



Mawer Quarterly

First Quarter 2026

Market Overview

Headline returns for the first quarter masked a tremendous amount of dispersion across sectors, regions, and individual securities. The outbreak of war in the Middle East led to subsequent declines across virtually all sectors, energy the notable exception given the significant spike in oil and natural gas prices. Canadian equities were a beneficiary of this environment, supported by surging energy prices and strength in gold and base metals during the first two months of the quarter. International developed markets also outperformed the U.S. broadly, extending the trend that began in earnest last year.

In addition, U.S. mega-cap technology, which had led markets for much of the prior cycle, faced a reckoning on multiple fronts: questions about the return on hyperscaler capital expenditure, fears that AI is disrupting the software sector faster than anticipated, and concerns about private credit quality rippling through the financial system. One of the sharper areas of reassessment came most acutely following the release of a thought piece by research firm Citrini contemplating the impacts of future AI developments, shifting the narrative from optimism about AI productivity gains to fears of disruptive labour displacement, particularly for software and data companies. Some traditional safe havens also bucked convention as financial conditions tightened over the quarter, with gold rising and falling alongside the broader market, while bond yields moved higher on heightened fears around the inflationary impacts of war and lofty energy prices.

Central banks navigated a difficult backdrop. The Bank of Canada held its policy rate steady following cuts last year, while the U.S. Federal Reserve stayed on hold as inflation pressures re-emerged from higher oil prices. Longer-dated yields drifted higher in most developed markets as investors priced in a stickier inflation outlook, leaving the overall tone of the quarter one of reassessment rather than advance.

How and What We Did

Our quality-oriented portfolios were, for the most part, unable to keep pace with their benchmarks this quarter, following a difficult year by any measure. The primary headwind over the past year was familiar: momentum-driven markets that rewarded risk-taking over discipline, and concentrated gains in a narrow band of AI-related names. This quarter added a new dimension, as fears of AI-driven disruption spread indiscriminately across software, asset-light businesses, and beyond.

Despite the current environment, we believe quality as an investment style remains enduring. Quality has a strong track record of holding up better than the broader market when conditions begin to deteriorate, and of recovering strongly when fundamentals reassert themselves.

The changes we made to portfolios over the last few quarters fell into broad themes: Conflict in the Middle East/ Rising Geopolitical Risk, AI Disruption (perceived or real), and Broadening Diversification.

Conflict in the Middle East / Rising Geopolitical Risk

Energy and commodities. One of the clearest portfolio implications of the conflict was higher energy exposure across regions. In Canadian equity, our underweight in energy was the primary drag on relative performance as the sector led the benchmark sharply at the onset of the conflict. We reduced that underweight through strong performance in existing holdings and the initiation of one of North America's largest natural gas pipeline and storage operators, which we believe has a strong runway for growth through 2030. In international equity, we introduced an Australian liquified natural gas (LNG) producer, Norwegian oil and gas producer **Equinor**, and Brazilian producer **Prio** to add to energy exposure. In emerging markets, we built our Prio position further and introduced a Malaysian oil and gas company that acquires and operates mature fields from oil majors more cheaply and efficiently, generating profits across a range of price environments.

Defence and resilience. We also benefited from holdings with more direct exposure to rising geopolitical risk. In U.S. equities, portfolio shelter came less from new additions this quarter and more from positioning established earlier. **BWX Technologies**, a nuclear components manufacturer that offers multiple ways to win, has been held since before the Russia-Ukraine war, when the sector was out of favour. Over the last few years, we have also added defence technology provider **CACI** and aerospace and defence manufacturer **Northrop Grumman**. In emerging markets, existing holding **LIG Nex1**, a South Korean guided weapons manufacturer, similarly provided portfolio shelter as tensions rose.

Gold, materials, and inflation beneficiaries. We also added to positions that could help portfolios in a more inflationary and geopolitically unstable environment. In international equity, we added global mining major **BHP Group** for copper and iron ore exposure, along with an Australian gold miner. Within global small cap, we added precious metals asset manager **Sprott**, a gold streaming company, and developer **Skeena** for gold exposure across different business models. Across portfolios, we also continued to hold a number of businesses we believe are relatively well-positioned in a more inflationary environment, including global insurance broker **Aon**, European grocer **Ahold Delhaize**, and distribution specialist **Bunzl**.

Risk reduction. We also made selective trims where we saw greater sensitivity to the second-order effects of conflict and higher oil prices. In international equity, we trimmed an aircraft lessor given aviation logistics risk and reduced **HDFC Bank** on oil price sensitivity in the Indian economy.

AI Disruption: Parsing Risk from Resilience

During the quarter, the market painted a wide range of businesses with the same brush. What began as concern about AI disruption in software spread to insurance brokers, wealth managers, logistics providers, and other asset-light businesses, with many companies treated as guilty until proven innocent regardless of their actual competitive exposure. We were deliberate in distinguishing businesses genuinely at risk from those we believe remain protected by proprietary data, deep workflow integration, client trust, and regulatory moats.

In Canadian equity, e-commerce software provider **Shopify**, two vertical software compounders, and a large Canadian IT consultant were all detractors. We added to Shopify and one of our vertical software holdings on weakness, reflecting our view that both remain deeply embedded in customer workflows. **Brookfield Corporation**, a global alternative asset manager, also weighed on results amid higher interest rates, a risk-off tone, and concerns around private credit. While not a software business, it was also caught in broader market anxiety around capital-intensive AI-related infrastructure and financing.

In U.S. equity, we had already begun reducing exposure to some AI-linked winners prior to the quarter, trimming **Microsoft** and **Amphenol**, a connector manufacturer whose share price had benefited from strong demand for critical AI-related products.

In international equity, we had also reduced the portfolio's exposure to data centre capital expenditure ahead of the quarter, eliminating **Delta Electronics** and cleanroom engineering firm **Acter Group**, while trimming existing positions in other AI supply chain-related companies. During the quarter, we further reduced financial exchange **Deutsche Boerse**.

In emerging markets, we reduced a Chinese video game developer. In global small cap, we reduced weight in Scandinavian IT consultants alongside a vertical market software company.

At the same time, we maintained positions where we continue to see stronger and more defensible competitive advantages. Across international equity and emerging markets, that included **Tencent Holdings Ltd.**, the Chinese internet and online services platform, where we continue to see durable competitive strengths.

Broadening Diversification

Characterized by a more contested and complex global order, we believe that the current environment warrants heightened diversification to manage uncertainty and better withstand a wider range of potential outcomes.

In the Canadian bonds, geopolitical tensions drove interest rates to the upper bound of what we consider fair value, a move we viewed as a reaction to uncertainty rather than a reflection of a durable shift in the economic outlook. In response, we made a tactical adjustment to extend duration modestly, positioning the portfolio to benefit should rates stabilize or reverse. We also continued to refine our positioning along the yield curve, favouring intermediate maturities over shorter-dated bonds on the view that if the Bank of Canada moves to combat inflation more aggressively, shorter-term bonds are likely to underperform. Markets have moved quickly to reprice the rate outlook, shifting from expectations of cuts to the possibility of hikes as energy-driven inflation pressures re-emerge. Unlike 2022, today's Canada is one of weak growth and trade uncertainty, making the inflation pass-through to consumers far less certain and a key dynamic to monitor in the months ahead.

The Balanced strategy entered the quarter with a fairly neutral overall asset mix, consistent with our broader effort to increase diversification and avoid concentrated tilts in an uncertain environment. Over the prior year, we had tilted the portfolio away from U.S. equities on concerns about extended valuations, while also directing proceeds toward global credit to reduce overall portfolio duration and capture yields meaningfully higher than money market alternatives. During the first quarter we restored our neutral equity weight, adding to both U.S. equity and U.S. mid cap while reducing global small cap and, to a lesser extent, international equity. While U.S. valuations remain elevated in absolute terms, valuation is not the only factor we consider. The resilience of U.S. growth, the economy's relative insulation from higher energy costs, and subsiding concerns about the U.S. dollar's reserve currency status all factored into our thinking.

Looking Ahead

In last quarter's newsletter, we noted that the world's economies were being rewired by policy, technology, and the rise of populist politics, and that the combination of industrial-scale AI spending and still-unproven economics raised the risk that expectations might get ahead of reality. The first quarter of 2026 brought several of those tensions into sharper focus.

The most immediate question facing investors concerns the war in the Middle East. Several paths remain plausible: a relatively brief and contained conflict; a more prolonged disruption to energy supply that keeps oil prices elevated and complicates the job of central banks as inflation re-emerges; or a broader escalation that weighs more heavily on the global economy and reshapes the energy and security landscape for longer than markets currently expect.

Stepping back, however, this is not an isolated shock. Assumptions that once felt durable, including stable globalization, low inflation, and low capital intensity, look less reliable today. Supply chains are being tested by geopolitics. Energy, input costs, and other harder assets have reasserted their economic importance. History is clear that periods of economic disruption tend to produce political instability, and political instability tends to produce conflict. We had been positioning our portfolios with that broader pattern in mind well before war broke out in the Middle East.

Our focus remains on the familiar questions: where are the real competitive advantages, how durable are they, what returns can be earned on incremental capital, and are management teams allocating that capital with

discipline? Those questions still anchor our bottom-up process, even if the world around them has become more noisy and more complex.

But it also means adapting. What worked in the prior regime is not a reliable guide to what will work in this one. A different world calls for refinement to the playbook: broader diversification, careful position sizing, and a willingness to respond as probabilities shift rather than anchoring on yesterday's conditions. Patience remains essential, but so does agility when the facts change. "[Nostalgia is not a strategy.](#)"

If there is a steadying thought in all of this, it is that the core drivers of long-term investment results have not changed. Markets will continue to swing between fear and greed. The short-term "voting machine" will often overshadow the long-term "weighing machine". Narratives will periodically run ahead of evidence. Our task is not to predict every headline, but to build resilient portfolios of wealth-creating businesses, bought with discipline, and managed with a clear-eyed view of risk. In a world that is asking more of investors than it did a few years ago, that discipline matters more, not less.

Total Gross Returns (Series O)

For periods ending March 31, 2026

Equity Funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	0.2	0.2	9.5	14.1	8.0	9.0	9.6
International Equity Benchmark*	1.1	1.1	21.1	15.7	9.3	9.1	7.0
Mawer U.S. Equity Fund	-2.4	-2.4	1.5	12.6	10.1	13.1	10.7
S&P 500 Index (TR)	-2.6	-2.6	14.2	19.5	14.4	15.0	11.2
Mawer U.S. Mid Cap Equity Fund	3.5	3.5	9.7	10.9	-	-	6.3
Russell Midcap Index (TR)	3.1	3.1	12.5	14.5	-	-	8.2
Mawer Global Equity Fund	-3.8	-3.8	-1.3	6.0	6.7	9.8	11.8
Global Equity Benchmark*	-1.5	-1.5	16.4	17.8	11.8	12.1	11.8
Mawer Global Small Cap Fund	-4.9	-4.9	3.4	4.7	0.9	7.6	11.0
Global Small Cap Benchmark*	2.9	2.9	22.2	14.6	7.9	10.3	8.0
Mawer Emerging Markets Equity Fund	-1.8	-1.8	25.7	19.7	6.6	-	8.8
MSCI Emerging Markets Index (net)	1.6	1.6	25.6	16.0	5.9	-	8.1
Mawer EAFE Large Cap Fund	-0.8	-0.8	9.6	11.1	8.2	-	9.6
MSCI EAFE Index (net)	0.5	0.5	17.6	14.8	10.2	-	11.8
Mawer Canadian Equity Fund	2.7	2.7	21.7	15.6	12.2	10.7	10.8
S&P/TSX Composite Index	3.9	3.9	34.8	21.2	15.2	12.6	9.3
Mawer New Canada Fund	2.4	2.4	20.8	13.8	6.8	10.2	13.2
New Canada Benchmark*	11.4	11.4	65.8	25.8	15.7	12.1	8.5
Balanced Funds							
Mawer Global Balanced Fund	-2.4	-2.4	-0.4	5.3	4.9	6.9	8.3
Internal Global Balanced Benchmark*	-0.7	-0.7	10.2	12.1	7.4	8.0	8.6
Mawer Balanced Fund	0.2	0.2	7.3	9.6	5.9	7.3	8.0
Internal Balanced Benchmark*	1.6	1.6	16.9	13.0	8.2	8.1	7.0
Mawer Tax Effective Balanced Fund	0.2	0.2	7.4	9.6	5.9	7.3	8.0
Internal Tax Effective Balanced Benchmark*	1.6	1.6	16.9	13.0	8.2	8.1	6.9
Income funds							
Mawer Global Credit Opportunities Fund	1.0	1.0	3.9	-	-	-	4.8
ICE BofA Global Corporate & High Yield Index	-0.9	-0.9	3.0	-	-	-	3.7
Mawer Canadian Bond Fund	0.2	0.2	0.9	3.8	0.9	1.9	3.7
FTSE Canada Universe Bond Index	0.2	0.2	0.8	3.5	0.7	1.8	3.6
Mawer Canadian Money Market Fund	0.6	0.6	2.5	3.8	2.8	1.8	1.6
FTSE Canada 91 Day TBill Index	0.5	0.5	2.5	3.9	3.0	2.0	1.8

*Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. O-Series returns for the Mawer Mutual Funds are reported in Canadian dollars and calculated before management fees and after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

Total Net Returns (Series A)

For periods ending March 31, 2026

Equity Funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	-0.1	-0.1	8.0	12.5	6.6	7.5	8.0
International Equity Benchmark*	1.1	1.1	21.1	15.7	9.3	9.1	6.0
Mawer U.S. Equity Fund	-2.7	-2.7	0.4	11.3	8.9	11.8	8.6
S&P 500 Index	-2.6	-2.6	14.2	19.5	14.4	15.0	10.9
Mawer U.S. Mid Cap Equity Fund	3.2	3.2	8.2	9.4	-	-	4.9
Russell Midcap Index (TR)	3.1	3.1	12.5	14.5	-	-	8.2
Mawer Global Equity Fund	-4.2	-4.2	-2.6	4.6	5.4	8.4	10.3
Global Equity Benchmark*	-1.5	-1.5	16.4	17.8	11.8	12.1	11.8
Mawer Global Small Cap Fund	-5.3	-5.3	1.7	2.9	-0.8	5.8	9.1
Global Small Cap Benchmark*	2.9	2.9	22.2	14.6	7.9	10.3	8.0
Mawer Emerging Markets Equity Fund	-2.1	-2.1	23.8	17.9	5.0	-	7.1
MSCI Emerging Markets Index (net)	1.6	1.6	25.6	16.0	5.9	-	8.1
Mawer EAFE Large Cap Fund	-1.1	-1.1	8.2	9.7	6.8	-	8.2
MSCI EAFE Index (net)	0.5	0.5	17.6	14.8	10.2	-	11.8
Mawer Canadian Equity Fund	2.4	2.4	20.3	14.3	10.9	9.4	9.5
S&P/TSX Composite Index	3.9	3.9	34.8	21.2	15.2	12.6	9.3
Mawer New Canada Fund	2.1	2.1	19.2	12.3	5.3	8.7	12.7
New Canada Benchmark*	11.4	11.4	65.8	25.8	15.7	12.1	8.7
Balanced Funds							
Mawer Global Balanced Fund	-2.6	-2.6	-1.5	4.1	3.8	5.8	7.1
Internal Global Balanced Benchmark*	-0.7	-0.7	10.2	12.1	7.4	8.0	8.6
Mawer Balanced Fund	0.0	0.0	6.3	8.6	5.0	6.4	8.0
Internal Balanced Benchmark*	1.6	1.6	16.9	13.0	8.2	8.1	8.0
Mawer Tax Effective Balanced Fund	0.0	0.0	6.5	8.7	5.0	6.4	7.6
Internal Tax Effective Balanced Benchmark*	1.6	1.6	16.9	13.0	8.2	8.1	8.0
Income Funds							
Mawer Global Credit Opportunities Fund	0.8	0.8	3.0	-	-	-	3.9
ICE BofA Global Corporate & High Yield Index	-0.9	-0.9	3.0	-	-	-	3.7
Mawer Canadian Bond Fund	0.0	0.0	0.2	3.0	0.3	1.2	4.8
FTSE Canada Universe Bond Index	0.2	0.2	0.8	3.5	0.7	1.8	5.8
Mawer Canadian Money Market Fund	0.5	0.5	2.0	3.3	2.4	1.4	3.0
FTSE Canada 91 Day TBill Index	0.5	0.5	2.5	3.9	3.0	2.0	3.7

*Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. A-Series returns for the Mawer Mutual Funds are reported in Canadian dollars and calculated after management fees and after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

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