



George Stedman, CFA
Senior Portfolio Manager

RBC Dominion Securities Inc.
1501 McGill College, Suite 2150
Montreal, QC, H3A 3M8
Tel: 514-840-7626
Fax: 514-840-7639
george.stedman@rbc.com
www.georgestedman.com

April 8, 2026

First Quarter 2026

Investors today are faced with two very different massive unknowns: Donald Trump's behavior and Artificial Intelligence (AI).

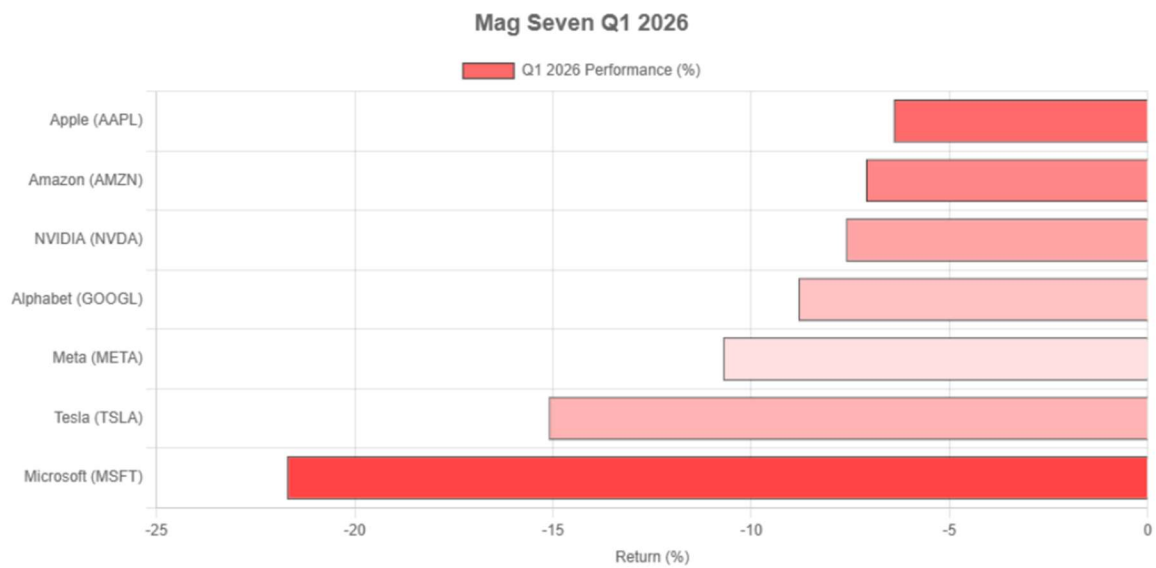
Trump's proclamations, threats and deadlines create tremendous uncertainty, and, in financial markets, uncertainty is risky. Last night, April 7, Trump declared a two-week ceasefire in his war on Iran. Today, April 8, stocks are up, and oil is down. The Iran war is unforecastable, however I believe that this too will pass. Hopefully Trump will find a way out. For now, we don't know how long the energy crisis will last or how much damage has been done to oil facilities. If oil doesn't go down, I don't see stocks going up.

Trump has made various threats, against Canada and others. We don't know if there will always be a TACO Tuesday. Trump's trade wars are another persistent uncertainty.

Warren Buffett famously was once asked by CNBC about the threat of a third world war. He said if he knew that there would be a world war he would still be buying the same kinds of stocks. He would prefer productive assets, such as businesses and farms, over cash as inflation would reduce the value of cash, but businesses would be able to adjust their prices for inflation. During World War Two stock prices went up. Companies that make things that people want, and need, are a good store of value.

The importance of AI is hard to calibrate. Reinhardt Krause reports "Four hyperscalers – Alphabet's Google, Amazon.com, Meta Platforms and Microsoft – are now expected to spend \$645 billion in 2026, representing growth of 56%, or \$230 billion on a dollar basis." (Dow Jones Newswire 8 April) In the first quarter concerns grew that these capital expenditures are too much. In the first quarter NASDAQ was down 7.1%, the largest quarterly decline in a year with a 4.8% drop in March alone. All 7 of the Magnificent Seven were down, Microsoft, which late last year was one of the most valuable companies in the U.S., was the worst, down 23%. The Mag 7 became, at least for a time, the Lag 7. Software As a Service (SAAS) stocks everywhere were down a lot, irrespective of their geographic location. About the most valuable company in Canada late last year, Constellation

Software, was down 28% in the first quarter. SAP, about the most valuable company in Germany, was down 31%. There was a concern that customers could write their own software leading, as was said, to a SAASmageddon in the first quarter.



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Microsoft Corporation (MSFT-NASQ) - \$370.67

Jan 3, 2023 – March 31, 2026, Daily



FactSet – April 9, 2026

Huge capital expenditures are reducing the free cash flow of the hyperscale cloud companies, but strongly benefiting manufacturers of components used in AI data centers. Corning is a spectacular example. Its fiber optic cables are sought after as better for data centers than copper wire. Corning shares are up about 90% just since January 1. In many portfolios, where the proportion in equities has risen above long-term targets, and, where Corning has become an overweighted position, we have been reluctantly trimming it, as part of our regular portfolio rebalancing.

As an aside, I often hear suggestions to invest in certain geographies. To my way of thinking, as someone who prefers to buy shares in companies instead of market indices, industries or sectors that companies are in are more important than their locations. The Canadian stock market will do well relatively if Energy or Financials do well. U.S. stocks will do relatively well when technology stocks do well, because of their large weighting in those indices. We saw this in the first quarter where the Canadian market was up because of oil and gold, and the U.S. stock market was down largely because of the Mag 7.

Some companies were insulated from the threat of AI. Think HALO, heavy assets, low obsolescence. Companies that transmit electricity, like Fortis, that operate landfills and garbage trucks, (Waste Connection), railroads (Canadian National), pipelines (TC Energy) and water (Xylem) are not likely to be replaced by AI soon.

In the face of these two big risks, AI and Trump, we will, as I like to say, try to keep calm and carry on consistently rebalancing portfolios to our long-term asset allocation targets. We will remain balanced and diversified and continue to monitor position sizes to mitigate risks. Stock markets usually bottom among uncertainty and climb a wall of worry. Hopefully this time will be no different. I hope you had a nice holiday, and I wish you some fine Spring weather. Thanks for reading.

Sincerely,

George Stedman, CFA
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