



Canadian Equity Strategy



Garey J. Aitken, CFA
Managing Director,
Portfolio Manager,
Head of Canadian Equities



Timothy W. Caulfield, CFA
Managing Director,
Portfolio Manager,
Director of Canadian
Equities Research

Key Takeaways

- ▶ Canadian equity performance was positive but narrowly concentrated in technology, materials and energy, while the rest of the market was pressured amid higher yields, trade uncertainty and uneven economic conditions.
- ▶ The Strategy delivered a positive absolute return but underperformed the benchmark, as favorable security selection — particularly in energy — was more than offset by underweights to materials and Shopify and overweights to industrials and consumer staples.
- ▶ A wider dispersion of returns that is not matched by a dispersion in fundamentals means a wider set of mispriced securities, supporting our disciplined approach of trimming richly valued winners and redeploying capital into high-quality businesses trading at meaningful discounts to intrinsic value.

Market Overview

Canadian equities as measured by the S&P/TSX Composite Index gained a modest 1.6% in the third quarter, their ninth consecutive quarterly increase. The headline gain, however, masked a narrow and uneven market, as only three of 11 sectors — information technology (IT), materials and energy — advanced and the index declined 2.6% in September, giving back a meaningful portion of its earlier gains.

Trade, geopolitics, monetary policy and AI all remained important market themes. U.S.-Canada trade negotiations broke down in late August after appearing close to an interim agreement, and the U.S. proceeded with 50% tariffs on roughly \$20 billion (USD) of Canadian goods, prompting Canada to commit to dollar-for-dollar retaliation. While the direct economic impact appears contained for now, the broader uncertainty continues to weigh on hiring and investment decisions, with the Canada-United States-Mexico Agreement (CUSMA) review still outstanding.

Renewed disruption to Middle East oil supply pushed energy prices sharply higher, while AI remained a central driver of equity markets, though in a more volatile fashion than earlier in the year. AI hardware beneficiaries pulled back sharply and subsequently recovered late in the quarter, while select businesses previously viewed as AI “losers” rebounded modestly as results showed fundamentals remaining strong. At the same time, Canada’s economy showed signs of recovery, with real GDP growing at a 3.3% annualized rate in the second quarter following the technical recession of late 2025 and early 2026. Headline inflation held at 3.0% year-over-year in August, driven largely by gasoline prices,

while CPI-median (a measure of core inflation) remained unchanged at 2.0%. The combination of improving growth, elevated headline inflation and fresh trade uncertainty created a more complicated backdrop for the Bank of Canada, particularly as housing weakened again and the labor market remained volatile.

On an absolute return basis, IT (+17.9%) was the clear market leader, driven largely by Shopify, along with renewed resilience among IT companies viewed as vulnerable to AI disruption. Materials (+12.9%) also advanced, as gold producers meaningfully outperformed the underlying metal, while energy (+3.3%) posted a more muted gain, as strength among oil producers was largely offset by weakness in rate-sensitive pipeline and midstream companies.

By contrast, communication services (-9.3%), real estate (-7.4%), utilities (-7.2%), consumer staples (-7.0%), health care (-5.4%), consumer discretionary (-5.1%), industrials (-3.2%) and financials (-3.0%) declined, with rising bond yields weighing on many of the more rate-sensitive areas of the market. Financials gave back a portion of their strong second-quarter gains, with weakness concentrated in asset managers and property and casualty insurers, while the Canadian banks were mixed.

Performance Overview

The ClearBridge Canadian Equity Strategy underperformed the S&P/TSX Composite Index in the third quarter, though returns remained positive in absolute terms. In a reversal from the second quarter, relative underperformance was driven primarily by sector allocation, while security selection was positive. At a sector level, the primary detractors were industrials, consumer staples, materials and communication services. This was partially offset by a large positive contribution from energy.

On an individual stock basis, leading contributors included Cenovus Energy, Canadian Natural Resources, Franco-Nevada and Wheaton Precious Metals. Cenovus and Canadian Natural benefited from a roughly 30% rise in crude prices, while Franco-Nevada and Wheaton advanced alongside the broader rally in precious metals equities.

Top detractors included Alimentation Couche-Tard, ATS Corporation, Telus and our underweight to Shopify. Couche-Tard fell as investors focused on slowing U.S. same-store sales growth and the company's pursuit of Žabka. ATS declined sharply after fiscal first-quarter results fell short of management's guidance; the company also announced a fixed-cost transformation program. Telus cut its dividend by 55% and lowered its guidance for the year. Shopify surged following strong results and guidance that eased concerns about AI disruption, causing our roughly 150 bps underweight versus the benchmark to be a headwind.

Portfolio Positioning

Trading activity in the Strategy remained elevated during the quarter as significant sector dispersion and stock-specific volatility created attractive opportunities to recycle capital. Additions were concentrated in industrials, energy, utilities and real estate. These purchases reflected

a mix of adding out-of-favor cyclicals as well as initiating positions in PrairieSky Royalty (PSK) and Element Fleet Management.

In energy, PrairieSky provides capital-light exposure to Western Canadian energy activity through a large royalty land base, earning royalties on third-party production without funding development capital. We see mid-single-digit oil volume growth supported by the Clearwater, Duvernay and heavy-oil plays, alongside a moderating base decline rate and very low leverage. We would look to build the position while remaining disciplined on valuation. We also added to Enbridge on share price weakness tied to its roughly \$3 billion (CAD) equity issuance and higher interest rates. Enbridge's diversified, contracted asset base, large, secured backlog and roughly 5% medium-term growth target offer durable, long-duration infrastructure exposure at a compelling valuation.

In industrials, Element Fleet is a high-quality, scaled fleet management platform that helps business and government clients run their vehicle fleets. Recent weakness appears tied to softer originations and commercial execution rather than to any deterioration in the franchise. A growing services base, attractive returns on equity, strong cash generation and several self-help levers support our view that long-term earnings power remains intact. We also added to Boyd Group and ATS Corporation. In each case, near-term concerns weighed heavily on the shares without changing our view of the underlying franchise. At quarter end, the Strategy's largest sector exposures were financials, industrials and energy. Financials remained the largest absolute exposure, though the Strategy was still underweight the sector relative to the benchmark. The Strategy's largest relative overweight was industrials, followed by the more defensive consumer staples sector, with a smaller overweight in communication services, real estate and energy. The Strategy's largest underweights were financials and materials, followed by more modest underweights in consumer discretionary, IT and utilities.

Outlook

Over the past 12 months, the S&P/TSX returned 20.0%, led by financials (+31.9%), energy (+29.9%) and materials (+23.7%). In all, the "Big Three" sectors accounted for a 64.6% weight in the benchmark one year ago but delivered 94.7% of the total return over the past year.

Exhibit 1: Big Three Sectors Dominate Recent Performance

Sector	Q3 2025 End Weight	Q3 2026 End Weight	12 Month Total Return	Contrib.	Share of S&P 500/TSX Composite Total Return
Financials	32.2%	34.4%	31.9%	1,020 bps	50.9%
Energy	15.6%	16.3%	29.9%	466 bps	23.3%
Materials	16.8%	18.4%	23.7%	410 bps	20.5%
"Big Three" Combined	64.6%	69.1%	29.3%	1,896 bps	94.7%
Remaining Eight Combined	35.4%	30.9%	3.2%	106 bps	5.3%
S&P/TSX Composite	100.0%	100.0%	20.0%	20.02 bps	100.0%

As of September 30, 2026. Source: ClearBridge Investments, Atlanta Fed, Bloomberg Finance.

Within financials, Canadian banks, the sector's heaviest weights, returned 44.6% over the past 12 months. Much of that advance came from multiple expansion rather than earnings growth. Valuations have moved meaningfully above their historical range as investors have priced in stronger capital positions, benign credit and a sustained improvement in returns on equity. The fundamentals have improved, but in our view the share prices now reflect a considerable amount of good news.

Beneath that headline strength, the market has become increasingly narrow. In the third quarter, a handful of large constituents drove nearly all the index's return, while the median stock declined. Leadership has become both more concentrated and more polarized. Investors are paying up for a select group of visible winners, most notably gold producers, energy, the banks and AI-linked beneficiaries. At the same time, they are applying steep discounts to businesses perceived to be exposed to technological disruption, higher interest rates or trade uncertainty, often with little distinction between companies facing real impairment and those simply out of favor. Those discounts began to ease for some of these names late in the quarter as results showed fundamentals holding up.

When capital concentrates around a few dominant themes, prices become less anchored to fundamentals. Stocks that are working attract further flows largely because they are working, and stocks that are not working are left behind regardless of what is happening to their underlying earnings and cash flows. Over time, this allows price and intrinsic value to drift further apart than they normally would, in both directions. For a valuation-disciplined investor, a wider dispersion of returns that is not matched by a dispersion in fundamentals means a wider set of mispriced securities, and more opportunity to buy durable businesses at prices that already discount a great deal of bad news.

There is an honest cost to this approach. As leadership narrows, a portfolio that refuses to follow the benchmark into all of its largest and most momentum-driven positions will tend to lag, and it can do so for longer than feels comfortable. We do not view this as a reason to change course. Our recent portfolio activity reflects that conviction. We reduced positions in Royal Bank, TD Bank and Bank of Nova Scotia following their strong run and took profits in Cenovus Energy and CCL Industries. We redeployed the proceeds into high-quality businesses where share-price weakness has meaningfully improved prospective returns, including ATS Corporation, Boyd Group, Colliers International, Enbridge and TransAlta, along with new position Element Fleet Management. Some of these holdings fell further during the quarter, and we were early in several cases. However, each meets the same test. The competitive position is intact, the balance sheet is sound, free cash flow is durable and the valuation offers a reasonable margin of safety.

Taken together, we believe the current opportunity set is among the more attractive we have seen in recent years. Narrow, polarized markets can persist longer than expected, but they do not last indefinitely, and while they do, they tend to leave behind a deep pool of high-quality businesses priced, in our view, well below their intrinsic value. Our objective remains to own those businesses at meaningful discounts, and

to deliver attractive absolute and relative returns over time with a better risk profile than the benchmark.

Portfolio Highlights

During the third quarter, the ClearBridge Canadian Equity Strategy underperformed its S&P/TSX benchmark, though returns remained positive in absolute terms. On an absolute basis, the Strategy generated gains in three of the 10 sectors in which it was invested (out of 11 total). The primary contributors were the materials, energy and IT sectors, while the main detractors were the financials and industrials sectors.

Relative to the benchmark, security selection was positive but was more than offset by negative sector allocation. In particular, selection in energy and an underweight to financials contributed to performance. On the other hand, an underweight to the exceptionally strong materials sector and overweight to the underperforming industrials and consumer staples sectors detracted.

On an individual stock basis, leading relative contributors included Cenovus Energy, Franco-Nevada, Thomson Reuters, Headwater Exploration and not holding TC Energy. Top relative detractors included ATS Corporation, Alimentation Couche-Tard, Telus, an underweight to Shopify and not holding Suncor Energy.

Past performance is no guarantee of future results. Copyright © 2026 ClearBridge Investments. All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the portfolio management team named above and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information.

Performance source: Internal. Benchmark source: Standard & Poor's.