LYSANDER FUNDS

Q3 2026

Fulcra Commentary

July 31, 2026 - September 30, 2026

FULCRA ASSET MANAGEMENT INC.

Fulcra Asset Management

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LYZ935F
Lysander-Fulcra Corporate Securities Fund

It was a challenging quarter for bond investors as North American interest rates rose in tandem with global oil prices and inflation fears seeped back into the market.

High Yield credit (ICE BofA US High Yield Index) total returns outperformed Investment Grade credit (ICE BofA Canada Corporate Index) in the quarter by ~35 basis points, despite rapid spread widening in the High Yield market in the final week of September.

Credit markets have been receptive to the record-setting issuance to support Artificial Intelligence ("AI") infrastructure capital expenditures from large US tech firms like Google, Amazon, Microsoft and Meta while punishing the likes of Oracle and CoreWeave.

With changes coming to the composition of the US political landscape, macro uncertainties may grow for the rest of 2026.

Fund Portfolio Update

Income generated within the portfolio was steady in the third quarter despite a small positive total return outcome.

Select event-driven situations in companies like Getty Images, JELD-WEN, Wolfspeed, Dye & Durham, and Mercer balanced out positive and negative fluctuations in security prices.

The portfolio remains heavily weighted to corporate bonds, but we have seen a growing number of opportunities arise in the term loan market due to the mechanical nature of how Collateralized Loan Obligations ("CLOs") manage their holdings and shrinking liquidity within the market for certain issuers.

The weighted average duration of fund holdings was 2.4 years at the end of September, and we maintained our short duration throughout the quarter. This was relatively beneficial given the movement in interest rates.

Outlook

The most recent bout of market volatility appears to stem from two shifts in broad market sentiment. The first being a realization that higher interest rates may exist for a while, and the second involving deeper scrutiny into the ability of businesses involved in the AI infrastructure capital expenditure boom to generate enough revenue to justify their capital expenditures.

As we have pointed out before, investment in AI-related infrastructure across public and private debt and equity markets remains significant and continues to grow. Sustained weakness in this sector could have implications to the broader financial markets, not just the companies directly involved.

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