear. The role of gold in sovereign reserves is evolving. The tension lies here: Canada is optimized for efficiency in a world built on trust. Gold accumulation elsewhere signals that some reserve managers believe trust now requires hedging. When that happens, is it really trust?

Two Interpretations of Stability

This does not mean Canada is doomed or that gold will continue rising indefinitely. It means the assumptions behind reserve efficiency have changed. When reserves could be viewed purely through the lens of liquidity and yield, gold was expendable. When reserves are viewed through the lens of geopolitical uncertainty and counterparty risk, gold regains aggressive relevance.

Canada's strategy worked under one regime. The world's renewed appetite for physical bullion suggests that regime is already trending toward no longer being universally assumed. The question is not whether gold outperforms bonds next year. It is whether institutional continuity remains the dominant bet of the coming decade.

Canada has chosen continuity. Much of the world is buying insurance.

Only time will determine which assumption proves more durable.

The Fed, The Flag, and the Flow of Goods

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As 2026 begins, the U.S. macroeconomic backdrop reflects a nuanced combination of restrictive financial conditions, steady economic expansion and lingering inflation pressures. A firm labour market and durable consumer spending continue to support aggregate demand, yet sustained monetary tightening, softer global growth and revived trade policy tensions are adding incremental headwinds to the broader outlook. Recent data releases, including non-farm payrolls, CPI, GDP figures and trade balances, have provided critical insights into many of these dynamics. In this article, I'll explore the macro fundamentals driving these shifts and outline key points as we move deeper into 2026.

Growth & Labor Market

The U.S. macro picture feels like a balancing act, resilient in ways that surprise positively, while layered with enough friction to keep everyone on edge. Growth has clearly cooled from post-pandemic highs, settling into more sustainable trend levels, but consumer spending and a solid labour market continue to prevent anything dramatic from occurring. What intrigues me most is how the economy continues to defy gloomy forecasts, with people continuing to spend, companies hiring selectively and the system not cracking under the weight of rate uncertainty and trade headwinds.

The labour market in particular continues to impress me, with recent non-farm payrolls printing around 130,000 jobs, which was significantly above what I and most investors expected.

With the unemployment rate also ticking down to around 4.3 per cent, the economy won't be calling for aggressive Fed easing anytime soon. These aren't the robust job numbers we've seen before, but the idea of a recession should be far from the conversation right now. Wages are also holding up enough to keep services near peak levels, which in turn keeps underlying price pressures high. I take positives from this, as avoiding a hard landing is a key factor, but it also means the Fed's stance on rate decisions will be crucial. A "higher for longer" approach driven by Jerome Powell has power, with real yields remaining elevated and financial conditions restrictive. This will put a halt to the frothiness risk assets could see if we don't make progress on inflation.

Inflation, Tariffs & Fed Leadership

Headline CPI is around 2.4 per cent year over year, suggesting real disinflation is taking hold, especially as goods pressures ease and some tariff effects ease. Core measures remain sticky and service-driven, with the two per cent target still out of range. Tariffs play a role here, with President Trump leveraging authorities such as Section 232 on national security grounds, pushing the average effective tariff rate to around 7.7 per cent. These measures mainly target metals and Chinese imports, aiming to boost domestic manufacturing, but instead have driven up input costs for U.S. producers, leading to narrower margins and higher consumer prices.

The latest development came with the Supreme Court's Feb. 20 ruling striking down some of the tariffs as illegal, which could have eased some short-term pressure by lowering the effective tariff rate. It didn't last long, as Trump pivoted to an alternative plan that began with a global 15 per cent levy on all imports, once again bolstering the case for cautious Fed rate decisions. In my view, these new tariffs risk prolonging stickiness in core inflation by distorting supply chains, further pushing costs into the economy, especially if we continue to see retaliation from trade partners. Overall, the structural drag will continue to keep inflation elevated, increasingly complicating the path to lower rates.

Adding to the mix is the recent nomination of Kevin Warsh as the new Fed chair. He has long been considered a hawk on inflation, dating back to his days as a Fed governor during the financial crisis. While he has recently softened his tone to align with Trump's calls for lower interest rates, his hawkish instincts could persist if price pressures linger.

The nomination was viewed positively, given concerns about Trump pushing for more control over the Fed. Independence has been a main topic of discussion as Trump continues to try to place allies on the committee while criticizing those who don't align with his approach, such as Jerome Powell and Lisa Cook. Warsh is seen as a solid nominee who understands the importance of leading an independent Fed. We will see whether he succumbs to Trump's pressure, but it is clear he will be a strong candidate to take over in May.

Policy Outlook

Trade policy remains the wildcard and is more confusing than ever. As mentioned previously, the tariffs rolled out last year on metals and Chinese goods haven't necessarily shrunk the trade deficit, but they have forced real shifts. Companies are accelerating nearshoring, rethinking supply chains and leaning more heavily into other North American regions for stability. Mexico's manufacturing base appears structurally poised to capture many of the relocation flows, while Canada's energy and materials ties feel more secure overall. As a result, many U.S. firms with a strong domestic presence could see greater margin stability from reduced external volatility. On the other hand, multinationals with heavy export reliance, especially on China, face continued uncertainty with retaliation risks, weaker foreign demand and currency swings.

Looking ahead, my base case centres on how inflation's trajectory will dictate the Fed's moves. If core measures continue trending lower toward 2.3 to 2.5 per cent, there could be a few more cuts than anticipated, with 2.5 cuts already projected in 2026. Inflation's stickiness, especially in services and wage-driven areas, will be the key factor, as any reacceleration could push those projections out and force the Fed to hold steady while keeping yields higher.

In the end, 2026 looks like a year of patience rather than bold trades, with inflation remaining stubborn and new tariff layers adding to upward pressure. Additionally, with a previously hawkish Fed chair incoming, the path to economic easing remains very data-driven and uncertain. That leaves us in a position of focusing on quality over quantity. Although underlying resilience remains and frictions persist, the edge will likely come from diversification rather than home runs.

Canada's Housing Market: From Slowdown to Structural Reset

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A Weak Start to 2026

Canada's housing market has entered 2026 on weaker footing than many anticipated. Recent data suggests the slowdown is no longer just cyclical but increasingly structural. New indicators are reinforcing concerns that had been building through late 2025. Housing starts declined sharply in January, while resale activity remained subdued. According to RBC Economics, January marked one of the weakest openings to a year since the global financial crisis. Home resales fell 5.8 per cent month over month and more than 16 per cent year over year.

While harsh winter conditions likely contributed to some of the weakness, the broader trend appears more persistent. Buyer hesitation has been rising amid ongoing affordability constraints, macroeconomic uncertainty and early signs of labour market softening.

The slowdown also appears uneven across segments, with higher-end properties generally holding up better, while middle-income and first-time buyer segments have seen more pronounced declines in activity.

Supply Is Rising, Demand Is Not

Supply-side dynamics are also shifting. New listings rose by more than seven per cent in January, expanding available inventory and increasing buyer leverage in negotiations. This imbalance has already translated into price pressure, with the national MLS Home Price Index declining for the 14th consecutive month.

The combination of weakening demand and expanding supply suggests the market is no longer pausing, but repricing.

This dynamic has been especially pronounced in major markets like Ontario and British Columbia, where higher inventories have put greater downward pressure on prices.

A Slower, Uneven Recovery

Forward-looking forecasts reinforce this structural change. The Canada Mortgage and Housing Corporation (CMHC) projects housing activity to remain subdued throughout 2026, with demand staying below long-term historical averages even as conditions gradually stabilize. Rather than a V-shaped rebound, the outlook points toward a slower and more regionally uneven recovery.

Markets that experienced the most identifiable price appreciation during low-rate cycles typically face more persistent corrections, while regions with relatively affordable markets will see quicker stabilization. This unevenness is also visible across segments, with condo markets in major urban centres such as Toronto showing greater weakness relative to more resilient detached housing and suburban markets.

This raises a key question: Why is housing not recovering in its typical post-tightening pattern?

Unlike past cycles where lower rates quickly reignited demand, the current environment suggests a more gradual and uneven adjustment.

What Is Holding the Market Back

Even with expectations of future rate cuts, borrowing costs remain elevated relative to the ultra-low-rate environment that fuelled the previous housing cycle. Mortgage qualification rules and higher debt-service ratios continue to constrain purchasing power.

Meanwhile, wage growth hasn’t kept pace with the substantial rise in housing prices over the past decade. This has structurally reduced participation by first-time buyers and pushed many households toward the rental market. This is particularly important, as younger buyers typically play a key role in sustaining housing demand because they represent the marginal buyer in many markets. Their absence reduces transaction volumes and slows price discovery, delaying broader market stabilization.

Canadian households entered the tightening cycle with historically high debt-to-income ratios. As a result, even modest increases in interest rates have had a disproportionate impact on debt servicing costs, leaving many households more sensitive to changes in borrowing conditions than in previous cycles.

Although not yet severe, emerging softness in employment conditions increases precautionary savings behaviour. Housing demand is highly sensitive to job security, as modest increases in uncertainty can delay large financial commitments such as home purchases.

While markets are pricing in limited additional easing, the Bank of Canada remains cautious, holding policy rates at restrictive levels relative to neutral estimates. This suggests that borrowing conditions may not loosen meaningfully in the near term, unlike in previous cycles where rate cuts more quickly translated into renewed housing demand. In contrast to the rapid rebound seen following the COVID-19 shock or the post-2008 recovery, the current adjustment appears more prolonged, reflecting deeper affordability constraints and higher household leverage.

Why This Matters

For investors and policymakers alike, this shift matters. Housing has long been a key driver of Canadian economic growth and consumer confidence. If the sector remains subdued, the implications will extend beyond housing itself. Slower residential construction activity would weigh on economic growth, while weaker household consumption could dampen broader demand across the economy. Financial institutions may also face slower mortgage growth, reinforcing a more gradual pace of credit expansion.

In this context, recent housing data may be signalling a broader structural shift, where Canada may no longer be able to rely on housing as a primary engine of economic expansion in the near term.

Robot vs Human Advisor

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Although society claims that money does not determine happiness, personal finances hold significant emotional value to many people. Financial decisions are rarely limited to numbers alone; they are closely tied to the security and freedom an individual has. During periods of market volatility, emotional decisions can intensify, leading investors to act out of fear or overconfidence rather than adhering to a long-term strategy. As Canada approaches an intergenerational transfer of wealth, financial decision-making is likely to become more psychologically demanding.

The role of the investment advisor extends beyond portfolio management and includes providing emotional and behavioural guidance with an individual's finances. Over time, human advisors will prove more effective than robo-advisors in managing the psychological burden of market uncertainty and long-term retirement planning, positioning them as essential during this wealth transfer.

With the rapid advancement of technology over the past decade and growing public interest in personal finance, entering the stock market has become significantly easier for retail investors. Financial service platforms such as Wealthsimple and Robinhood have seen rapid growth, collectively adding more than two million users over the past few years. With minimum investments as low as $500 and a short risk-tolerance questionnaire, people can construct their own portfolios or select a pre-built one designed around aggressive growth or passive dividend income. Furthermore, a major appeal of robo-advisors is their cost efficiency; management fees typically range from 0.15 per cent to 0.50 per cent annually. Compared to the 1.2 per cent to 2.0 per cent charged by traditional investment advisors, which costs clients more in the long term. In addition, many full-service advisors require minimum account sizes of $100,000 or more, which creates a barrier for younger investors. Robo-advisors, by contrast, allow individuals to begin investing earlier in life with smaller amounts of capital. Besides lower fees, robo-advisors offer ease of use and speed. Mobile-first platforms enable users to execute trades, rebalance portfolios and monitor performance almost instantly. This simplicity, combined with automation, has positioned robo-advisors as a natural starting point for digitally native investors.

As portfolios grow and become more complex through inheritance, estates and career progression, the emotional weight of financial decision-making increases significantly. When personal investments reach the hundreds of thousands, retirement planning can become overwhelming. At that point, the benefits of self-directed investing begin to lose traction compared with receiving professional financial advice. Human investment advisors play a crucial role as emotional anchors during periods of uncertainty. As seen in April 2025, market volatility triggers fear, anxiety and short-term thinking. This leads many retail investors to sell during downturns and lose sight of their long-term investment horizons. Advisors help clients avoid emotionally driven decisions and adjust portfolios early to reduce risk. Based on this, advisors not only manage portfolios but also manage investors' emotions and relationships.

Beyond market stress, investment advisors provide support during major life events that have both financial and emotional impacts. Since advisors build relationships that span decades and generations, they see many events such as marriage, divorce, career changes, inheritance or the loss of a family member. Handling these situations requires a strong level of empathy and complex financial decision-making skills while clients are under emotional strain. While robo-advisors excel at efficiency and automation, they are inherently limited in their ability to understand emotional and complex circumstances. Human advisors can pair their technical knowledge with empathy to build real human relationships with individuals. Clients often work with the same advisor for decades; this fosters a level of trust that enables open conversations about difficult financial topics.

Robo-advisors have introduced efficiencies into wealth management by lowering costs and simplifying portfolio construction. Nevertheless, their fundamental design limits their capacity to address the emotional and relational aspects of financial decision-making. As trillions of dollars in assets transition between generations, young investors will have to make decisions shaped not only by market conditions but also by grief, uncertainty and shifting family dynamics. Human investment advisors will be key in guiding these investors through complicated situations involving inheritance and estates. To remain competitive, advisors must incorporate technological tools into their practices without diminishing the human element that gives them an edge. In an era defined by both digital innovation and a large-scale transfer of wealth, the advantage for financial advisors will lie in their ability to integrate technical expertise with emotional intelligence.

Rick's Rant

Market Experts

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Going into capital markets can be intimidating. The stakes can be high, the learning curve appears to be infinitely steep, and everyone except you comes across as an expert. For many people, it is simply too much. Whether it is a baby step such as opening your first investment account and making your first investment, or vying for a job on a prestigious trading desk or at a high-flying hedge fund, it can be scary. One's self-esteem can take a beating if one is not careful. But does it need to be this way? Should it be this way? Is there a better way to think about it?

The most common comment I get from members of DALIS in their third or fourth year is how intimidated and impressed they were at the beginning of their DALIS membership by the knowledge and capital markets sophistication of the more senior members of DALIS. The comment I get most often from relatively new alumni when they start their capital markets jobs is how intimidated and impressed they are by the knowledge and capital markets sophistication of their work peers.

I have been a student, practitioner, writer, researcher, active reader, academic and interested participant and observer of the markets for more than 35 years. Not trying to be boastful, but I have almost every certificate, work experience, or formal qualification one could want to be comfortable dealing with investments and capital markets. I am called on to speak at conferences, to give expert witness testimony and to consult with a wide and global variety of capital market participants and institutions. However …

Being completely honest, and risking losing a lot of credibility, I need to fess up. I have to make a trip to the bank next week to restore an investment account that I have lost the account details for and which I am too scared and intimidated to go to the bank for. The account has been dormant for several years due to my reluctance to deal with anyone involved with investments in a professional capacity.

My attitude to being in a bank is very similar to that of the protagonist in the short animated film "My Financial Career" in the National Film Board archives, which you can access at this link: https://www.nfb.ca/film/my_financial_career/

Look it up and take the six minutes to watch it and you will understand my mentality. Yes, I held several senior positions in a bank, and yes, I did quite well in them, thank you very much. It still does not change how I feel after all these years, and all those degrees and all those certifications.

I have a theory about this which will form part of my next book. Part of it is based on complexity theory (no, I am not going to continue this rant on complexity theory), and part of it is based on the Dunning-Kruger effect. For those of you who are not familiar with it, in simplified terms, the Dunning-Kruger effect states that those who are ignorant, or just plain lacking in intelligence, will frequently greatly overstate their knowledge and have far more confidence in it than is justified by the facts. Conversely, those who know the most and are experts understand that the world is much more complicated and complex and thus have less confidence than they justifiably should.

Parts of capital markets are knowable and completely understandable. That is the stuff that we have in the textbooks. However, a much larger part of the capital markets is completely unknowable and unpredictable. In our modern knowledge-age, artificial-intelligence society, we want to believe that someone knows. We assume that someone knows. But what we really need to do is consider that no one knows. Some people know some parts, and others know other parts, but there are some parts that no one knows about or understands or fully appreciates. When it comes to being all-knowing about the capital markets, it is a fool's game. It is intellectual alchemy. It is a self-esteem destroyer.

What we need to do, I as much as anyone, is recognize that the capital markets are a constantly evolving system. It is never the same way twice. Some parts are simple, some are complicated, and some are complex. Some parts are knowable, some parts are unknowable, and some parts are completely unknown. (Yes, for those of you readers of a certain age, I do realize that I could, and should, bring up the famous Donald Rumsfeld quote, but it is now mostly forgotten — but not outdated — and politically charged.)

We need to recognize that the capital markets are not something we can ever completely know or fully understand, but they are something we can keep learning about. We can and should keep studying them. Sadly, however, the more we learn, the more we will recognize how much more we don't know. And that is why we are fascinated by them.

Ultimately, investing and capital markets are about thinking. More accurately, they are about thinking on both micro and macro levels. They are thinking about both small-world and global issues. They are about understanding your views of the market and the market's view of you.

Confidence in our ability to learn and think is key, not in our knowledge base or certifications. If anything, I believe that DALIS is about building that ability to learn, the ability to think and perhaps most importantly the ability to look in wonder and awe at this crazy thing we call the capital markets.

Don't worry about the experts. Don't even look up to them, or put them on a pedestal. They are just as vulnerable as you are in their knowledge. Instead, believe in your ability to think, learn and grow.

Now, if I can just build up the courage to walk into the bank and get my account out of dormant status. Wish me luck.

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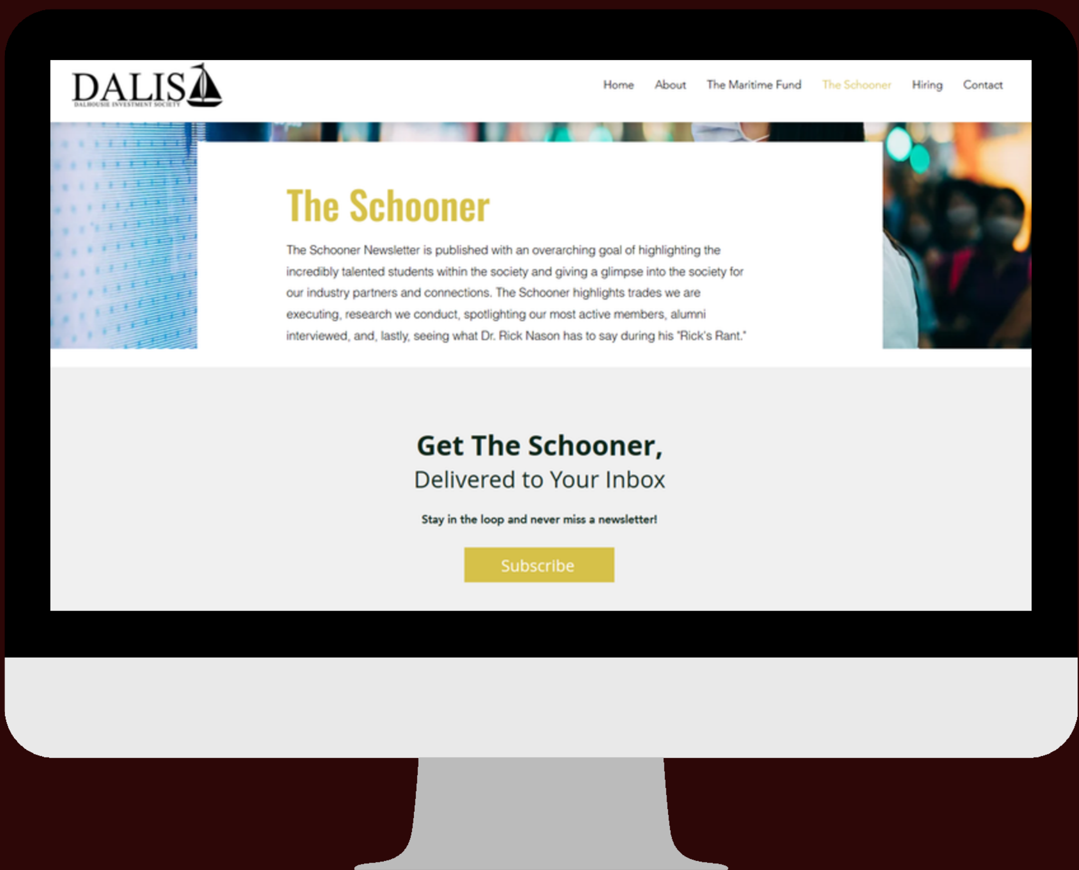

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