

April 2026 Financial Planning Email Update

In early March the United States and Israel began a war with Iran which quickly involved all of the middle eastern countries. Historically, a military conflict alone does not have serious negative consequences as markets are primarily following economic activity, corporate earnings, equity valuations, inflation and interest rates. When analyzing the market reaction after eight major conflicts over the past 36 years, starting with the Gulf War in 1990 through last year's U.S. and Israeli attack on Iran the S&P 500 fell an average of just 0.37 per cent within a week of the conflict's starting date and was up 0.5 per cent on average within a month. It therefore generally pays off for investors to sit on their hands during times like these, even when uncertainty is gripping our emotions and stock markets turn volatile.

One of our highly recommended Portfolio Manager's Dan Dupont of Fidelity Investments views the recent geopolitical events as important to monitor but not material enough to alter the portfolio's core thesis. He continues to follow his disciplined process and is closely monitoring markets for signs of excessive fear, mispricing, or forced selling that could create a buying opportunity.

Dan's current positioning remains defensive and selective. The portfolio is concentrated in companies with strong balance sheets, durable free cash flow profiles, pricing power, and stable demand characteristics—businesses he believes can absorb geopolitical or macro driven volatility without compromising fundamental value. He continues to prefer resilience over cyclicity, is maintaining targeted international exposure where valuations better reflect economic realities and is selectively using merger arbitrage as a complementary return stream. Dan also sees emerging opportunities in established software and technology related services that have undergone meaningful valuation resets, though he is deploying capital gradually given the uncertain macro and geopolitical backdrop.

While acknowledging that tensions in the Middle East naturally raise questions around oil supply stability, Fidelity Investments Chief Investment Officer and Portfolio Manager Andrew Marchese notes that history suggests markets often overestimate the likelihood of prolonged disruption. Barring an unforeseen and significant escalation, he does not expect sustained impairment to shipping through the Strait of Hormuz, nor a multi-year spike in oil prices directly driven by conflict. Higher oil prices are part of his broader investment thesis, but for structural—not geopolitical—reasons tied to underinvestment, supply constraints, and long-term demand trends. These developments have not led him to change his positioning or strategic outlook. Instead, he sees the potential for short term volatility to create buying opportunities, particularly in non-oil exposed names where any selloff driven by headline anxiety might be temporary and disconnected from fundamentals. From his perspective, the underlying positive economic and market cycle remains intact, and near-term geopolitical turbulence does not materially alter the constructive backdrop he continues to see for investments assets.

From a positioning standpoint, Andrew remains focused on the same pillars guiding his broader 2026 outlook: resilient corporate profits, supportive financial conditions, and attractive opportunities tied to secular themes such as AI, industrial investment, and hard asset demand. His allocation continues to favour high quality businesses with durable earnings streams, strong balance sheets, and exposure to longer duration structural trends, while maintaining a balanced perspective on cyclicals that stand to benefit from improving early cycle dynamics. In short, the

geopolitical developments warrant vigilance, but they have not shifted his positioning, nor shaken his confidence in the underlying trajectory of markets.

When unpacking the impact of the current conflict in the Middle East, Fidelity Investments Equity Research Analyst covering Energy Jin Hwang outlines that while Iran produces roughly 3% of global crude, (most of which is exported to China) the market is currently far less focused on Iranian production than on the strategic importance of the Strait of Hormuz. Approximately 20% of global crude and liquid natural gas (LNG) shipments move through this narrow passage, and the key risk is a potential disruption should Iran escalate and attempt to restrict transit. Although the strait remains technically open, commercial traffic has effectively stalled as recent attacks on several tankers and the withdrawal or repricing of marine insurance have made shipowners unwilling to transit the area.

Jin emphasizes that the oil market is focused less on the broader geopolitical conflict and more on the duration of any impairment to the strait. While the conflict itself may persist without a clear diplomatic off ramp, the strait could normalize sooner. Energy equities historically rally ahead of geopolitical events and then underperform once the event materializes.

I recently attended an update by another of our highly recommended Portfolio Manager's Kevin McSweeney, MBA, CFA SVP, Portfolio Manager & Lead for Canadian Equities at CI Global Asset Management.

The following are the major topics and important points raised in Kevin's presentation.

1. Interest Rates & Inflation

- Markets are pricing a **40% chance of a rate hike in late 2026**.
- Rising inflation and continued government spending are key drivers.
- The economic backdrop suggests **higher-for-longer rates** remain a possibility.

2. Canada's "K-Shaped" Economy

- Income inequality widening, with Canada now resembling the U.S. pattern.
- **Top earners saving more**, which supports **capital markets and equity valuations**.
- K-shaped implies rich get richer and the poor get poorer.
- Lower-income households spending less, which helps moderate inflation.

3. Asset Allocation Themes

Underweight Government Bonds

- Governments—especially the U.S.—are becoming **weaker credit counterparties**.
- U.S. debt-to-GDP around **120%**, deficit ~6%, interest expense over **\$1 Trillion per year**.

Preference for **corporate credit (investment grade & high yield)** over government bonds:
Companies are deleveraging (lower debt).

Getting **paid more for better credit quality** vs. lending to governments.

High Yield

- Attractive risk/reward: ~6.5–7% yields with **lower duration**.
- Default cycle remains benign given strong fiscal stimulus.
- CI's high-yield team historically delivers **one-third the default rate** of the market.

4. Equities & Sector Views

Canada

- Overweight Canada due to attractive valuations and improving foreign capital flows. As of December 31st, 2025 the average Canadian Equity fund was underweight Materials, which has ~doubled in the past year.
- CI Select Canadian Equity Fund, which is the basis for the equity portion of CI Canadian Income & Growth Fund, was overweight materials because of direct engagement with our internal research team and familiarity with the names.
- Materials and gold names outperforming; many managers remain underweight.
- Canadian banks now fairly valued after rally; trimming positions.
- Adding insurance companies and select U.S. banks.
- Geopolitics and US Trade policies remain a wildcard (to say the least!), and sentiment has NOT priced much of this into valuation.

5. Technology

- Underweight due to extreme valuations and crowding.
- AI enthusiasm is high, but monetization remains unclear.
- Eventually, “**everything becomes a toaster**”—advantages get competed away.

6. Energy & Utilities

- Small overweight energy for valuation and geopolitical hedging.

Foreigners returning due to: Banking system stability.

Strong materials sector.

Canada as a **safer, cheaper alternative** to U.S. equities.

7. CI Portfolio Positioning & Process

Balanced strategies doing: **Max equity** until recently, now considering shifting marginally into credit.

Persistent **underweight in government bonds**.

Overweight higher-quality corporates.

Process driven by disciplined **macro and asset-allocation meetings every six weeks.**

Equity sleeves benefit from overweight materials, Shopify, energy, and select banks.

8. Featured CI Strategies

CI Canadian Income & Growth

- ~60/40 balanced mandate with a **Canadian bias.**
- Overweight Canada today due to valuation, not structural preference.
- Current distribution yield: **~5.65%.**
- Long-term outperformance across 3 year, 5 year and 10 year horizons.

CI High Income Fund

- Designed explicitly for **high monthly income (7% distribution).**

Composition: Global infrastructure (~23%)

Real estate (~20%)

- Strong conviction in **Alberta power & gas** investment thesis: emerging hub for data centres + sovereign AI needs.
- **Bell:** dividend cut priced in; now more investable.
- **Telus:** contrarian opportunity; improving focus and capital discipline.
- Avoiding **Rogers** due to governance concerns.

9. Significant Structural Trend: GIC Outflows

Savings/interest product rates will remain structurally low, causing demand for equities from income-seeking investors.

- GIC balances peaked near **\$1Trillion**; now down to **~\$935 Billion.**
- Approximately \$43 Billion already rotated out as rates decline.
- A **potential \$400 Billion+ rotation** out of GICs over coming years could support Canadian equities and balanced funds.

10. Foreign Investment Flows into Canada

- After large outflows in 2023 (housing issues, rate spikes), flows turned **positive** by late 2025.

11. Additional Insights

- Real estate: Canadian REITs trading at an **18% discount to NAV.** Real Estate Trading at an 18% discount to Net Asset Value... This historically indicates a very attractive time to invest

- Potential takeout opportunities (especially multi-family).
- Global Infrastructure: Now at a **5.5x P/E discount** to S&P 500 vs. historical **1x premium**.
- High-quality cash flow; major reallocations likely if valuation gap narrows.
- The Canadian economy is going to remain weak, with reasons for hope (consumer and government spending, investment) and concern (trade, USMCA renegotiation, war in middle east)
- Lowering interest rates is going to slow materially from the steady decrease in 2025 and could experience a reversal in sentiment by the end of 2026. This due to inflation and government spending.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary



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