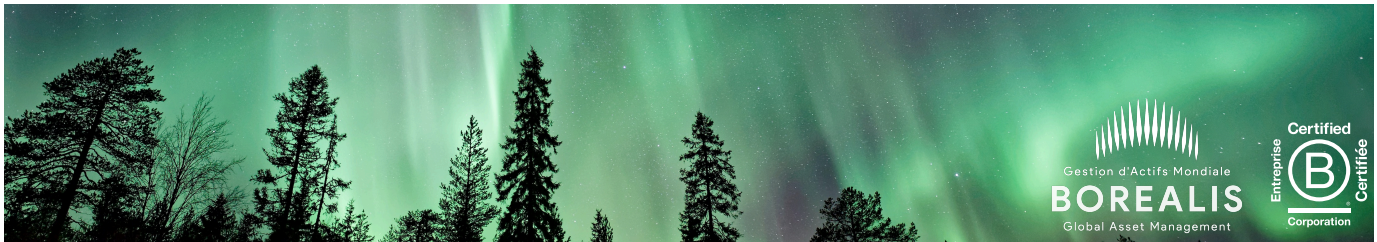


# BOREALIS GLOBAL MIDCAP EQUITY STRATEGY



**Q1  
2026**

## **GEOPOLITICAL SHOCKS, SHADOW DEBT, AND THE AI REALITY**

### **Real Economy hit the Pause Button**

While the U.S. began 2026 with the appearance of resilient wages and robust corporate capex, the "illusion of the average consumer" is becoming increasingly difficult to ignore. Beneath the surface, financial distress is mounting among vulnerable populations. U.S. credit card debt has reached a record \$1.28 trillion, while delinquencies for Gen Z are rising at a steady and concerning pace. This fragility is further obscured by a sharp rise in "shadow debt" through Buy Now, Pay Later (BNPL) schemes, which young consumers are leveraging as an emergency bridge between paychecks rather than a mere convenience.

Internationally, the landscape is defined by sharp contrasts. In Germany, increased government spending is finally fueling a nascent industrial recovery, supported by successive rate cuts from the ECB that have eased lending conditions. Conversely, France remains trapped in a negative feedback loop; the country desperately needs structural reforms, but a deeply fractured parliament guarantees gridlock until the 2027 presidential elections, leaving the economy to "muddle through" in the coming months.

While overall negative pre-announcements across the broader market remain scarce, recent high-profile profit warnings have signaled trouble. Companies are citing logistic delays, ingredient shortages, elevated labor and energy costs, delayed spending decisions, and the rising impact of cyberattacks. In this context, we expect companies to remain cautious when updating annual forecasts, which will likely lead to downward revisions in earnings growth across the broader market.

### **Market Performance**

The first quarter of 2026 began with a deceptive tranquility that was violently upended in late February by the outbreak of conflict in the Middle East. The subsequent closure of the Strait of Hormuz—the primary artery for global oil and LNG—triggered a historic supply shock, sending Brent crude surging 63% in March alone. This geopolitical crisis turned an optimistic equity market into a volatile arena, exposing a vast divide in sectoral performance.

This quarter also witnessed extreme internal divergence driven by the transition of artificial intelligence from a future thesis into an operational reality. As agentic AI systems began writing code and automating complex enterprise tasks, investors fiercely questioned the long-term viability and valuations of traditional SaaS models, causing the software sector to experience a brutal 30% sell-off. In sharp contrast, the tech hardware and equipment sector surged 16.02%, benefiting from the massive infrastructure requirements necessary to support this sudden shift in AI capacity.

Simultaneously, a sudden surge in the U.S. dollar and the repricing of bond yields created additional headwinds for global equities, allowing the Value segment to drastically outperform the Growth segment. The MSCI World Mid Value index rose 2.49% over the period, while the MSCI World Mid Growth declined 2.80%. This macro-driven divergence was most evident within the consumer segment, where defensive Consumer Staples posted a positive return of 1.84%, dramatically outperforming Consumer Discretionary, which tumbled 7.49%.

While North American and European markets struggled with negative returns, the strongest results (measured in Canadian dollars) were found in Japan, emerging markets, and Asia.

## Strategy and Positioning

As of March 31, 2026, the portfolio maintained an overweight in European markets, a slight overweight in North America, and a persistent under-exposure to Asia. Sector-wise, the portfolio remains strongly exposed to Industrials, Healthcare, and Consumer Discretionary, with a purposeful overweight in U.S. regional banks. We hold zero exposure to the Telecommunications and Energy sectors. Early in the quarter, we continued to take profit in industrial and redeploy in more defensive positions.

During the quarter, our best-performing stocks were driven by momentum in the industrial, materials, and banking sectors. Lattice Semiconductor (LSCC), Nextpower (NXT), Steel Dynamics (STLD), and KeyCorp (KEY) were the top contributors to the portfolio. Conversely, our bottom performers included Japanese holdings Yaskawa Electric and Monotaro, as well as American Water Works (AWK), which heavily weighed on results.

At the end of the quarter, the portfolio held 49 positions. In Canadian dollars, the average market capitalization was \$22.5 billion, and the median capitalization was \$17 billion. The top 15 positions represented 45% of the total portfolio value. This relative concentration remains the primary factor of portfolio volatility.

## Outlook: A Forced Transition

The global economic trajectory for the remainder of 2026 now hinges on the duration of the conflict in the Middle East, forcing central banks to remain cautious. A prolonged disruption in the Strait of Hormuz would further weaken energy markets, global supply chains, and fertilizer availability. This crisis has established a sharp divide between oil producers with diversified economies—such as Norway, Canada, and the U.S.—which benefit from a natural economic buffer, and oil-importing nations for whom this strait remains a vital artery. For China, this acute energy shock threatens to partially neutralize recent efforts to stimulate growth.

This crisis has had an unexpected positive effect on alternative and renewable energy, particularly solar and electric vehicles. While governments are forced to intervene to cushion the sudden surge in oil prices, European programs aimed at reducing dependence on fossil fuels are accelerating out of sheer necessity. Thus, a clear structural divide is emerging between countries forced into transition by energy deficits, such as France, Italy, Germany, and China, and those undertaking it by choice, like Canada.

In the face of persistent geopolitical uncertainty and the upcoming U.S. midterm elections, we continue to favor companies with strong balance sheets, high operational efficiency, and an inclusive rather than extractive governance structure.

## SOCIAL IMPACT



## SUSTAINABILITY PERFORMANCE

	Portfolio	MSCI ACWI
ESG Combined Score (Refinitiv)	62	51
ESG Controversies Score (Refinitiv)	79	40
Corruption Perception Index Score (Transparency Intl)	68	67
W.A. Carbon Intensity (tons CO2e/USM rev.)	48	125
Carbon Footprint (tons CO2e/US\$M invested)	22	49
Clean Energy Exposure (% of AUM)	25%	33%
Water technology >50% of sales (% of AUM)	17%	3%
Exposure to controversial sectors (5+coal)	0.0%	5.1%
Board gender diversity (%)	37	34
Community Involvement Score (Refinitiv)	73.1	76.4
Microfinance investing (% of AUM)	8%	5%
SBTi Carbon reduction Near Term Targets	45%	30%
Of which Targets Committed	9%	7%
Of which Targets Set and Validated	91%	93%
SBTi Net Zero targets set	24%	12%
SBTi Near Term Targets Removed	4%	9%

Note: While AI tools (Gemini) were used to assist in drafting this newsletter, all content has been reviewed, verified, and finalized by Valérie Cecchini.