

Episode 8 - New World Order

John Pagliacci

[00.00.02]

Hello everybody. Welcome back for episode number eight of Guardian Capital LP's "Buy The Way" podcasts. I'm your host, John Pagliacci, and I'm joined, as usual, by David Onyett-Jeffries, Guardian Capital's Vice-President of Economics and Multi-Asset Solutions. We're here, as usual for our monthly macroeconomic update episode. David, it certainly feels like it's been quite a while since we last recorded just before the holidays. In some respects it feels like 2026 is kind of picked up right where 2025 left off with the US administration continuing to push boundaries with their actions and their statements. But on the other hand, though, we actually are seeing certainly a change afoot, at least in the short term, around where and how people are investing. So I guess maybe just off the top, do you have any initial reactions on how the early part of 2026 has unfolded?

David Onyett-Jeffries

[00.00.53]

Yeah, I guess I would say that it's surprisingly unsurprising, or vice versa, if that makes any sense. If we're talking market narratives, after simmering for much of the second half of last year, the policy or political uncertainty and turmoil has returned to the fore. Right out of the gates, we've had the developments in Venezuela, then there were the issues surrounding Greenland, then there's domestic concerns in the US surrounding the independence of the American Central Bank. As we've seen over the past year, all of these events were unexpected. But given who's at the center of them, it hardly comes as surprise that these things are actually happening. And just at the same point, it's not really surprising how quickly the topics have moved off page one. So for their parts, broad markets have just continued to march forward, showing that they're generally unsurprised by these constant surprises. It's increasingly this, the markets are expecting the unexpected and discounting them accordingly, for lack of a better term. That's sort of the approach I'm looking at.

John Pagliacci

[00.01.59]

Yeah. Agreed. Certainly feels that way. One of the more topical areas of the markets these days, outside of this AI craziness, of course, is the spectacular run-up that we've seen in precious metals. Maybe just to set the stage with a bit of context around that. If we look at gold, the price of gold, it was up 67% in 2025. And then just in January of 2026, it was up another 25%, peaking out around \$5,600 an ounce. People that maybe aren't following these markets as closely. You look at silver, it had an even more astonishing ascent. It rose 138% in 2025. And then just in January of this year, it was up another 64%, crossing \$116 an ounce. But then we saw late January come around and things took a bit of a tumble. So I guess my question first off is, can you give us a brief rundown from your perspective of why you think that these precious metal prices appreciated the way that they have over the last year and a month? And then give us your take on maybe why we saw it plummet late January.

David Onyett-Jeffries

[00.03.06]

Yeah. For starters, we've discussed this before, but it really has been like a perfect storm, but I guess, in a positive sense, for precious metals. If you look at them historically, they've always been considered a safe-haven investment. So they tend to get increased investment demand when there's more volatility and uncertainty in the marketplace, which clearly was something that happened over the last year. Secondly, lower interest rates make gold, which does not generate cash flows via dividends or coupon payments like you get with other investment assets. It makes it relatively more attractive because it lowers the opportunity cost of owning gold. Right. So you're not forfeiting, the dividends or coupons you could be getting in other assets. But more to this point because there's this expectation that the US is likely to continue to reduce interest rates in the year ahead while other regions are holding steady, that also is exerting some downward pressure on the US dollar, which in turn is also being exasperated by concerns about, so many things going on in the US, whether it's the independence of the Fed, what that lack of independence potentially means for rates or inflation, and then there's obviously the growing concern about the fiscal sustainability

in the US, which is making American assets broadly less attractive. On top of that, you have central banks that are diversifying the reserves away from US dollars. And all of this is putting downward pressure on the dollar. And so precious metals, which are priced in US dollars on the global markets, are traditionally treated as a US dollar hedge and that they are a store of global value in an environment where the US dollar is weakening. And we've seen the broad US dollar index fall by 10% against major currencies over the last year, which again, is another one of those things that supported gold. More recently, you can argue, so these are call them fundamental drivers of gold prices. But as with any other asset class that we see rapid gains, as soon as they start getting attention with the speed with which are rising, these gains can beget further gains as investors flood in. And it becomes more rather than the fundamental drivers, it's more speculation. And when you have this sort of detachment from fundamentals, even with an asset like gold, which you can argue the intrinsic or fundamental values are a little bit different, it can lead to corrections as investor sentiment ebbs and flows. Valuations become stretched and speculators begin moving away. And if we look at what the catalyst for this correction we had play out over like the last month or so, it was a situation where, flagging that concern about fed independence and implication for rates and inflation, you had the President pick somebody as Fed Chair Powell's successor, who isn't necessarily one of those people who was viewed as sort of a yes man. And he actually has some credibility, which raises the expectations or I guess you call it hopes, that he's not necessarily just going to do the president's bidding, which means, in theory, you're going to potentially have higher interest rates in lower inflation and a stronger dollar, all of which adversely impact the underlying value of gold. So in a nutshell, that's sort of what we've seen play out.

John Pagliacci

[00.06.27]

Yeah, I mean sticking with US rate expectations and those sort of being one of the main drivers of these gold and silver prices, can you maybe elaborate a little bit more on what the market is telling us right now, after the Kevin Warsh nomination for Fed successor? And sort of beyond that, what's priced in with regards to how many rate cuts are actually expected in the US in 2026.

David Onyett-Jeffries

[00.06.50]

Well, in fairly broad terms, the market is sort of indicating that Warsh has much more credibility with respect to policymaking than some of the other potential nominees that were under consideration who were viewed as being much closer to the President. So if you look at Warsh's history, he serves as a Fed governor throughout the financial crisis and even during that period of time when, the financial world was on the cusp of imploding and you had this huge push towards conventional and unconventional monetary policy easing, Warsh was actually very critical of these more dovish policies, especially as it relates to the balance sheet, and so, like the unconventional fed easing, because he viewed them as very staunchly as posing a significant upside risk to inflation. So based on that available evidence, he's not someone who necessarily is going to come in and beg for Fed interest rates to go to zero, and he's not going to talk about the Fed using its balance sheet to intervene in financial markets to get longer term interest rates lower. So you have other examples of people who are under consideration for this post at the fed. And a good example is Stephen Miron, who is inserted on the Fed Board of Governors in the fall. He has consistently been voting in favor of lower interest rates. And if you look at his Dot plot, he's calling for drastically lower and sort of outlier measures, whereas you have Warsh instead being viewed at least at this point. And again, a lot is to be determined. He's someone who is definitely more coming across as more middle of the road. and so from that perspective, as it currently stands, the markets are looking for about 50 basis points worth of easing by the end of this year. And a lot of that stems from the fact that they are further removed from estimates of neutral than you're seeing for, say, like the Bank of Canada or the European Central Bank, which, they are firmly at neutral. So the viewpoint is ideally central bankers want to be in a situation where they're neither unduly supporting growth and stoking inflation, nor are they restricting credit growth and limiting overall demand growth. So it's a situation where, this move towards neutral is generally accepted by markets. Nothing extreme. And it looks to be at this point in time where, we're not seeing a drastic shift at the Fed. It's just the continued sort of narrative and approach to policy setting that's been dictated by Powell so far through his term.

John Pagliacci

[00.09.26]

You mentioned Powell there and interest rates. I mean he's been a guy that's been very sort of data dependent, not sort of basing things off of his gut feel. So in your view, you talked about the expectation that there's 50 basis points or two more rate cuts priced in or expected from the US throughout 2026. Do you think those come in the back half of the year once Powell is out of that seat?

David Onyett-Jeffries

[00.09.51]

For sure. I would say the combination of the recent data flow and as well as the general approach by Powell. It looks like, the Fed is going to be sidelined or just sitting, patiently watching the data for the next couple of months. So his term ends in May and the likelihood is, barring some severe shock to the system, there's a lot of inertia on the underlying sort of economic momentum, and it doesn't necessarily seem that there's like anything a big compelling argument for the Fed to move aggressively. And so if they're watching the data develop, then it's a situation where it's sort of on pause until he is removed. And if you look at the market pricing, it very much indicates that as well.

John Pagliacci

[00.10.32]

Makes sense. If we could maybe revert back to commodities for a second here, just to wrap up that line of thinking, we talk about the sort of indications that you might be seeing, or I guess let me rephrase that with, with commodities, what sort of indications do you have that things like precious metals and energy are going to face either tailwinds or headwinds from here. And then if you could maybe discuss quickly what some of the implications of those might be for Canada.

David Onyett-Jeffries

[00.11.00]

Starting with the focus on Canada. To the extent that commodities continue to get a boost right, commodity prices, that is a boon to Canadian producers because they are big in precious metal and energy. And given that these segments account for a hefty share of weight in the TSX, that would appear to be constructive for domestic equity market performance in that kind of rising price environment. But in comparison to what we've seen in more recent years, I'd argue that the balance of risk for especially if we're talking precious metals and energy commodities, it's definitely more balanced than they have been because we've had sort of this movement in prices. If we're looking at commodities, let's say energy products and base metals, the expectation of broadening economic like a cyclical economic upswing that's underpinned by both investments by private institutions and the public and, private and public investment is from an investment thesis is bullish. That means when there's more things being built, you require more inputs to production. Which commodity is very much factor into, especially in the tech sector, if we're talking metals like rare earth metals and things like copper they factor heavily into that. But at the same time, especially as we're talking about energy, there's these rising concerns about oversupply, which is constraining gains, right. There's rising estimates that there's going to be an energy supply glut, right, because of just this increased demand for it, because pricing has been firm and above breakeven rates. And then you also have this embedded risk premium that is potentially in there as well. So yeah the supply side looks good. But the ongoing geopolitical uncertainty in and around the Middle East could impact that. If you suddenly have the pipes stop flowing in several major energy producers in the Middle East due to geopolitical strife that obviously has a market implications. For precious metals, I would argue that the bulk of the upward movement we've seen more recently has been speculatively driven. As discussed, the macro environment as a whole is supportive for demand for hedges against things like volatility and US dollar weakness. And those are likely to remain. You could also argue that because of sort of the speed of this run up that we've seen, you really need to see some sort of new developments materialize to really shift prices any further. There are those underlying things. So let's say, like central banks making this effort to diversify the reserves and increasingly buying more gold. It's going to put a floor under the price, but it doesn't necessarily mean... So typically when you've had a big runup is when you see a lot more volatility in the price and, the constant factors. If you look at market pricing for things like gold and let's say crude oil, a lot of it is sort of the status quo, sort of like trending sideways after the recent moves for the foreseeable future.

John Pagliacci

[00.13.57]

I mean, I'm going to quote you here. One of the things that you've recently written about is investor sentiment, and one of your recent commentaries you wrote, "when markets get overly optimistic about the future, suddenly good results may not be good enough, which can lead to an abrupt reversal of upward momentum". Is that what you think is in the cards right now? I mean, what sort of investor sentiment readings are you seeing at this point?

David Onyett-Jeffries

[00.14.23]

Well, to put it in this term. So like healthy financial markets have a dose of skepticism within them. When you have everybody who is pretty euphoric and expecting amazing things to happen and making trades accordingly, valuations have this tendency to become unhinged from fundamentals, right? This is an environment where you can have an amazing company that is generating these outsized profits. But if the market valuation implies that future earnings growth has to be something like 100% in perpetuity, and this is sort of the grounding, if that company is on track to only produce something like 75% earnings growth, that causes markets to reassess things. This reality sets in because those outcomes are very good by any measure. But it's not good enough for what the market was pricing in. So in that situation, the valuations, depending on this outsized earnings growth, you can have it shift from no longer being a buy or a hold because suddenly it's overvalued relative to where sort of the fundamentals were saying. And it becomes a sell at these current prices. It isn't necessarily that the company itself is terrible, it's just that this detachment between the valuation and the actual underlying fundamentals. So if you're in an environment where you have this broad, excessive optimism, it tends to be a precursor to a market correction. And to emphasize, a correction is very, very different than these fundamental bear markets where you have this downward spiral, where there's concerns about overall growth rates and ability to pay dividends and everything that comes with that. But we're talking about these, they can be painful, but from a cyclical perspective, like a market cycle perspective, they're fairly healthy. And it's these adjustments that you can see broad declines of 5 to 10%. And obviously it's in a vary across different stocks depending on sort of their relative valuation, but it's as expectations come back to Earth. So in this current marketing environment, we are seeing these increasing signs that some investor sentiment gauges that I track. So looking proudly at there's things like surveys of professional and retail investors measures of portfolio, cash flow, cash levels. So the amount that professional investors are extended and exposed to the marketplace. And traditionally these are considered, contrarian indicators of the market. So when you have these really bullish view takes where you're asking investors, are you optimistic or pessimistic about the future, when people increasingly become optimistic, where it's out of the realm of normal, where there's more people than ever, that's what can cause things to reverse. And there are some metrics that we are seeing right now where we're drifting into this excessive optimism scenario. It's not universal right now. So this is one of these things where it's not like a flashing, screaming red light that typically comes when things are really stretched. And then you see sort of a rapid adjustment, and that's the difficulty in using these sentiment indicators as a timing mechanism. They can just show you what imbalances exist. But, we've seen historically imbalances can continue to exist. So right now it's definitely a situation where maybe at-the-margin it's pointing to sort of reigning in your risk exposure, but it's not sort of like a run for the Hills scenario. And again, it's we're talking about from a macro perspective, everything looks okay. But from a market perspective we're seeing increasing signs of, at-the-margin of, the valuations deviating from underlying fundamentals. And that can cause sort of a snap backs.

John Pagliacci

[00.17.58]

Well, the title of our episode here today is New World Order, which I thought was an apt title based on Prime Minister Carney's recent speech at Davos and the rotation that we seem to be witnessing on a number of fronts within markets. Perhaps more of an open ended question here for you, David, but what sort of macroeconomic or investor rotation aspects, let's call them, do you think are most relevant for people to keep an eye on particularly with regards to their portfolios today?

David Onyett-Jeffries

[00.18.29]

Well, we are in a very historically interesting time. There are a lot of sort of historical norms and relationships that are going through period of upheaval. And as a result of that, I think something that's at the forefront of my mind is this

increasing shift away from the US. And we're talking economically, politically, and then ultimately within financial markets as well. For years and honestly, for much of the post-World War Two period, but definitely for a lot of the last 30 years or so years it's been a situation where countries and markets have picked a low hanging fruit, and that really has been like hinging on the profitable and reliable relationships with the US. Like a good example is that Canada's strong trade relationship historically with the US has really limited the need for Canadian companies and Canadian economy as a whole, to engage in these efforts to establish stronger links abroad. The low hanging fruit was there. You could rely on US companies requiring Canadian-produced resources and other services that we were able to provide, and it's been ultimately beneficial for the Canadian economy. Now the adjustment that we're going is pushing these other relationships to now be forced to grow, which looks to spur investment in areas of the world that have otherwise been overlooked or just underinvested in including, like this renewed and much needed need for public infrastructure investments in areas that traditionally haven't necessarily engaged, such as Germany and Japan, and then as well as in Canada, where we have the new budget announcement, and this is going to create new opportunities that largely weren't there before. We are definitely in the early stages of this, but there's growing signs that these new alliances are gaining traction. For instance, if you look at the export data for Canada, it's increasingly showing that trade is moving away from the US at the margin, like the US is still the number one destination, but we're increasingly seeing improvements or increases in other areas. From a market perspective, this is shifting. This shift has to have like investors looking beyond the US for undervalued and overlooked areas. There is this growing risk premium that's being assigned to the US that combined with elevated valuations for following this years of outperformance. And of the prospect of a weakening and continuing to weaken US dollar, it's making other areas of market increasingly compelling. So this suggests that there's this capacity for active managers and more active investing strategies to generate gains that have not really been that will not be available for passive investors that find themselves with extreme exposures to the US and specifically the growth oriented market sectors. Right. So again, this is a nascent stage situation, but this is not something that is going to stop abruptly. And we're moving in this direction where, these past relationships in this like extreme reliance on the U as the engine for global growth, it's just moving away and creating other opportunities.

John Pagliacci

[00.21.32]

Well, bring it home for us now from an asset allocation standpoint, if you could. I know that you certainly don't make any wild swings in terms of where you allocate on a month-to-month basis, but have there been any changes to your convictions in certain segments of the market or in sort of your regional exposures? I think at last check, you mentioned you were overweight global equity, you were slightly overweight Canadian equity, and underweight in both fixed income and cash.

David Onyett-Jeffries

[00.21.59]

From a broad allocation perspective, we are still in the same situation. We still favor the broad macro environment, which is one of moderating inflation, generally declining interest rates, maybe not to the same degree that we've seen in the last couple of years, and then continued in broadening economic growth momentum. That is constructive for risk assets, and very much so for equities in particular. Within our global allocations, we have consistently been underweight US, especially relative to passive or market benchmarks. And we continue to be that case. And if anything, we're starting to skew a little bit more in favor there where we think there are more opportunities, especially with the broadening out of economic growth. And one of the areas that I think is worth highlighting that we are seeing increased conviction is within emerging markets. This is an area of the market that is typically highly geared toward the economic cycle. So this positive, constructive macro environment where we are seeing this broadening economic growth momentum and this increased focus on investment particularly in the tech sector, so tech investment, it's constructive for emerging markets. As are these ongoing efforts to adjust supply chains to circumvent US tariffs and tack on a weakening US dollar, and that makes for a generally positive US outlook for this segment of the market, which, again, has largely overlooked and been underperformed for much of the last couple of decades. But again, we're talking about at-the-margin in terms of increasing exposure here. It's not taking massive swings, as you said, and so in general, our portfolios again, we remain, this overweight equities still biased towards global and developed market global, but we are increasingly looking at other opportunities that exist in being one of those areas.

John Pagliacci

[00.23.54]

I think we're coming to the end of our session now. So as always, we will round things off with our "Oh, By The Way", segment. For new listeners, this is the part of the show where we like to close things off with some interesting or lesser known tidbits of information. So I'll kick us off and then turn it over to David. Unfortunately, as some of you may be aware, there have been some headlines more recently about US officials that have been courting separatist leaders in Alberta, have been vocal about their desires to break away from Canada, potentially. So I did a bit of research into the topic and found an Ipsos poll from January of 2026 that found 29% of Albertans would lean yes to beginning that separation process. However, Global News reported that only actually 15% of Albertans remain committed to independence after they evaluate the possible downsides like lower living standards, potential loss of their pension, trade risks, etc. CBC reports that pollsters consistently find that separatist support has never actually exceeded 20%, and that these Alberta separatists do often appear a lot louder than they are. Something pollsters like to call a vocal minority. Interestingly, as well, among potential yes voters, Ipsos also found that 55% of them say Alberta has been historically mistreated, while just 39% say the province would have a better future outside of Canada. So it sounds like these potential yes voters really just feel more aggrieved than anything else at historical treatment, but are willing to spite themselves with a majority, thinking that they would not have a better future by separating. And as one might expect, support for Alberta's independence is deeply partisan, with about 40% of Alberta's United Conservative Party in support, compared to only about 2 to 3% for the NDP and the Liberals. Polara, they find actually that 51% of all burdens now feel Ottawa considers their interests. That's actually up from a low of just 38% three years ago. And that has a dampening effect on separatist support as well. That increased percentage. So at the end of the day, while we should certainly take this seriously, it seems like there's very little likelihood of it happening. And 75% of Albertans think a referendum would fail even if it were held. Anyways, a lot there, like I said, some unfortunate headlines. Hopefully we don't see that coming to pass, but David, I'll turn it over to you.

David Onyett-Jeffries

[00.26.24]

Okay, so you're looking domestically and inward. I'm going to take a look more outward. That's something I find really interesting when looking through the data of late. So one of the reasons why the US tariffs have not had as big an economic impact as a lot of people were fearing a year ago, is really related to this surprising agility of global supply chains. And I think this is one of my favorite statistics of the last little bit. So the US tariffs on China are particularly harsh. And as a result of this, we've seen shipments directly to the US from China over the past 12 months have declined by, let's say, at roughly \$100 billion relative to the year before, which is roughly a 20% drop, which is fairly significant. However, China has seen an \$80 billion surge in its shipments to the countries that comprise the Association of Southeast Asian Nations. So that's like a 14 or 15% surge. And so the Asean countries, as they're called refer to the likes of Cambodia, Indonesia, Thailand and Vietnam. As well, they've seen a \$20 billion rise. So about 13% in exports to India. So completely coincidentally, the shipments from the low tariff Asian countries to the US have increased by about 90 billion over the past year, which is a 25% increase, while US imports from India rose by about 15 billion, about just under 20%. So it's been a situation where, yes, direct shipments from China have declined to the US. But, you can argue that these are indirect shipments that are finding their ways. And it really goes to show you that if businesses do know the rules of the game, they're able to adapt and evolve and they can make sure that the relationships remain intact, even if it's just more of a circuitous route to get there.

John Pagliacci

[00.28.19]

Good stuff. All right. Well, David, that is a wrap on episode number eight. Thank you all for listening. Thank you, as always, David, for your insights. Listeners, if you're enjoying the podcast, please do consider giving us a follow so you do not miss any episode. And of course, we always welcome any questions or feedback you might have. You can reach us at Insights at Guardian Capital. Com. Take care everybody and we will catch you on the next episode.

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