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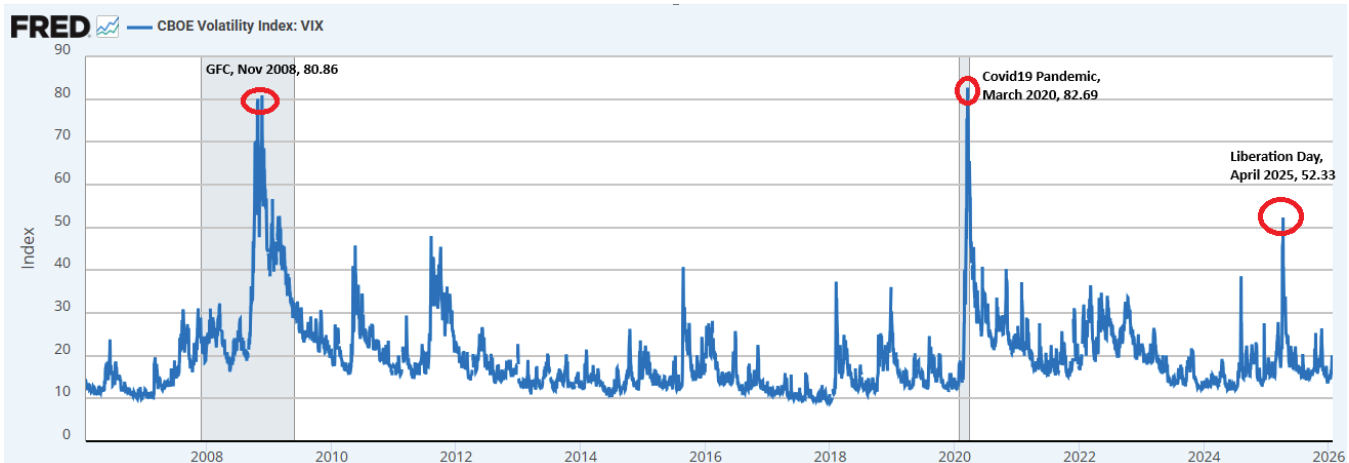
Managed Funds:

Starlight Dividend Growth Class

Starlight North American Equity Fund

Markets in 2025: Strong performance after a tariff shock, led by AI and wide commodity dispersion

Global markets delivered robust, broad-based gains in 2025 despite a sharp drawdown in the spring. Two forces dominated the year: AI-driven equity leadership and rising index concentration, alongside frequent and unpredictable shifts in U.S. trade policy. The White House's April 2 tariff announcement triggered a rapid selloff in risk assets and a spike in volatility, with the CBOE Volatility Index (VIX) closing near 52 on April 8, among the highest readings on record. As tariff-related uncertainty eased, markets refocused on moderating inflation and a more accommodative monetary backdrop, setting the stage for a powerful second-half risk-on recovery.



Source: Chicago Board Options Exchange via FRED®
Shaded areas indicate U.S. recessions.

Across asset classes, outcomes were highly uneven. Precious metals were the standout, while oil lagged. The spot gold price rose 64.6% in 2025, and silver up 149.1%, supported by safe-haven demand, central-bank buying, and strong investor flows into bullion-linked assets. In contrast, oil prices remained under pressure as supply continued to exceed demand. WTI averaged roughly \$64 a barrel for the year, and the International Energy Agency (IEA) flagged a potential ~4 million barrel per day surplus in 2026, reinforcing concerns around structural oversupply.

U.S. markets experienced a clear two-phase year: a tariff-driven shock and heightened volatility in the first half, followed by disinflation and easier policy in the second. By late 2025, inflation was running closer to target (headline CPI 2.7% y/y in November; core CPI 2.6% y/y), easing fears that tariffs would drive a sustained inflation spike. The labour market softened but remained resilient, with unemployment at 4.4% in December. Against this backdrop, the Federal Reserve delivered three rate cuts in the second half, ending the year with the policy rate at 3.50%–3.75%.

Equities ended the year solidly higher, but leadership narrowed as investors favored durable AI beneficiaries and rotated away from speculative, momentum-driven, high-beta AI trades. The S&P 500 returned 16.4% on a price basis (or 17.9% total return). Fiscal policy also became a key driver of rates: the passage of the One Big Beautiful Bill Act increased projected deficits materially, contributing to periodic upward pressure on long-end yields and

curve steepening. Political pressure added another layer of complexity, as President Trump publicly called for more aggressive rate cuts, keeping the focus on Federal Reserve independence even as policy eased.

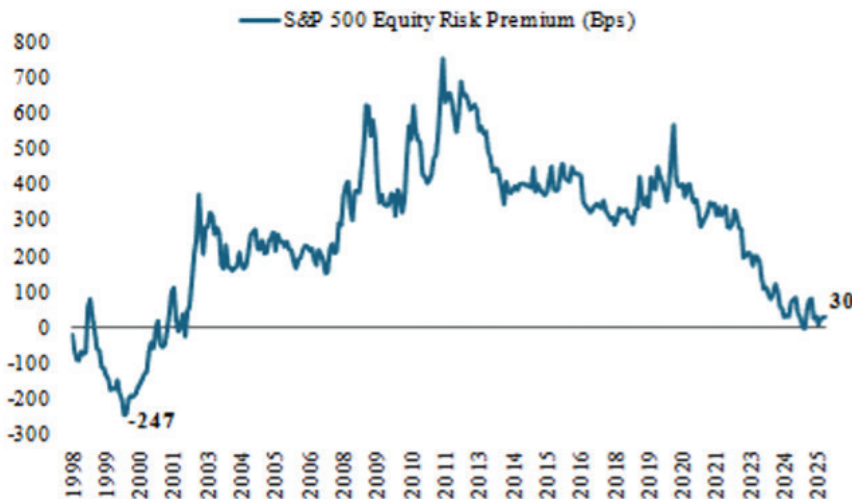
Canada benefited from easing inflation and supportive monetary policy but remained highly exposed to U.S. trade dynamics. Headline CPI slowed to 2.2% y/y in November, while the Bank of Canada's preferred core measures (CPI-trim and CPI-median) eased to 2.8% y/y, consistent with cooling underlying inflation. Labour market conditions weakened more noticeably, with unemployment rising to 6.8% in December. The Bank of Canada cut rates through 2025, to 2.25%, supporting bond prices and rate-sensitive equity segments. Politically, the April 28 federal election returned Mark Carney's Liberals with a minority government, reducing near-term domestic uncertainty even as external trade risks persisted.

Canadian equities posted an exceptional year, with the TSX delivering a 31.7% total return. Performance was heavily driven by financials and metals-linked sectors as surging gold and silver prices boosted miners. This pushed sector weights to historically elevated levels, with Materials, up over 100%, surpassing Energy and gold-related equities approaching the size of the Energy sector, increasing concentration risk in passive strategies tied to Canada's resource-heavy index structure. The Canadian dollar strengthened alongside improving risk sentiment and narrowing rate differentials, with USD/CAD moving from roughly 1.44 at the end of 2024 to about 1.37 by year-end 2025, reducing returns on unhedged U.S. assets.

2026 Outlook

As we look ahead to 2026, the consensus macro theme is market broadening, with returns spreading beyond a narrow set of mega-cap leaders to wider participation across sectors and market capitalizations. Increasingly, this is being framed as a fundamentals-driven story: easing financial conditions, stabilizing interest rates, improving cyclical momentum, more visible diffusion of AI-related productivity and investment, and improving earnings momentum.

At the same time, the starting point matters. Valuations are elevated, earnings expectations are demanding, and the equity risk premium has compressed to levels that leave limited buffer for disappointment. Recent measures of the equity risk premium for U.S. equities have reached levels consistent with 20-year lows.



Source: Bloomberg, Morgan Stanley Research.

Our approach to 2026 is therefore cautiously optimistic, with a slightly defensive posture early in the year. **The Starlight Dividend Growth Class is positioned to benefit from a broadening market, but we want to earn it through quality: balance-sheet strength, durable free cash flow, dividend growth, disciplined valuation and position sizing.**

The market regime we believe we are in

We continue to operate in a different regime than the 2010s: higher geopolitical risk, larger fiscal deficits, more frequent policy shocks, and more asynchronous global growth. In this environment, repricing can occur faster and with greater amplitude, especially when starting valuations are already stretched.

This backdrop is supportive of a quality bias. High-quality businesses with strong balance sheets and resilient free cash flow tend to be better positioned to absorb volatility, maintain dividend growth, and self-fund investment through a cycle. The nuance for 2026 is that “quality” has not been uniformly bid up across all sectors, and forward return potential is increasingly differentiated by entry price.

Macro and policy backdrop

Canada vs. United States: different starting points

The U.S. economy enters 2026 in a stronger relative position, while Canada begins the year with a softer labour market and more interest-rate sensitivity. In Canada, the unemployment rate rose to 6.8% in December 2025, with Ontario at 7.9%.

From a high-quality dividend mandate perspective, a softer labour market has two key implications:

1. It reinforces the value of balance-sheet strength and pricing power.
2. It increases the probability that rates remain contained, supporting duration-sensitive cash flows and easing pressure from competing yields.

United States: softening labour as a potential anchor, but policy uncertainty is elevated

A key pillar of the broadening thesis is the “soft landing” setup: labour market cooling that helps contain inflation and interest rates without tipping the economy into recession. The risk is non-linear. If unemployment were to rise abruptly, earnings expectations and credit conditions could deteriorate quickly.

Policy uncertainty is also higher than usual. Federal Reserve leadership is a visible issue heading into 2026, with Chair Jerome Powell’s term ending in May 2026. Separately, The U.S. midterm election on November 3 could also become a meaningful source of volatility as investors reprice shifting odds for fiscal policy, regulation, and trade outcomes. The One Big Beautiful Bill Act, enacted July 4, 2025, included provisions such as reinstating 100% bonus depreciation, which can be supportive for certain capex-heavy segments of the economy.

Canada: slower growth, easing inflation, and a more supportive rate setup

The Bank of Canada held its policy rate at 2.25% in December 2025. In its October 2025 projections, the BoC expected growth to average about 1.4% over 2026–2027, with inflation around 2% over the projection horizon, and explicitly assumed low population growth.

Canada’s higher interest rate sensitivity (including shorter mortgage reset periods) is a double-edged sword. Falling interest rates can stabilize housing and support cash flows, but the economy remains exposed if inflation reaccelerates, and rates need to rise again.

Valuation, earnings expectations, and why the equity risk premium matters in 2026

The S&P 500 entered 2026 with a forward 12-month P/E around 23x, above its 5-year and 10-year averages. At the same time, bottom-up expectations embed strong earnings growth, with analysts projecting roughly 15% growth for calendar 2026.

Starlight Capital North American Diversified Equities 2026 Outlook

In Canada, valuation is less extreme than the U.S. on many measures (~18x P/E), but remains elevated versus longer-run norms in several frameworks, and the index structure introduces its own risks (notably concentration in Financials and Materials).

The more important point for portfolio construction is that the equity risk premium looks thin. When the earnings yield is not meaningfully above long-bond yields, the market has less cushion against macro or earnings disappointment. Recent analysis has characterized the U.S. equity risk premium as turning negative, which effectively raises the bar for tangible productivity gains to show up in the data.

High expectations are not a timing tool, but they do shape the distribution of outcomes. In 2026, the market's "margin for error" appears smaller than usual.

The broadening thesis: what needs to be true

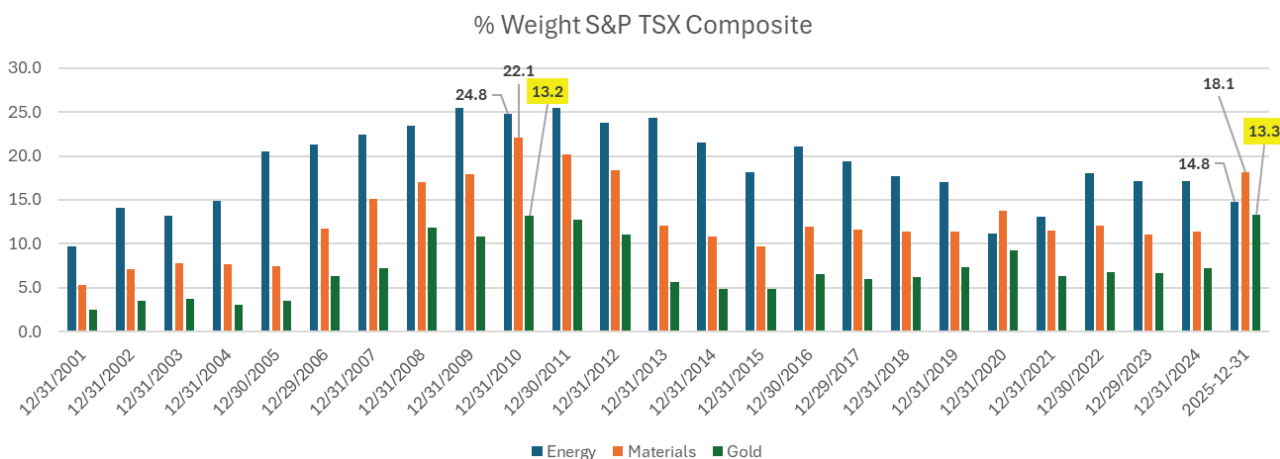
We think broadening can be durable in 2026 if several conditions hold:

- **Rates remain contained.** This requires inflation to continue cooling and the labour market to soften gradually rather than abruptly.
- **Cyclical data stabilizes.** Housing, manufacturing activity, and earnings revisions need to broaden beyond a narrow set of winners.
- **AI capex diffuses into the real economy.** The AI investment cycle is large enough to impact industrial supply chains, power infrastructure, and productivity narratives. Wall Street consensus estimates for 2026 hyperscaler capex are now commonly discussed in the ~\$500B+ range, with some forecasts above \$600B.

The risk is that AI spending decelerates sharply or the narrative shifts to "overbuild" before demand and monetization broaden across industries. If that happens, the market could quickly reprice the parts of the equity market most exposed to that investment cycle.

Canada: index concentration and the Gold(en) question

Canada's market structure matters for both risk and opportunity. Recent TSX performance has been heavily influenced by banks and materials, particularly gold equities. Gold equities now account for just over 13% of Canadian equity market capitalization, well above their long-term average of roughly 5% since the mid-1970s, and in line with the prior peak reached in 2010 before subsequently reverting toward historical norms over the following years.



Source: Bloomberg, Starlight Capital.

We treat gold equities primarily as a risk diversifier rather than a core source of return. Gold can continue to trend materially higher, but gold equities often exhibit pronounced cyclical behavior and can be challenging to size appropriately around inflection points. In a high-quality dividend mandate, we prefer tight sizing rules and a focus on businesses with durable cash generation rather than relying on commodity-linked momentum.

Volatility and 2026 event risk

We expect volatility to remain elevated given several high-impact catalysts:

- **Tariff-regime legal uncertainty:** The U.S. Supreme Court is expected to issue rulings in late January or early February. Key issues include the legality of the reciprocal tariff framework and fentanyl-related tariffs.
- **Fed Chair transition risk:** Powell's term ends in May 2026.
- **U.S. midterm elections:** November 3, 2026.
- **Geopolitics and policy unpredictability:** Elevated and persistent.

Event risk does not automatically imply a bearish outcome, but it does argue for building a portfolio that can absorb shocks without being forced into selling.

Portfolio positioning for a North American quality dividend mandate

What we want

1. **Quality compounders with dividend growth**
Businesses with strong free cash flow, conservative leverage, and a demonstrated ability to grow dividends through cycles.
2. **Selective participation in broadening via "quality cyclicals"**
Companies with improving demand visibility, pricing discipline, and shareholder-return frameworks (for example, select industrial services and capital-light business services where fundamentals are improving without requiring aggressive assumptions).
3. **Secular growers where cash flows are durable and valuation is defensible**
 - **Industrials and infrastructure enablers** tied to AI and power buildout, where spending converts into real orders and recurring service revenue over time.
 - **Health care** as a secular growth area supported by aging demographics and generally resilient end demand. By 2030, all baby boomers will be at least 65. The U.S. 65+ population is currently about 62 million (around 18% of the population) and is projected to rise materially over time (for example, Pew cites 84 million by 2054).

What we would avoid or underweight

- **Balance-sheet fragility**
High leverage, weak coverage ratios, or refinancing-dependent business models.
- **Low-quality cyclicals**
Earnings that are highly sensitive to a modest downturn, especially where dividend sustainability is not well supported by free cash flow.
- **Crowded, long-duration equity exposure at any price**
Businesses where valuation assumes near-perfect execution, particularly if cash flows are pushed far into the future.
- **Over-concentrated factor bets**
Including outsized exposure to a single macro outcome (rates, commodities, or one narrow technology theme).

Currency (USD/CAD)

We do not make large currency calls. The U.S. dollar has helped returns at times, but FX can move from tailwind to headwind quickly. For an unhedged mandate, the practical takeaway is to own U.S. businesses where long-term local-currency compounding can dominate FX noise through a full cycle.

Bottom line

Our base case for 2026 is constructive. Broadening is plausible and can be fundamentally supported if rates remain contained and the AI investment cycle continues to diffuse beyond a narrow slice of the market. However, high earnings expectations, elevated valuations, and a thin equity risk premium mean the market is more vulnerable to negative surprises, and 2026 includes multiple event-driven catalysts that can drive abrupt repricing.

The Starlight Dividend Growth Class is positioned to participate in a broadening market, but we intend to do so the way a high-quality dividend mandate should: emphasize resilient cash flows, insist on balance-sheet strength, remain valuation-aware, and construct the portfolio to endure volatility without compromising long-term compounding.

For investors who share our conviction in quality but prefer capital growth over income, the Starlight North American Equity Fund applies the same investment discipline to profitable growth companies. The focus is on businesses with strong returns on incremental capital, durable competitive advantages, and the ability to self-fund growth through a full cycle.

Together, these two mandates provide investors with a toolkit for navigating 2026, anchored in quality, selective in participation, and grounded in business fundamentals.

We invite you to partner with us.

Starlight Capital

Investment Management



Sean Tascatan, CFA
Senior Portfolio
Manager

Sean Tascatan joined Starlight Capital in January 2023 as Senior Portfolio Manager. He has over 10 years of experience in the investment industry.

Mr. Tascatan most recently held a position at Caldwell Investment Management as the lead portfolio manager of numerous dividend funds, including a U.S. Dividend Growth Fund where he specialized in high-quality, dividend paying U.S. equities. Prior to that, he worked at Sentry Investments where he was a key member of an award-winning Equity Income team that garnered multiple Lipper Fund and Morningstar Investment Awards. There, he was the co-manager of a \$3B U.S. Growth and Income Fund and a \$500MM Diversified Equity Fund.

Mr. Tascatan holds the Chartered Financial Analyst designation and has completed the Options Licensing Course and has an Honours Bachelor of Arts degree in Economics and Financial Management from Wilfrid Laurier University.

About Starlight Capital

Starlight Capital is an independent Canadian asset management firm with over \$1 billion in assets under management. We manage Global and North American diversified private and public equity investments across traditional and alternative asset classes, including real estate, infrastructure and private equity. Our goal is to deliver superior risk-adjusted, total returns to investors through a disciplined investment approach: Focused Business Investing. Starlight Capital is a wholly-owned subsidiary of Starlight Investments. Starlight Investments is a leading global real estate investment and asset management firm with over 375 employees and \$30B in AUM. A privately held owner, developer and asset manager of over 70,000 multi-residential suites and over 7 million square feet of commercial property space. Learn more at www.starlightcapital.com and connect with us on LinkedIn at www.linkedin.com/company/starlightcapital/

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