

Equity Team commentary: Geopolitics, commodities, and sector divergence

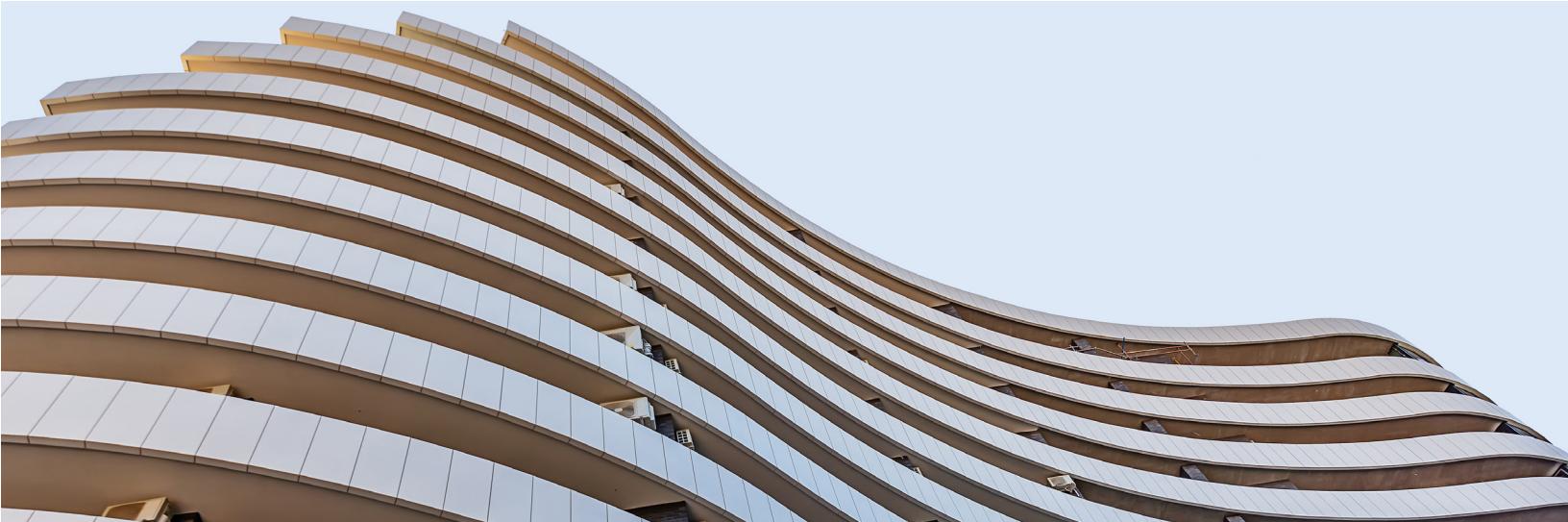
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Key takeaways

- Geopolitical events, including the US capture of Nicolas Maduro, led to volatility in commodity markets, especially oil and precious metals.
- Gold and silver experienced dramatic price swings due to speculative activity, changing economic indicators, and policy expectations.
- Equity markets remained resilient, with sector-specific performance diverging, notably between semiconductors/hardware and software.
- The outlook for 2026 is positive for select industrials, defense, and housing-related sectors, but caution remains due to ongoing macroeconomic uncertainties.

January began with a dramatic event — the US capture of Venezuelan leader Nicolas Maduro — which set the stage for heightened geopolitical tensions throughout the month, including notable developments in Greenland and Iran. These events significantly affected the commodity sector, while broader equity markets demonstrated resilience, supported by improving economic indicators. In January, the S&P 500 rose 1.4%, the Nasdaq gained 1.0%, and the S&P/TSX Index underperformed with a 0.7% increase. Towards the end of the month, market sentiment weakened as disappointing technology and software earnings impacted performance, and precious metals, after an early surge, experienced the largest two-day decline in decades.

Oil sector implications of Maduro capture

The capture of Nicolas Maduro in early January had significant implications for global energy markets. Prior to this event, WTI prices declined but remained relatively stable afterward. US energy companies and refiners rallied, while Canadian energy stocks — particularly those exposed to Western Canadian Select (WCS) — declined as the WTI-WCS differential widened. Venezuela, which holds the world's largest oil reserves and once produced over 3 million barrels per day (bpd), has seen output fall below 1 million bpd in recent years due to sanctions, corruption, and underinvestment. Restoring Venezuela's oil sector to previous capacity may require up to \$100 billion in capital expenditure and several years of rebuilding.

Despite the potential, American energy companies are likely to remain cautious about investing in Venezuela until there is greater political stability and financial assurances, given past challenges in the region. Currently, Chevron is the only US company operating in Venezuela, with plans to increase production only marginally. While a rapid return to 3 million bpd is unlikely, incremental production gains are expected in the near term, with additional volumes likely headed to the US Gulf Coast. This poses a direct competitive threat to Canadian heavy crude, which is geologically similar to Venezuelan oil. Although a few hundred thousand additional barrels of Venezuelan crude will not displace Canadian heavy outright, increased availability of heavy barrels is expected to continue putting pressure on WCS pricing, driving a wider discount at the margin. In Canada, we continue to favour integrated companies such as Suncor, gas infrastructure companies such as TC Energy and Keyera, and conventional oil plays with little exposure to heavy differentials.

Double-edged volatility in gold and silver

A heightened focus on geopolitical risk drove gold and other precious metals sharply higher at the start of the year. Gold prices surged by 65% in 2025 and climbed an additional 25% in January, reaching a peak of \$5,500/oz (USD). However, gold's rally was overshadowed by an even more dramatic move in silver. In January, silver rose 62% to a high of \$116/oz (USD) on January 28, before dropping 27% in a single day on January 30. Both gold and silver benefited from the US dollar debasement trade, which gained momentum as geopolitical tensions and expectations of lower US interest rates fueled steady buying. Silver also received support from speculative inventory buildup, as investors anticipated it might be designated a critical mineral and subject to Section 232 tariffs by the Trump administration. When these tariffs did not materialize, the market braced for increased silver supply, triggering an initial unwind in silver prices.

The sell-off in silver accelerated dramatically on January 30, following a higher-than-expected inflation (PPI) reading and the unexpected nomination of Kevin Warsh as the next Fed Chair. Warsh is perceived as more hawkish than other candidates, which prompted a rally in the US dollar and sharp declines in gold, silver, and bitcoin.

We believe that the strength in precious metals in early January was largely speculative, driven by significant retail buying. As a result, it may take time for these positions to settle. While dollar debasement could continue to support demand for gold, some of its appeal as a risk-off asset has diminished in the near term. Our portfolios remain selectively exposed to well-managed gold companies in attractive jurisdictions, while being underweight in silver exposure.

Equity market is resilient, but requires selectivity

Despite ongoing geopolitical risks and volatility in commodity markets, equities have adopted a risk-on posture, supported by improving economic data and robust activity. We remain optimistic about the global growth outlook, as the lagged effects of policy rate cuts, ongoing fiscal stimulus, and powerful secular trends — such as artificial intelligence and increased military spending — continue to support risk assets. The global manufacturing recovery is gaining momentum, with positive surprises in non-defense capital goods and machinery orders. This signals a broadening of equity market leadership beyond the Technology sector, including Industrials and Consumer Discretionary.

Looking ahead to 2026, we believe that select sub-sectors within Industrials, such as freight and transportation, are well positioned for a cyclical recovery following several years of freight recession. Meanwhile, other areas — including defense and engineering and construction — stand to benefit structurally from substantial fiscal spending commitments that have been announced. The housing sector, which has remained subdued since the peak of the pandemic, may begin to stabilize as lower interest rates and supportive policies in both Canada and the US aim to address affordability challenges. A rebound in housing would have positive implications for materials, building products, construction, and financing sectors, including banks. While the macroeconomic environment is showing signs of improvement, underlying business fundamentals have yet to turn decisively. We will continue to closely monitor these developments for emerging opportunities.

Within the technology sector, performance has diverged sharply. In January, semiconductors and hardware posted average gains of over 5%, while software companies declined by approximately 10%. Semiconductors and hardware continue to benefit from significant capital expenditure commitments by hyper-scalers investing in AI infrastructure — a level of investment not seen since the 1990s. In contrast, software has been weighed down by persistent concerns about AI-driven disruption, a narrative that has dominated the market for the past six months. Since the end of July, software has underperformed the broader technology sector by 30%, with the decline almost entirely due to multiple compression as investors reassessed the long-term value of these businesses. As is often the case, the market reacts swiftly, with deeper analysis following later.

We believe that this negative narrative will be difficult to overturn in the near term. For example, fourth quarter results from companies such as Microsoft, SAP, and ServiceNow came in only 1-2% below expectations, yet their stocks sold off by more than 10%. Ultimately, we expect the software sector to produce both winners and losers. Companies that possess unique data and capabilities, and can successfully adapt to the evolving competitive landscape by integrating and leveraging AI internally, are more likely to emerge stronger. In particular, we believe the risk of disruption has been overstated for Constellation Software (CSU), a vertical market software provider with thousands of products across numerous industries. CSU's diversified portfolio reduces exposure to any single disruptive product and facilitates the sharing of best practices related to AI across its business units. Additionally, Constellation's software offerings tend to be highly sticky, given their mission-critical nature. While disproving a negative thesis will take time, the company's strong cash flow generation and attractive valuation — as demonstrated by an all-time high free cash flow yield of 8% — should provide some downside support.

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