



[00:00] [Andrew Johnson] [AJ] Hi, everyone. The stock market here in Canada has notched several record highs across multiple sessions so far in 2026, even as the economy itself may not feel the same way. In today's episode, I sit down with Mark Rutherford, who runs our Canadian equity portfolio, to dig into the gap between the two.

What's really driving this market? Why having a much higher weight in one sector than the index is actually more diversified, not less? And what the wild year in gold has taught him about sizing a position. Enjoy.

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[00:50] [AJ] Welcome back to the podcast, Mark. How are you?

[00:52] [Mark Rutherford] [MR] Good. How are you?

[00:54] [AJ] I'm doing well. It's good to have you back on. I wanted to jump right into it because I need you to help me figure something out.

We've got this economy here in Canada that feels, let's say, soft right now. Housing is weaker. We're at the very least flirting with a recession, although no one wants to say that word.

And yet the market has hit several record highs so far this year. So, what am I missing?

[01:20] [MR] It's a unique situation in Canada. People might see or feel day-to-day in their lives, in terms of the labor market or immigration growth in Canada has really slowed, or the housing market. That is a pretty big disconnect with what we see as the fundamental earnings drivers in the market.

People will know that the commodity sector, with energy and materials names, is a large portion of the market in Canada. A very small amount of the population works in them, but it's a very large contributor to corporate earnings in Canada.

That is driving a large proportion of returns over the last year, as well as banks, while they're not growing rapidly in Canada in terms of loans, the wealth management business is doing really well. And so are the capital markets businesses, as they're a little bit more diversified outside of Canada and broadly pick up global market strength.



That's really at the core of the big disconnect that you might see or feel when people are talking about Canada bumping around 0% real economic growth.

[02:34] [AJ] So it's the old "the economy is not the stock market, the stock market is not the economy." And in a way, they are each telling completely different stories.

And a big part of what's carrying the market, as you said, is the banks, which leads me to something that comes up in client conversations about how we're positioned. If you look at the portfolio, the most recent number I saw was 38% in financials. That's even more than the index.

On paper, that looks like one big bet. And it actually looks more concentrated, not less, than the index. So walk us through how that's considered a diversified position from your standpoint.

[03:13] [MR] It's important to note the diversification amongst the various sectors within the TSX can vary quite a bit over time. If we were having this conversation in 2020, you'd be looking at much lower weights in financials and across commodities. That's totally flipped a few years later.

As we peek under the hood, within financials specifically there are really a few categories. There are banks, which are just over 20% of the market. There are life insurance companies, property and casualty insurance companies, alternative asset managers, and then we also have exchanges.

When we look under the hood, we have identified in the Canadian equity strategy a number of companies that, in their own right, we think are great wealth-creating companies. They outpace their cost of capital, whether that's exchange operators in Canada or private equity alternative asset managers such as Brookfield. Each of those companies provides a unique correlation, a unique exposure, and driver of the underlying returns.

While it all might get lumped together in the financial sector, broadly under the surface it has very different underlying exposure. And if we look at a precious metals asset manager in Canada, such as Sprott, that's a business that's really driven by flows into their leading gold, silver, copper, uranium, and physical trusts. So that's a financial, but it's really a wealth management business and an asset management business.

That's a very different return than the investment bank at Royal Bank of Canada, and what drives it is going to be a little bit more pro-cyclical. So when we identify all these, we do them on a bottom-up basis—that's our process here. Then we stack up how those look relative to one another.

The nice thing about having really a range of these within our financials exposure is that if there's strength in one and weakness in another, we can quickly shift. We know all of those businesses very well and can adapt to the environment.

One thing I'd point out, just within the insurance versus the banks: P&C insurers, such as Intact or Fairfax Financial, have much different underlying return drivers than more pro-cyclical banks. At Intact, for example, they're much more geared towards underwriting profitability, growth of insurance premiums, and a little bit of performance on the investment float they earn, but that's fairly conservatively invested. That's just a much different exposure than the banks, where, being pro-



cyclical, they want loan growth, a steep yield curve, and really robust capital markets activity.

As we stack it all up, the exposure today is somewhat a function of what's done well in markets. You see Royal Bank and TD at top weights in the portfolio; they deserve that, and they've earned the right to be there. But since they've gone up so much—and we can get into this more—we have recycled some of that capital into other areas.

[06:35] [AJ] I'd love to hear more about the work that you've done to kind of rotate the exposure within the financials. You touched on it already, but you can't escape the interest rate conversation when you're talking about financials.

Maybe you can talk a little bit more about how rates don't even hit all of those businesses the same way.

[06:53] [MR] Sure. One area that we've recently recycled some capital into has just been the P&C insurance companies. We've seen a similar increase in return on equity over the last few years, and structurally these businesses appear a lot more profitable than they were.

That appears reasonably likely within this range to be sustainable. They continue to have growth opportunities, and they're trading at lower valuations and attractive returns. Our assessment is the return there is a little more attractive than what we've seen in the last couple years. The banks are really the opposite.

Historically, the banks in Canada have traded from 10 to 12 times earnings, and in the last year, year and a half, they have re-rated to closer to 15 to 16 times earnings. Similar story there—their return on equity is a lot higher now, and that's partly a function of the wealth and capital markets businesses growing and being a bigger portion of their total profits. Wealth is a very attractive business. There are nice annual tailwinds. They can grow and take on new clients, and it's capital-light for the banks, so they don't require much regulatory capital, because the banks aren't putting their own capital at risk taking on new wealth clients.

The flip side of that is you're paying 15 to 16 times. And the markets sell off a tremendous amount, the banks are very exposed there, as it's directly correlated to revenue. So that's one area.

We've also just found some idiosyncratic opportunities within alternative asset managers in Canada that we think are very well-positioned to do well over the next 2-3 years. We've continued to slightly adjust as the banks positions have become much larger weights in the portfolio.

[08:47] [AJ] So even though this all shows up on the page, as you said, just as one word, financials, underneath you've got businesses that can move in opposite directions at times. So that's the what-you-own side of it. The other side is what you actually do with something once you're in it.

I want to pivot to gold, because I think it's a good example to explore this topic. You gained exposure there for further diversification and some hedging, and then you trimmed some back as it ran. How do you think about taking profits on a winner like that? And what lesson is in there on not letting any one position or exposure get too big?



[09:26] [MR] For context, since the first half of 2025, we've started adding more gold exposure to the portfolio through royalty businesses and Agnico Eagle. The thesis there is—at current prices—trying not to make a call on where gold is going, but at current prices—their returns are a lot more attractive. They're largely debt-free businesses, and they're going to generate significant free cash flow that they can then return to shareholders.

They appear to be slightly more disciplined than in the past in terms of doing M&A just for the sake of getting bigger. We like that setup, and it has the added benefit, from a portfolio construction point of view, of providing just a different correlation. Gold is a little bit unique in that the correlation can often change. Sometimes gold can act as a very risk-on, beta type asset, but it can also act as a much more defensive, uncorrelated asset at times. That's the benefit. The challenge is that that correlation changes over time.

We built that up based on improving economics and fundamentals for these companies. As it's rallied, the combined weight in the portfolio grew to around 12%. It's getting to be a larger weight, especially as gold was approaching \$5,000 an ounce earlier this year. In conjunction with that, the Iran conflict changed the outlook for a couple things over the short to medium term, namely interest rates and the likelihood that central banks may be cutting rates.

The market appears to be more concerned now that there won't be near-term rate cuts, and gold often performs better when the market thinks the Fed is about to cut rates. In a low-rate environment, gold can be more attractive, versus now, where central banks are likely on hold for the short to medium term and we're seeing higher inflation creep into the numbers.

That gave us some pause earlier this year. On top of that, the companies are noting that even amongst their own operations they are seeing some moderate to high levels of inflation.

Think of all the gold and materials companies globally. A lot of them have raised money over the past one to five years in the higher price environment, and now they're really starting to deploy that capital to restart brownfield mines, develop new greenfield mines, and that capital is now working its way through the system.

The mining industry is not the largest industry in the world, so that's having an impact on labor rates and suppliers. And a lot of the businesses are heavy users of fuel at some of the mine sites, just given the remote nature. When we combine all that—a different rate picture, valuations that had run up, and some inflation creeping into the numbers—we've trimmed back the position slightly and still hold a reasonable-sized weight in the portfolio.

Even at \$4,000 and \$3,500 an ounce, we're seeing attractive returns through DCF models. It's really just trying to adjust the portfolio and stay on top of these positions as factors outside of the business, whether it's inflation or interest rates, define what their unit economics will look like going forward.

[13:08] [AJ] This is another great example of what we just talked about within financials, in that, within a narrow lane, you can gain exposure to different return profiles. In this case, you can do it through a streaming or a royalty business, you can do it through a mining business, or, in the case of Sprott, it sits



in financials but has exposure to a similar driver. So you get a mix of business models within the space.

If there's one thing that I've learned in talking with you and others on the team over the years, it's very much what you just described: the discipline is as much about trimming the winners and getting positions right as it is about finding the winners in the first place.

This feels like a good place to step back and ask a final question for you to take in any direction, Mark. If someone takes just one idea about diversification away from this conversation—for really any market, not only Canada—what's the biggest trap that you tell them to avoid?

[14:10] [MR] It's a great topic and question. From our perspective, my observation is really that over the last 10 years, the indexes have become the highly concentrated vehicles to invest in.

And you see that with the Mag 7 and the technology concentration in the U.S. market. I joke that the rest of the world has become more like Canada because Canada has always been known as a bit more concentrated in terms of financials and commodity exposure.

But now, across a number of markets, the index is the highly concentrated vehicle, with a few drivers and a few themes pushing mega-cap stocks in the same direction. So it's just important for investors to be aware of what their exposures are.

There's no right or wrong in terms of whether you want a highly concentrated exposure, but to know that that's what the indexes are comprised of today. The process and really the philosophy here, is bottom-up. We're looking at building brick-by-brick, these broadly diversified portfolios of wealth-creating companies that are providing unique exposures.

They're still going to be correlated to the broader market, but we're doing it in a way that provides just a lot more diversification over time. Ultimately, we believe that's going to result in superior results and superior returns. And that will take time, but long term that's one of our core values.

It's a really important part to note when people are thinking about just the traps of looking at some of the labels on the market in terms of how diversified they are. There's a need to look under the hood and then compare something like Canadian equity strategy or other strategies at Mawer to indexes in the market.

There's no right or wrong answer— maybe both are a solution—but the indexes have just become much more concentrated over time.

An opportunity for us and a lot of other investors that are pursuing a little bit more broad diversification and finding still the same return or better return perspective investments, but just in different companies that aren't the top weights in the market.

[16:28] [AJ] You're touching on a topic that a lot of people are opening their eyes to these days. Let's say that it's really about just making sure that you're aware of what your exposures are and then making sure that those exposures are deliberate, rather than just accepting what maybe an index is giving you on any given day or any given timeline.



Mark, we've covered quite a bit of ground here. I always appreciate your time and your insights into the portfolio and investing in general, so thanks for joining.

[16:57] [MR] Thanks, Andrew.

[16:58] [AJ] Hey everyone, Andrew here again. To subscribe to the Art of Boring podcast, go to mawer.com. That's M-A-W-E-R dot com, forward slash podcast or wherever you download your podcasts. If you enjoyed this episode, leave a review on iTunes, which will help more people discover the be boring, make money philosophy. Thanks for listening.

Companies Mentioned:

Royal Bank of Canada (Royal Bank)

TD (TD Bank)

Brookfield

Sprott

Intact

Fairfax Financial

Agnico Eagle