

AHEAD OF THE CURVE



The Queen's Economic Society's Monthly Newsletter



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CANADA'S REGULATORY BLINDSPOT: THE RISE OF PREDICTION MARKETS

Prediction markets have been taking the gambling industry by storm, and have politicians struggling to keep up with their rapid growth. These markets are extremely popular online betting platforms where participants trade yes-or-no bets, as contracts, tied to a specific future event. The contract will pay out if the chosen outcome occurs. Polymarket and Kalshi are the two major prediction markets today, and promote bets on major global events, including election forecasting.

Currently, provincial and federal officials in Canada are unable to agree on how these markets should be classified. The Ontario Securities Commission (OSC) is the only Canadian authority to have taken a clear position. In 2017, the Canadian Securities Administrators (CSA) issued a ruling banning the sale of binary options, and in 2025, the OSC determined that event contracts on Polymarket violated this order, rendering them illegal in Ontario. Despite this, these markets are still authorized to run across much of the country, as no other provincial regulators have acted on the CSA's ruling.

Despite the growing presence of contracts tied to major Canadian events, there is no reliable data on how many Canadians are trading in these markets. The lack of transparency complicates efforts to assess potential risks and determine the necessity of regulation. Additionally, there is no law on how members of Parliament may interact with these markets. Despite potential conflicts of interest, public officials are not required to disclose whether they have participated.

The economic potential of these markets is huge, with recorded trading volumes on Polymarket and Kalshi totalling \$17.45 billion. As participation grows, Canadian policymakers face an urgent task: to understand the extent of Canadian participation in these markets and determine how they should be regulated and whether they can be leveraged to benefit the country.

THE AI BOOM NEEDS POWER, AND CANADA HAS IT

The next hurdle in the AI race isn't chips, but a resource that sits at the heart of it all: energy. Canada could help power the next phase of the AI revolution if it moves fast enough. Data centers are the lifeline of artificial intelligence, and companies are already running into massive power deficits. In the United States, grid constraints are emerging as the real bottleneck, forcing firms to look elsewhere for reliable, scalable electricity. And they won't have to look far, as the solution may be right in Canada's own backyard.

Major capital is already flowing in. Microsoft has committed roughly \$19 billion CAD towards cloud infrastructure in Canada through 2027, and Amazon plans to invest approximately \$24.7 billion CAD over the next decade into Canadian data centers. These are not speculative investments; US companies are realizing that energy is the limiting factor for AI growth and that early infrastructure buildout in Canada is crucial. Globally, hyperscalers are expected to invest hundreds of billions annually into data infrastructure, including chips and other hardware, but without sufficient power, that capital cannot be deployed.

Canada's advantage is straightforward: it is one of the few developed economies with abundant, relatively cheap energy. Hydroelectric capacity in Quebec and British Columbia, combined with natural gas and crude oil production in Alberta, provides a supply base that can support large-scale, energy-intensive industries.

However, Canada isn't immune to the same challenges facing the US: an aging and inefficient power grid. Modernizing it will be a multi-decade, multi-hundred-billion-dollar effort. Estimates for grid expansion across Canada reach into the hundreds of billions. Without this investment, surplus energy in one region cannot easily be redirected to meet growing demand, ultimately limiting scalability. This has led to increased power grid R&D. One emerging solution is co-location, where energy production is built near high-demand users. Instead of transmitting power across provinces, companies could develop data centers adjacent to hydro dams, oil refineries, or even future small modular nuclear reactors.

Canada has a golden opportunity. To establish itself as a critical player in the AI economy, a position that would drive investment and create high-value jobs. The pieces are there: energy abundance, political stability, and growing interest from tech firms. But capturing that upside will come down to execution. If government legislation, permitting, and infrastructure approvals move at the same glacial pace seen in past large-scale projects, capital will simply go elsewhere. In an environment where companies are making multi-billion-dollar decisions daily, speed matters as much as resources. Canada has the potential; it just risks missing out if no one pulls the trigger.



STARING DOWN AN EMPTYING CONSTRUCTION PIPELINE

February 2026 marked a fundamental shift in the Canadian housing narrative. For years, the primary concern was whether prices would ever drop; now, the concern is that they have dropped just enough to break the supply chain, but not enough to help the average buyer. We have entered a dead zone where the market is essentially too high to buy and too low to build.

This month's data highlights a widening gap between market prices and the cost of new supply. A recent CIBC report characterized the housing engine as "simply broken," noting that while benchmark prices have retreated significantly from 2022 peaks, they remain historically elevated relative to incomes. At the same time, these lower valuations combined with high labour and material costs have made the economics of new construction untenable. Reuters reported that national housing starts plunged 15% in January. Developers are increasingly shelving projects as the financial math for new builds no longer pencils out, threatening a long-term supply crunch even as current demand remains tepid.

The freeze is most acute in the high-rise sector. The investment model that sustained the last decade, predicated on cheap credit and population growth, has effectively stalled. With borrowing costs remaining restrictive and migration cooling, the investor demand that once pre-sold entire towers has vanished.

GTA condo sales have cratered, sitting nearly 90% below the 10-year average. Since banks won't greenlight construction financing until a project hits that 70% pre-sale mark, the current lack of buyers has choked off the development pipeline at the source. We are seeing a market trapped by its own inventory, with many units now being underwater relative to their original contract prices.

Housing stopped being a standalone sector issue and became a broader economic drag. As construction flags and the "wealth effect" of falling equity weigh on consumer spending, it is clear that price declines alone will not fix the underlying mismatch in the Canadian market.

Chart 1: Condo starts in Toronto declined sharply in 2024 and 2025

Number of condo housing starts in Toronto, 12-month moving average, annualized, monthly data



Sources: Canada Mortgage and Housing Corporation and Bank of Canada calculations

EVERYTHING FLOWS THROUGH HORMUZ

A renewed escalation of tensions involving Iran near the Strait of Hormuz has served as a reminder of just how closely geopolitics and the global economy remain linked. The narrow waterway, through which roughly a fifth of the world's oil supply passes, is one of the most important chokepoints in the global energy system. Even a limited disruption was enough to send crude prices sharply higher, underscoring how sensitive markets are to any perceived threat to supply.

The initial reaction was immediate. Brent crude rose toward the mid-\$80s per barrel, at times gaining \$3–\$4 in a single session as traders priced in the risk of escalation. U.S. gasoline prices, already sitting around \$3.40–\$3.50 per gallon, were expected to climb further—by roughly 10–20 cents in the near term—if higher crude prices held. That pressure eased somewhat as the United States and its allies signalled possible increases in supply and took steps to keep shipping lanes open. Rather than a sustained spike, what followed was a period of noticeable volatility.

Financial markets moved in a similar way. U.S. equities slipped in the immediate aftermath, with major indices down around 1%, before stabilizing as oil prices pulled back. The broader takeaway is a familiar one for policymakers: higher energy prices can slow the progress of inflation while also weighing on consumer spending and overall demand.



More broadly, the episode highlights something that has become increasingly clear in recent years. Geopolitical risk, especially in energy markets, is no longer a one-off shock but a more constant feature of the landscape. While tools like strategic reserves and diversified supply help absorb some of the impact, they don't eliminate the system's reliance on key routes like Hormuz.

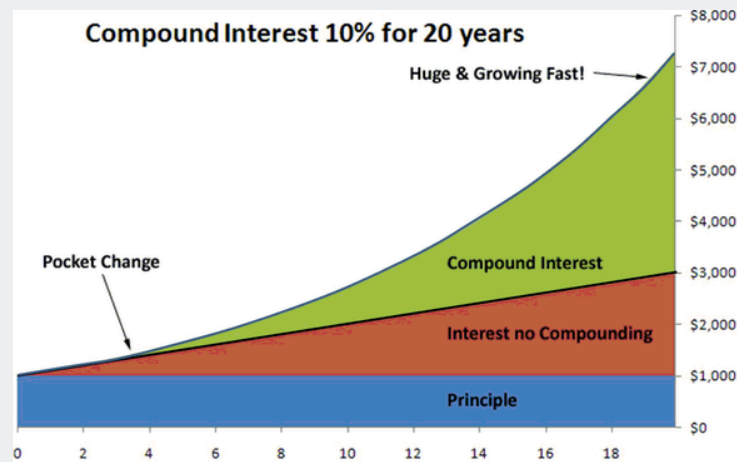
Whether this proves to be a short-lived disruption or something more persistent will depend on how tensions in the region evolve. For now, markets seem to be balancing two realities at once: the resilience of global supply systems, and their continued vulnerability to disruptions in the narrow corridors that keep them running.

CLUB UPDATES

Our final student-run, alumni-supported conference of the year is Queen's Women in Economics (QWE). For over five years, QWE has highlighted the accomplishments, leadership, and impact of women across economics, finance, business, and related fields. The conference serves as a catalyst for growth and empowerment for Queen's female undergraduates through alumni-led panels, keynote addresses, and interactive discussions. By bringing together accomplished professionals to share their experiences and insights, QWE aims to inspire attendees to leverage their strengths, build confidence, and define success on their own terms.

INVESTING 101

Simple and compound interest describe how money grows over time. Simple interest is calculated only on the original amount invested, meaning the interest earned stays constant each period. In contrast, compound interest is calculated on both the initial amount and any interest that has already been earned, allowing returns to build on themselves over time. While simple interest results in steady, linear growth, compound interest leads to faster, exponential growth as interest accumulates. For most investors, consistently reinvesting returns is what allows compound interest to accelerate wealth over time.



CANADIAN STOCKS OF THE MONTH

- Pembina Pipeline (PPL)** remains a stable player in Canada's energy infrastructure sector. Despite a recent dip in earnings, the company announced \$425 million in pipeline expansion projects across Alberta and British Columbia, reinforcing confidence in long-term demand and capacity growth. As energy security becomes a growing global priority, Pembina is well positioned to benefit from increased Western Canadian production, expanding export capacity, and the need for reliable supply.
- AltaGas (ALA)** is gaining momentum through its integrated midstream and utility operations, with particular strength in its liquefied petroleum gas (LPG) export business. The company recently increased its dividend to \$0.33 per share, signalling confidence in its long-term growth outlook. Combined with steady earnings and 12% stock price growth in February, the company is showing continued strength as both a growth and income-oriented investment.
- MDA Space (MDA)**, a Canadian space technology company, is expanding beyond its core satellite operations with the launch of 49North, a defence-focused subsidiary targeting multi-domain and mission-critical capabilities. Leveraging its experience in complex space and defence systems, the initiative will focus on advanced surveillance, intelligence, and autonomous technologies across land, air, and maritime environments. As the Canadian government ramps up spending on domestic security and sovereign capabilities, this move strengthens MDA's foothold in a rapidly expanding defence and security market.
- Enbridge (ENB)** is a reliable income-oriented stock, particularly as weak consumer demand pressures more cyclical sectors of the Canadian economy. With a dividend yield above 5% and a long history of annual increases, Enbridge offers investors a dependable source of income in an uncertain environment. While not necessarily a high-growth opportunity, it represents a level of certainty and stability that is increasingly valuable in today's market.