

## RJL PCS: INSIGHTS & STRATEGIES

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## January 2026 Insights & Strategies: Starting 2026 with a bang

### Macro Highlights for December

- We are still waiting for the U.S. Supreme Court to rule on the legality of IEEPA-based tariffs. The markets are generally expecting Trump to lose the case, but to then re-impose similar tariffs through other means. Questions would still remain on if, how, and/or when, any reimbursements would be due to parties that have already paid into the over US\$130 billion in collected IEEPA-based tariffs.
- Labour markets in Canada and the U.S. continued to show softening, although job creation has been staying mostly positive. The unemployment rate in Canada rose to end the year at 6.8%, versus 6.7% at the end of 2024. In the U.S. the unemployment rate is 4.4%, up from 4.1% a year earlier. This relative resilience is likely pushing out any urgency to lower interest rates.
- Despite concerns early in 2025 of GDP impacts from tariffs, U.S. economic growth seems to have fared well, and forecasted to up ~2.0% over 2024, with our U.S. Economics team forecasting 2.2% in 2026. In Canada, a still uncertain trade picture and accompanying constrained business spending is yielding a forecast of ~1.1% growth from 2024 to 2025, and our forecast of 1.2% growth in 2026.

### Financial Markets in December

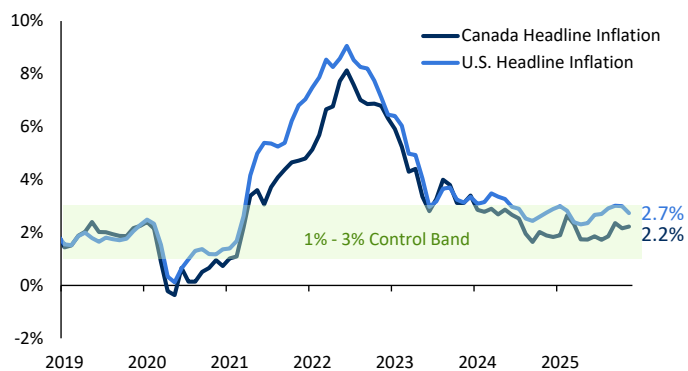
- In December, the TSX Composite recorded price and total returns of 1.1% and 1.3%, respectively, lifting full-year price and total returns to 28.2% and 31.7%, its strongest calendar-year performance since 2009. The S&P 500 ended December on a more subdued note, with a -0.1% price return and a 0.1% total return, but still delivered a solid 2025 overall, finishing the year up 16.4% on a price basis and 17.9% including dividends.
- The U.S. Investment Strategy Group's base-case S&P 500 target for year-end 2026 is 7,250 (50% probability), based on 24x EPS of US\$300. The bull case (35%) assumes a target of 7,750, using 25x EPS of US\$310, while the bear case (15%) implies 6,555, based on 23x EPS of US \$285. Technology, Industrials, and Health Care remain preferred sectors, while Consumer Discretionary has been upgraded as a contrarian opportunity.
- Our year-end 2026 target for the TSX Composite is 34,000, based on projected EPS of \$1,890 and an implied 18.0x price-to-earnings multiple. Materials, Industrials, and Energy are favoured, reflecting their positioning to benefit from Budget 2025. Financials, particularly the major banks, should also be supported by stronger business activity and a pickup in investment projects, while Information Technology remains supported by the continued A.I. megatrend.

### Upcoming

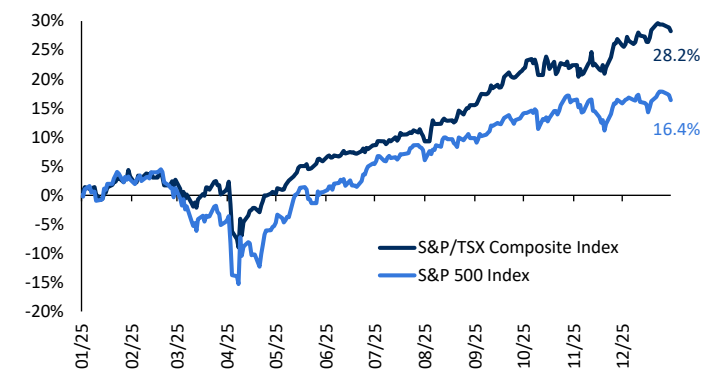
- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, will likely be the most consequential event for Canada this year. While we are optimistic of a reasonably good outcome for Canada, we are also braced for high-priority demands from the U.S. related to rules of origin, digital services, and the dairy industry.
- Economic conditions and still relatively resilient labour markets have reduced the urgency for more policy interest rate cuts. In Canada, we continue to see the potential for one cut if a drawn-out USMCA renegotiation, escalating threats from the U.S., or significant increase in the unemployment rate entice the BoC to move into stimulative territory, below the current 2.25% rate, which is at the low end of the 2.25-3.25% neutral range. In the U.S. we see a greater likelihood of rate easing from the current 3.75% rate, but with the timing clouded by a still resilient economy, still sticky inflation, and renewed attacks on Fed independence. Next BoC and Fed announcements are coordinated to be on January 28, March 18, and April 29.
- As 4Q25 earnings season kicks off, we will be watching for earnings strength and breadth which is likely needed to keep the current positive market momentum.

Please read domestic and foreign disclosure/risk information beginning on page 19

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**Chart 1 - Canada and U.S. Headline Inflation**

Source: FactSet, Raymond James Ltd.; Data as of November 30, 2025. Not seasonally adjusted.

**Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance**

Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025. Price return in local currency.

## Executive Summary

We kick off 2026 with a quick recap of December and look back at the markets in 2025. We provided our 2026 Outlook in last month's report, but summarize here again. Overall, we are optimistic about the U.S. and Canadian equity markets in 2026, with multiple tailwinds for the U.S. economy and corporate earnings. We also expect a reasonably positive renegotiation to the USMCA to be a relief for Canadian markets, despite continuing uncertainty and volatility in geopolitical events that could still provide some wild twists and turns for investors before this year is out.

### December closed out a surprisingly good year

In February 2025 Canada was surprisingly one of the first targets of President Trump's disruptive tariff announcements. Following the much broader 'Liberation Day' tariffs in April, Canada ended up in a relatively favourable position thanks to the USMCA exemptions that continued to allow over 85% of products to cross the border tariff-free, leaving Canada with an effective tariff rate of 5-6%. This allowed Canada to avoid the most concerning scenarios that could have had severe consequences for GDP growth and employment across the country. Ultimately, Canada is expected to end 2025 with ~1.1% growth over 2024. We are cautious expecting 1.2% growth in 2026, with positive surprises possible in 2H26, depending on the USMCA renegotiation.

The Canadian labour market was relatively stable through the end of the year. Although the unemployment rate rose by 0.3 pp to 6.8%, from November to December, this came as the number of people looking for work rose, with a participation rate of 60.9% and 8,200 new jobs being created in the last month, leaving 1.6 million Canadian unemployed. Overall this is almost unchanged from the 6.7% unemployment rate at the end of 2024, with a participation rate of 60.8%.

The U.S. labour market looks to have slowed through 2025, adding just 50,000 jobs in December, but the unemployment rate dipped by 0.1 pp to end the year at 4.4%, with the participation rate at 62.4%, as overall population growth has slowed, in part due to aggressive immigration policies. In total, approximately 584,000 jobs were created in the U.S. in 2025, down from 2.2 million in 2024. This left 7.5 million people unemployed in the U.S. civilian labour force at the end of 2025 versus 6.9 million at the end of 2024 when the unemployment rate was 4.1%.

The policy interest rate was held steady at 2.25% at the BoC meeting in December, while the Fed cut its rate by 25 bps, to 3.75%, as widely expected. Canada is now at the lower end of the neutral rate range, although we see the opportunity for further easing in 2026, particularly if we see further economic weakness in 1H26 or an increase in unemployment. In the U.S., there is likely going to be more easing through 2026, especially as we see a new Fed Chair that will certainly be somewhat more aligned with President Trump's desire for lower rates. The still resilient economic and labour stats in the U.S. are pushing those easing expectations further out towards at least April, and with the expectations that inflation will be shown to be under control after a potentially 1H26 bump up from tariff pressures.

### 2025 markets were surprisingly good

Equity markets extended their strong multi-year advance in 2025, with both Canadian and U.S. equities delivering another year of solid performance amid an unusually complex macro and policy backdrop. In Canada, the TSX Composite benefited from its sector composition, with Materials, supported by strong performance from gold miners, and Financials contributing meaningfully to overall returns. While gold miners lifted headline performance to exceptional levels, the index still delivered historically strong gains even excluding the gold sub-industry,

reflecting broad-based strength across other sectors. In the U.S., the S&P 500 also delivered a solid outcome, navigating a more challenging environment marked by heightened tariff-related uncertainty, a hawkish Federal Reserve in the first half of the year, and liquidity concerns stemming from quantitative tightening and a government shutdown. Despite these headwinds, strong corporate earnings, relatively stable inflation, and improving confidence around a soft-landing trajectory helped support equity performance. Across both markets, 2025 marked a third consecutive year of strong equity outcomes, achieved against a persistent “wall of worry”.

**Themes for 2026** (summarized from our December report)

- **Canadian Economy: New Engines Required** - Lingering trade uncertainty, weak productivity, a soft labour market, and lagging business investment, continue to restrain economic momentum in Canada. Sustainable improvement will depend on developing new engines of growth. While A.I. is expected to be a tool that will gain broader utility towards achieving this goal over the years ahead, uncertainty over the future of the U.S. trade relationship will likely constrain significant business investment through at least the first half of 2026. To offset this, the federal government is pushing for more resource development, heightened business investment, and greater trade diversification to help strengthen export growth and improve net trade at a time when uncertainty around Canada’s trading relationship with the U.S. remains elevated.
- **International Trade: USMCA Up for Renewal, Canada Ready to Reposition** - As the 2026 USMCA joint review approaches, we remain relatively optimistic that negotiations will ultimately deliver greater stability and clarity for Canada’s trade environment and therefore business confidence. We also expect Canada to accelerate efforts to diversify its trade relationships, specifically in Indo-Pacific and European markets. These initiatives aim to broaden Canada’s external demand base and reduce over-reliance on the U.S., but they will likely be slow to come to fruition.
- **Monetary Policy: When Neutral Isn’t Neutral Enough** - The Bank of Canada has signaled comfort operating at the lower end of its 2.25–3.25% neutral range, but lingering trade uncertainty and soft domestic conditions suggest that the current stance may not be sufficiently supportive in the months ahead, specifically leading up to the USMCA renegotiation. In this environment, we could see one more rate cut in early 2026, bringing the policy rate to 2.0%.
- **Fiscal Policy: Markets Celebrate, the Economy Waits** - Budget 2025 is highly investment-heavy, meaning Canadian equities may benefit well before the broader economy. Markets may favour companies in certain sectors, even as the real economic impact rolls out more slowly as projects are approved, capital is deployed, and trade conditions stabilize.
- **Canadian Equities: Hard Assets Turning Up, Fiscal Spending Turning On** - Canada’s 2025 budget sets the stage for a broad hard-asset up-cycle, with fiscal programs channeled into materials, energy, and industrials. These sectors may see multiple expansion ahead of earnings improvements as investment accelerates. Critical minerals, energy exports, nuclear and clean power, data centre demand, and major infrastructure initiatives all act as structural tailwinds. Industrials benefit from tariff-response funds, tax reductions, and defence procurement reform, while banks gain from improved loan activity.
- **A.I. Trend: Early Days, Tougher Grades** - A.I. adoption continues to broaden, but most users are still using it in limited ways, and many real-world applications are only beginning to scale, signs that the A.I. cycle remains in its early stages. Lessons from the dot-com era highlight the importance of cash generation, disciplined CAPEX, and resilient balance sheets, and today’s market is beginning to apply those filters. As spending plans face greater scrutiny, we expect more selective leadership, healthier consolidation, and a more durable A.I. uptrend, rather than a speculative bubble just yet.
- **International Equities: The Rally Fades, the Diversification Stays** - International equities, markets outside the U.S. and Canada, may see a moderation in performance after a strong 2025. Europe’s strong 2025 rally was driven by looser monetary and fiscal policy and a rebound from years of under-ownership, but with earnings momentum still weak and much of the gain fueled by multiple expansion, sustaining outperformance may be challenging. Limited exposure to high-growth tech sectors also remains a structural headwind. Japan offers stronger fundamentals but faces currency risk from a potentially stronger yen, given its significant overseas revenue exposure. We hold a more constructive view on emerging markets, supported by monetary easing and rising CAPEX in 2026. Even with more modest return prospects, maintaining international exposure remains valuable for diversification and reducing portfolio volatility.

## Tariffs

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. However, there remain two important considerations that could impact 2026. The first is a Supreme Court ruling that could declare some or all IEEPA-based tariffs as illegal. The second is the USMCA renegotiation that could affect the tariff-exempt status of the majority of Canadian exports to the U.S.

Tariffs collected by the U.S. government were well over US\$200 billion in 2025, with over US\$135 billion being from IEEPA-based tariffs. Overall, the average effective tariff rate was estimated to be ~11.4% as of October up from ~10.8% in September. According to the Yale Budget Lab, once all announced tariffs are implemented, the average effective tariff rate is estimated at 16.8% before substitution, but could eventually settle at roughly 14.4% after substitution, as businesses adjust by switching suppliers. Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, we include brief updates on key tariff-related items.

### IEEPA as a basis of tariffs under threat

The International Emergency Economic Power Act (IEEPA) was used as the basis of President Trump's initial fentanyl-justified tariffs against Canada, Mexico, and China, as well as the broad Liberation Day / 'reciprocal' tariffs and baseline tariffs that affected almost every country in the world. Early in 2026, we are expecting a ruling from the U.S. Supreme Court as to the legality of using IEEPA, which could strike down some or all of these tariffs. If that occurs, there could be a question as to the reimbursement of some or all of the tariffs collected so far. Any kind of ruling against IEEPA-based tariffs could create additional uncertainty for a period of time, as the U.S. administration would undoubtedly seek other mechanisms in order to replace that revenue and maintain similar pressure on various countries and industries. One potentially short-term tactic could be to use Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits.

Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China, or the automotive industry, steel, and aluminum tariffs, would be unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

### De minimis exemption

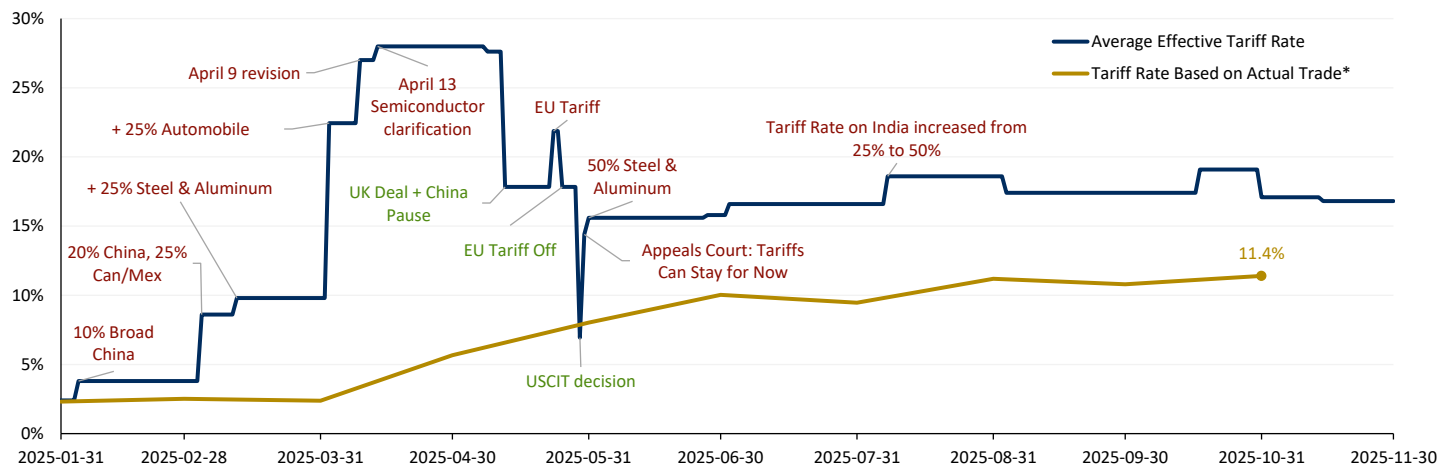
Wrapped up in all the tariff announcements this year was the elimination of the 'de minimis' exemption. Previously, shipments by mail that were valued under US\$800 were exempt from duties. Now, Americans using e-commerce sites, many of which were primarily sourcing from China, such as Temu and Shein, are going to have to cover taxes, which as in the case of shipments from China, is currently 34%. Packages received from all other countries have been taxed at the country-specific IEEPA rates since August 29. In 2022, 80% of all U.S. bound e-commerce shipments were covered by the 'de minimis' exemption, with the vast majority coming from China, and in 2024, U.S. Customs and Border Protection (CBP) processed 1.36 billion 'de minimis' exempt packages.

**Table 1 - Section 232 Tariffs Summary, as of January 12, 2026**

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Pharmaceuticals	Effective October 1	100%
Softwood timber and lumber	Effective October 14	10%
Wooden furniture	Effective October 14	25% (will increase to 30% on Jan 1, 2026)
Kitchen cabinets and vanities	Effective October 14	25% (will increase to 50% on Jan 1, 2026)
Medium/heavy duty trucks	Effective November 1	25%
Semiconductors and chip making equipment	Investigation initiated April 1	Threatened 100%
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind turbines	Investigation initiated August 13	-
Robotics and industrial machinery	Investigation initiated September 2	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2	-

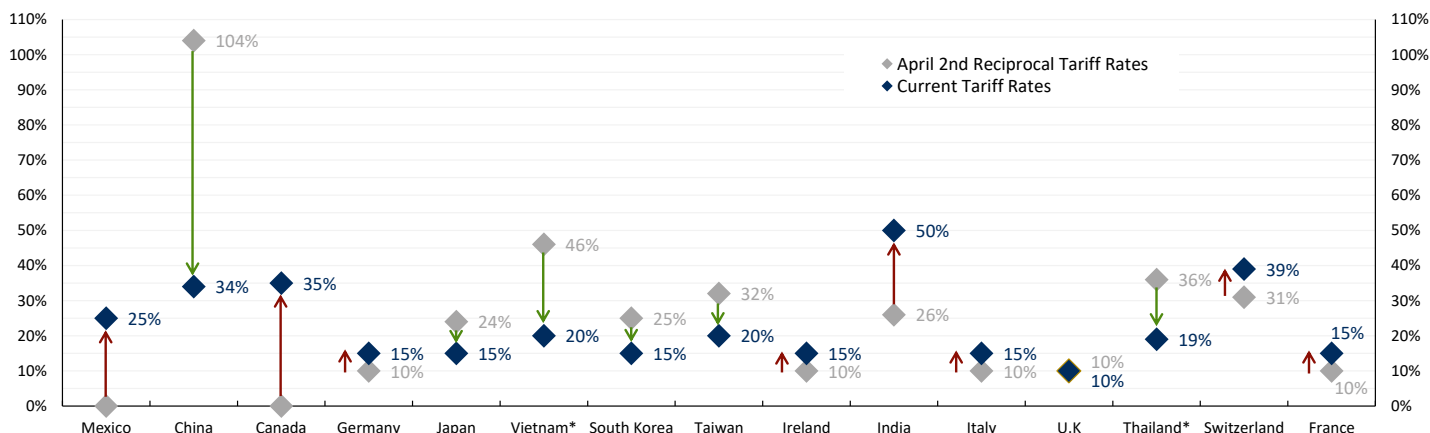
Source: U.S. Department of Commerce, Raymond James Ltd.

**Chart 3 - U.S. Effective and Actual Tariff Rate**



Source: The Budget Lab at Yale. \*Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

**Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates, as of January 12, 2026**



Source: U.S. Census Bureau, Raymond James Ltd. \*USMCA-compliant goods remain exempt. \*\*40% tariff rate on transshipments.

## Economics

### Canada – from navigating uncertainty to gradual stability

After a volatile 2025 marked by policy uncertainty and shifting trade dynamics, Canada enters 2026 with cautious optimism. The upcoming USMCA renegotiation is expected to play a pivotal role in shaping sentiment. While the process may introduce short-term uncertainty, particularly given unpredictable U.S. policy positions, a finalized framework should provide much-needed clarity for businesses. Fiscal measures from Budget 2025 are expected to begin taking effect over the course of this year, offering some support to the economy. Although the first half of the year may remain challenging, these factors should help set the stage for a gradual strengthening in economic momentum later in the year.

### GDP growth remains fragile

Real GDP declined 0.3% m/m in October, reversing September’s 0.2% gain (Chart 5), as both goods-producing (-0.7% m/m) and services-producing (-0.2% m/m) sectors contracted. The weakness was broad-based, with 11 of 20 industries posting declines. Among goods-producing industries, manufacturing was the main drag, falling 1.5% m/m after leading growth in the prior month. Durable goods manufacturing dropped 2.3% m/m, driven by a sharp pullback in machinery and a pronounced contraction in wood products. The latter reflected production slowdowns following the announcement of additional U.S. tariffs on Canadian lumber, with sawmills and wood preservation recording their steepest decline since April 2020. Non-durable manufacturing also softened, led by chemical manufacturing, though ongoing strength in petroleum and coal products provided a partial offset.

In services-producing industries, labour disruptions played a significant role. Strike activity weighed on education, retail trade, and transportation and warehousing, while temporary gains in arts, entertainment and recreation, and accommodation/food services only partially offset these drags, leaving overall services GDP down 0.2% m/m.

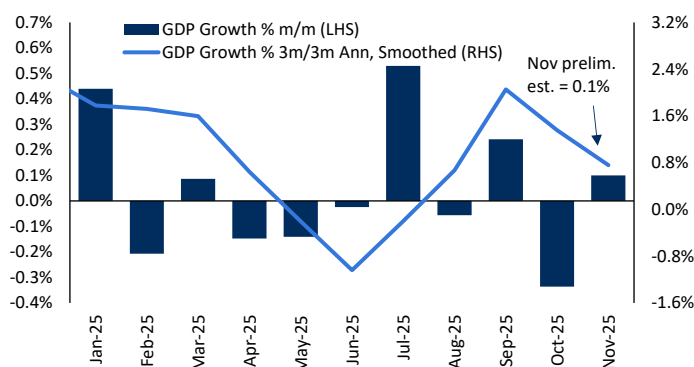
The November flash estimate points to only a modest 0.1% rebound, as improvements in education and transportation were tempered by continued weakness in manufacturing and mining. Unless December delivers a stronger recovery, fourth-quarter growth is likely to remain subdued. Overall, while some of October's weakness reflects temporary disruptions, the underlying slowdown, particularly in manufacturing, suggests that growth remained fragile heading into year-end. Trade-related uncertainty, weak business sentiment, and soft external demand continue to weigh on economic activity. This remains consistent with our broader view of a soft near-term backdrop, with any meaningful improvement likely deferred until later in the year as policy support builds and trade visibility improves.

### Retail sales slip in October

Retail sales fell 0.2% m/m in October, weaker than anticipated, with volumes down 0.6% m/m, pointing to soft consumer demand. Core retail sales, which exclude motor vehicles, parts, and gasoline, also declined 0.5% m/m. The largest drag came from food and beverage retailers, while furniture and motor vehicle sales provided some offset. Gasoline station sales also slipped amid lower prices.

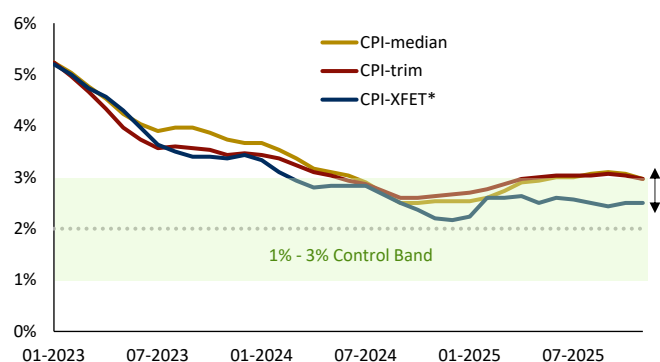
Encouragingly, the advance estimate for November points to a 1.2% m/m increase, partly reflecting a normalization after October's weakness. Seasonal factors such as holiday shopping and Black Friday promotions are also expected to provide a lift to retail activity in the final months of the year. That said, the economic backdrop suggests that spending patterns may remain volatile. Slowing wage growth and cautious consumer sentiment indicate that a sustained recovery in discretionary spending will likely take time.

**Chart 5 - GDP Growth Weakened in October**



Source: Statistics Canada, Raymond James Ltd.; Data as of October 31, 2025.

**Chart 6 - Core Inflation Moderating (3-month moving average)**



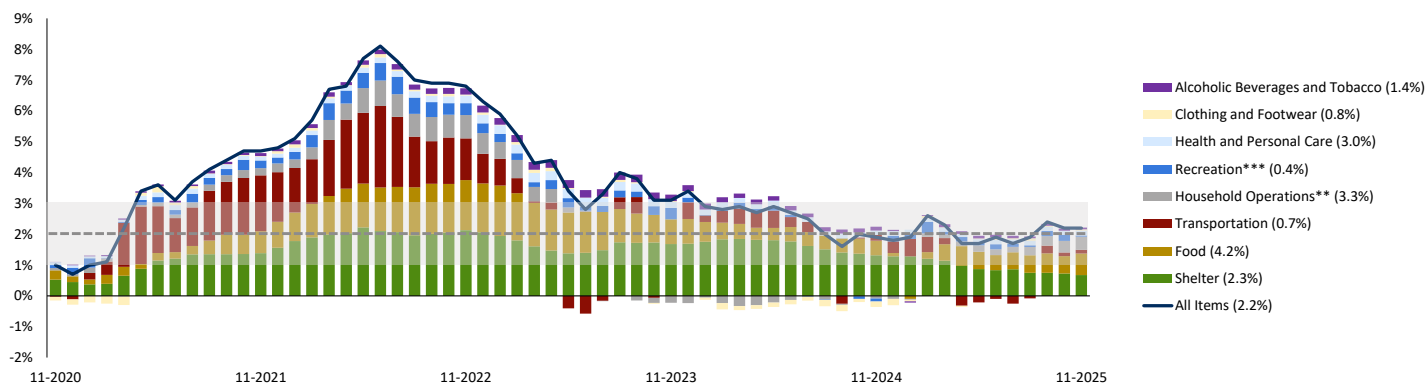
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of November 30, 2025. \*CPI excluding food, energy and the effect of changes in indirect taxes.

### Headline inflation holds steady as core pressures ease

Headline Consumer Price Index (CPI) inflation held steady at 2.2% y/y in November, matching October's pace and closely aligned with the Bank of Canada's 2% target. Monthly price gains reflected higher food and energy prices, with food prices rising 1.3% m/m and gasoline prices increasing 1.8% m/m. These gains were largely offset by weakness in travel-related categories, as an unusually large decline in travel tour prices (-12.0% m/m) pulled recreation, education & reading prices down 2.0% m/m. Elsewhere, price growth remained subdued, with shelter prices rising just 0.1% m/m.

Underlying inflation pressures continued to ease in November. CPI-trim and CPI-median rose by an average of 0.14% m/m, the smallest monthly increase in nearly two years and below the target-consistent pace of roughly 0.17%. While the year-over-year rates for CPI-trim and CPI-median remain at 2.8%, the three-month annualized average has eased to 2.3%. Additionally, CPI-XFET (CPI excluding food, energy, and the effect of changes in indirect taxes) has generally held steady at lower levels, and eased down to 2.4% y/y in November (Chart 6).

As outlined in our outlook, the broad-based slowdown in core price growth suggests inflation will likely remain anchored near the BoC's 2% target in the coming months, particularly as households contend with slower income growth and weaker labour market confidence in the near term.

**Chart 7 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)**

Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025. \*\*Household operations, furnishing and equipment; \*\*\*Recreation, education and reading.

### Labour market holds steady in December after recent gains

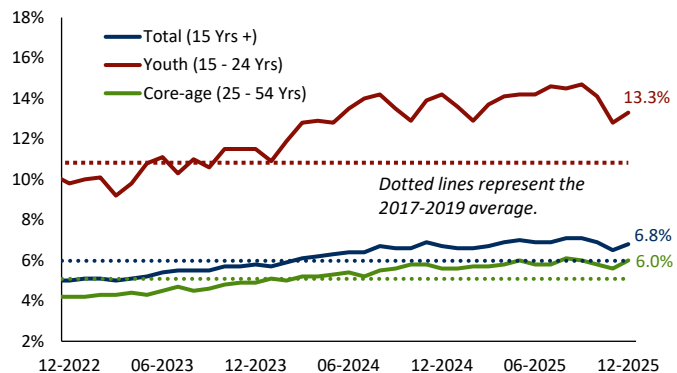
Employment was little changed in December (+8.2k), following three consecutive monthly gains totaling 181k from September through November. The employment rate held steady at 60.9%, while the unemployment rate rose 0.3 percentage points to 6.8% (Chart 8), partially reversing the declines seen in October and November. The rise in unemployment rate reflected an increase of 81k in the labour force, driven by a notable increase in core-age participation. Meanwhile, population growth slowed further amid tighter immigration controls, with the population increasing by just 10k in December. Wage growth continued to ease, as average hourly earnings rose 3.4% y/y in December, down from 3.6% in November.

Beneath the headline, the composition of employment was mixed. Full-time employment rose by 50k, while part-time employment fell by 42k. Notably, employment in the youth age-group (15–24 years) declined by 27k, pushing the youth unemployment rate up 0.5 percentage points to 13.3%. The youth pullback appears to have followed an unseasonably strong increase in November, likely reflecting some seasonal hiring being brought forward. At the industry level, health care and social assistance once again led employment gains (+21k), alongside growth in “other services” category. These increases were offset by notable declines in professional, scientific and technical services (-18k), and accommodation/food services (-12k).

Looking back at 2025, labour market conditions deteriorated through the first eight months as hiring slowed amid elevated economic and trade uncertainty. From January to August, there was virtually no net employment growth, the employment rate fell from 61.1% to 60.5%, and the unemployment rate rose to 7.1%, its highest level since 2016 outside the pandemic period. The rise in unemployment primarily reflected weaker hiring rather than elevated layoffs, as job finding rates (proportion of job seekers who found work from one month to the next) declined while layoff rates remained near historical norms. Conditions were most challenging for youths, with unemployment reaching its highest level in more than a decade. However, labour market conditions improved toward year-end. Employment rose by 181k between August and November before moderating in December, the employment rate recovered to 60.9%, and the unemployment rate fell to a low of 6.5% in November before edging higher in December. During the year, labour force growth also slowed, largely due to tighter immigration policies, and we expect this trend to continue into 2026 (Chart 9).

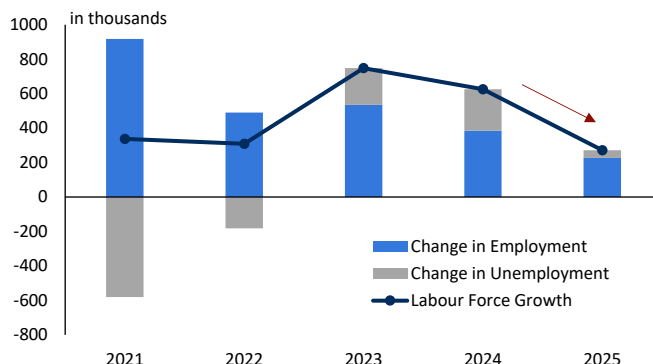
Overall, the late-year improvement suggests the labour market may have moved off its weakest point in 2025, although conditions remain uneven across age groups and industries. As population growth continues to slow, labour force expansion will decelerate, reducing the break-even job creation rate and helping prevent a significant rise in unemployment. At the same time, as business confidence improves and fiscal measures support investment, we expect the unemployment rate to gradually trend lower by the end of 2026.

**Chart 8 - Unemployment Rates Rose Across Age Groups in December**



Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 9 - Labour Force Growth Moderated in 2025**



Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

**Trade deficit returns as imports rebound**

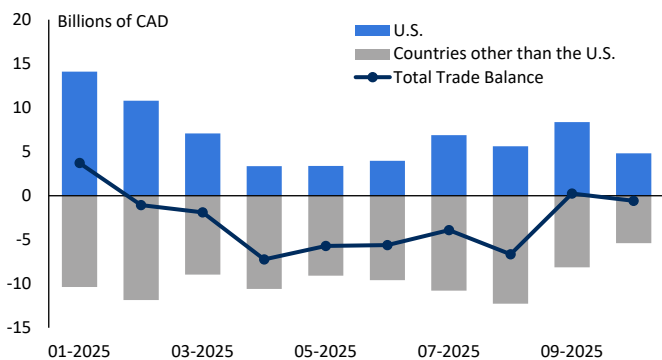
Canada’s merchandise trade balance returned to deficit in October, moving to a \$0.6 billion shortfall after posting a small \$0.2 billion surplus in September (Chart 10). Exports rose 2.1% m/m, following a strong gain in September, but were outpaced by a 3.4% m/m increase in imports. In volume terms, imports rose a solid 2.6% m/m, while export volumes edged lower by 0.4% m/m.

Export growth in October was again driven by volatile categories, particularly precious metals. Shipments of unwrought gold, silver, and platinum group metals surged 47.4% m/m, reflecting both higher prices and higher volumes, and contributed to a record rise in exports to the United Kingdom. Overall, exports to countries other than the U.S. rose 15.6% m/m, supported by higher crude oil shipments to China. In tariff-sensitive sectors, motor vehicle exports increased 4.1% m/m, largely due to front-running ahead of new U.S. truck tariffs implemented on November 1. Despite this gain, Canada’s trade surplus with the U.S. narrowed sharply, from \$8.4 billion in September to \$4.8 billion in October.

Imports rebounded broadly after declining in September, with increases recorded across 8 of 11 product categories. Notable gains were seen in electronic/electric equipment (+10.2% m/m), and industrial machinery, equipment and parts (+5.7% m/m). The strength in these categories suggests firm domestic demand for investment-related items. While this contributed to the widening deficit, it could bode well for domestic capital spending.

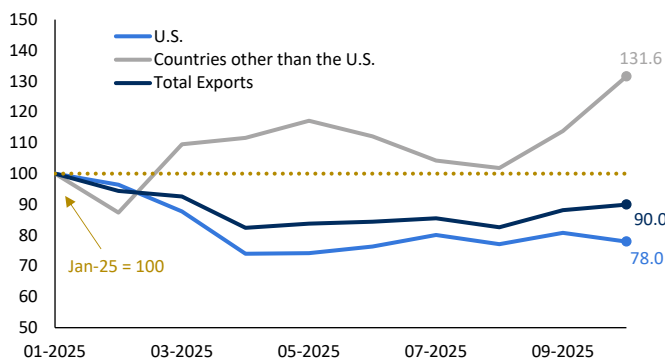
Looking beyond the monthly volatility, the 2025 year-to-date (as of October) comparison highlights some shift in Canada’s export profile. Relative to January 2025, total exports are down 10%, driven by a sharp 22% decline in exports to the United States. In contrast, exports to countries outside the U.S. are up 31.6% over the same period (Chart 11). While this shift points to tentative progress in reducing reliance on the U.S. market, much of the recent strength reflects surges in gold exports, suggesting that sustained diversification remains a longer-term effort.

**Chart 10 - Trade Balance Swings Back to Deficit in October**



Source: Statistics Canada, Raymond James Ltd.; Data as of October 31, 2025.

**Chart 11 - Canada’s Exports Show Signs of Diversification**



Source: Statistics Canada, Raymond James Ltd.; Data as of October 31, 2025.



### Bank of Canada holds policy rate at 2.25%

At its December meeting, the Bank of Canada kept its policy rate unchanged at 2.25%, the bottom of its estimated neutral range of 2.25–3.25%. While the Bank acknowledged that the economic outlook has improved somewhat since October, its tone remained cautious. The statement highlighted that hiring intentions remain subdued despite recent labour market strength, and Governor Macklem reiterated that GDP is expected to grow at a moderate pace in 2026 with inflation staying close to target. Notably, the Bank signaled greater flexibility, stating it would respond if a meaningful accumulation of new evidence alters the outlook.

That said, as highlighted in our outlook, uncertainty surrounding the upcoming USMCA review continues to weigh on business investment and hiring plans. With economic growth expected to remain weak early in the year, reflecting subdued business investment, a soft labour market, and ongoing weakness in trade-exposed sectors, the Bank may have to lean toward a more accommodative stance. These conditions could prompt an additional rate cut this year to provide further support as the economy navigates this period of structural adjustment (Chart 12).

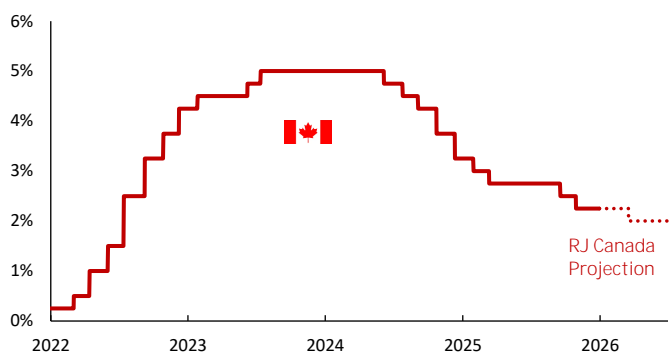
### Housing market slows into year-end

Canada's housing market lost momentum in November, with national home sales edging down 0.6% m/m, extending the holding pattern that followed the mid-year rally in demand. Despite recent softness, sales remain well above April levels; however, actual (non-seasonally adjusted) transactions were 10.7% lower than a year ago, reflecting the lingering impact of earlier tariff-related uncertainty. Price trends have also softened. The MLS Home Price Index dipped 0.4% m/m in November, following a 0.2% gain in October, leaving prices down 3.7% y/y (Chart 13).

On the supply side, new listings declined 1.6% m/m in November, after easing slightly in October. Combined with a smaller drop in sales, the sales-to-new listings ratio tightened to 52.7%, up from 52.2% in October, remaining within the 45–65% range typically associated with balanced market conditions but still below the long-term average of 54.9%. Inventory levels held steady at 4.4 months, unchanged since July and below the historical norm of five months, signaling a relatively tight market despite softer demand.

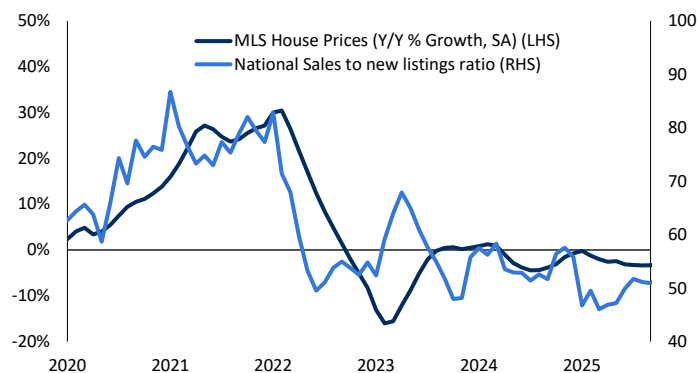
Looking ahead, lower borrowing costs following rate cuts in 2025 should support ownership demand. CREA projects national home sales to rebound 7.7% y/y in 2026 to 509,479 units, the highest level since 2021, while the national average home price is expected to rise 3.2%. However, uncertainty surrounding trade negotiations and broader economic conditions remains a headwind, suggesting that a substantial recovery will likely unfold gradually as confidence improves.

**Chart 12 - Additional Rate Cut Expected in 2026**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025

**Chart 13 - Home Prices Continue to Ease**



Source: CREA, Raymond James Ltd.; Data as of November 30, 2025

### The U.S. — GDP growth accelerates in 3Q25

U.S. real GDP grew at an annualized pace of 4.3% q/q in 3Q25 (Chart 14), well above the consensus estimate of 3.3%. The strength was driven primarily by robust consumer spending, as personal consumption expenditures (PCE) rose 3.5% (q/q annualized), accelerating from 2.5% in 2Q25. Consumer spending on services led the charge as it contributed nearly 1.7 percentage points to overall GDP growth. However, this surge was supported by a drop in the household saving rate from 5.0% in 2Q25 to 4.2% in 3Q25, its lowest level in almost three years, while real disposable incomes remained flat.

External trade also provided a meaningful boost to growth. Exports of goods and services rose 8.8% (q/q annualized), while imports declined 4.7% (q/q annualized), resulting in a net export contribution of 1.6 percentage points to GDP growth. Slower inventory accumulation subtracted a modest 0.2 percentage points, indicating that trade, rather than stock building, was the dominant external driver in the third quarter. Government

spending also rebounded after two consecutive quarterly declines, with government consumption and investment rising 2.2% (q/q annualized). The increase was driven primarily by a surge in national defense spending, which rose 5.8% during the quarter, while state and local government expenditures also contributed positively.

In contrast, private domestic investment was a weak spot, declining 0.3% (q/q annualized) as residential investment fell 5.1% (q/q annualized). Nonresidential investment managed a modest 2.8% (q/q annualized) gain, supported by equipment and intellectual property, though structures investment contracted sharply. Notably, investment spending on computer hardware surged at a 46% annualized pace compared to the previous quarter, reflecting the ongoing boom in A.I. development (Chart 15).

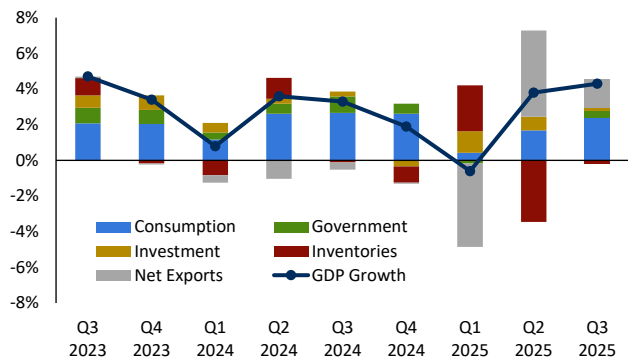
Looking through the headline figure, final sales to private domestic purchasers rose a solid 3.0% (q/q annualized), signaling that underlying domestic demand remains healthy and has been supporting growth. However, with consumption increasingly driven by a lower saving rate alongside a weakening labour market, the sustainability of this trend is uncertain. While momentum was strong in the third quarter, growth through the end of the year is likely to moderate.

### U.S. retail sales momentum slows in October

Retail sales were essentially flat in October, pointing to a moderation in consumer spending momentum following stronger gains earlier in the year. In real terms, sales declined during the month. However, much of the weakness stemmed from a sharp drop in motor vehicle and parts, partly due to the expiration of federal EV tax incentives and earlier tariff-related front-loading. Excluding autos, retail sales rose 0.5% m/m, with 8 of 13 major categories posting gains, suggesting that consumer activity still remains broadly resilient.

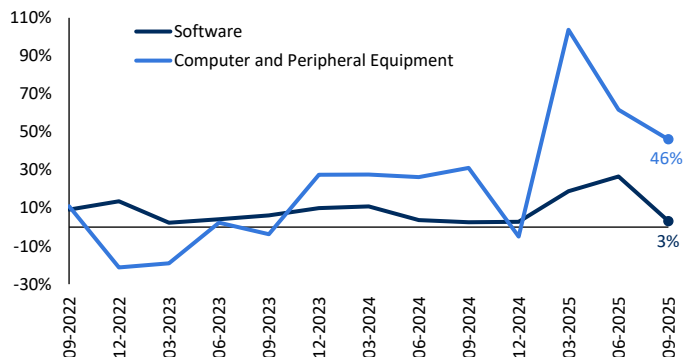
Encouragingly, control group sales, which feed directly into GDP calculations, rebounded 0.85% m/m after a decline in September, pointing to underlying strength in discretionary spending. However, persistent labour market softness, slowing wage growth, and cautious consumer sentiment suggest that spending patterns may remain uneven. With households already drawing down savings to sustain consumption, the strength in consumer spending will likely be tested as we move into 2026.

**Chart 14 - Strong Consumption Drives Q3 GDP Growth**



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Q/Q Annualized Data.

**Chart 15 - Computer Hardware Investment Remains Robust**



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Q/Q Annualized Data.

### PMIs show manufacturing weakness, services strength

The ISM Manufacturing Purchasing Manager Index (PMI) slipped to 47.9 in December from 48.2 in November, remaining below the 50 level, which indicates neither expansion nor contraction, for the tenth consecutive month (Chart 16). While production stayed slightly expansionary at 51.0, new orders (47.7) and employment (44.9) continued to contract. Generally, a reading above 42.5 has mostly been consistent with overall U.S. GDP growth, even if manufacturing is weakening, so the takeaway is for still positive, but decelerating growth in the U.S.

On the services side, the ISM Services PMI rose to 54.4 in December from 52.6 in November, the highest reading since September 2024. The index remained firmly in expansion, supported by improvements in business activity, new orders, and employment.

### U.S. labour market ends 2025 on a subdued note

U.S. nonfarm payrolls rose by 50k in December, extending a trend of modest job gains that characterized much of 2025. While hiring remained soft, the unemployment rate edged down to 4.4% at year-end, reflecting slower labour force growth. The participation rate held at 62.4%, as population growth continued to decelerate, in part due to tighter immigration policies. While private-sector employment increased by 37k in

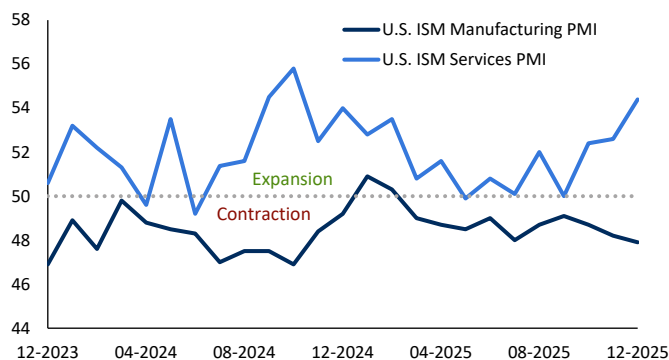
December, goods-producing industries shed jobs, led by declines in construction and manufacturing. Services employment continued to carry overall job growth, with health care and social assistance once again posting sizable gains (+38.5k).

The December report was accompanied by notable revisions. The unemployment rate for November was revised down to 4.5% (from 4.6% initially), while several earlier months were revised slightly higher. Net revisions to the prior two months reduced payrolls by 76k, leaving the level of employment lower than previously reported.

Broader indicators continue to point to underlying weakness in the labour market. Recent job gains have been narrowly concentrated (Chart 17), as private payrolls excluding health care/social assistance have declined for three consecutive months, while the manufacturing sector has shed jobs for 8 consecutive months. In addition, initial jobless claims rose to 208k for the week ending January 2, while continuing claims climbed to 1.914 million for the week ending December 26, the highest level since 2021, suggesting that job seekers are taking longer to re-enter employment.

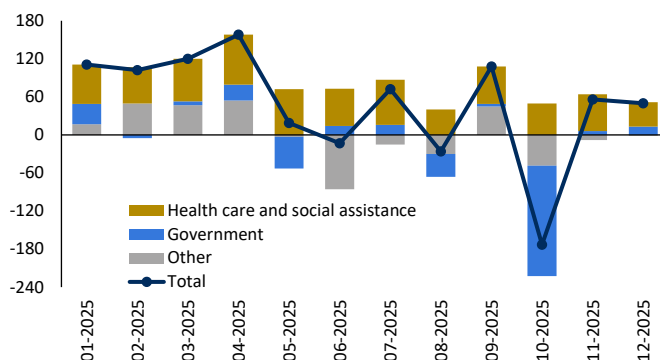
Looking at 2025 as a whole, job creation slowed significantly compared to the prior year. Approximately 584k jobs were added over the year, down from 2.2 million in 2024. The number of unemployed individuals in the civilian labour force rose to roughly 7.5 million by year-end, up from 6.9 million a year earlier, alongside an increase in the unemployment rate from 4.1% to 4.4%. Together, these trends point to a labour market that cooled materially over 2025, characterized by slower hiring and a growing reliance on a narrow set of service-sector industries to support employment growth.

**Chart 16 - Manufacturing PMI Stays in Contraction Territory**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 17 - Employment Gains Remain Concentrated**



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of December 31, 2025.

### U.S. inflation cools in October and November

U.S. inflation moderated notably in October and November, with both headline and core measures slowing more than expected. Headline CPI eased to 2.7% y/y from 3.0% in September, while core CPI declined to 2.6% y/y (Chart 19). Due to the U.S. government shutdown, the November release covers a two-month span, during which both CPI and core CPI rose by just 0.2%. Price movements were broadly subdued. Shelter costs increased only 0.2%, food prices edged up 0.1%, and energy prices rose 1.1%, driven mainly by gasoline, though overall energy inflation remains contained. Within core categories, price pressures ease broadly as well.

Shutdown-related disruptions limited the availability of typical month-over-month details, as the Bureau of Labor Statistics collected October price data for only a narrow set of categories, including gasoline and new/used vehicles. Nevertheless, the November release signals a cooling trend, with both headline and core inflation easing from earlier in the year. With the regular data collection cycle now restored, upcoming reports should provide a more complete picture of underlying inflation dynamics.

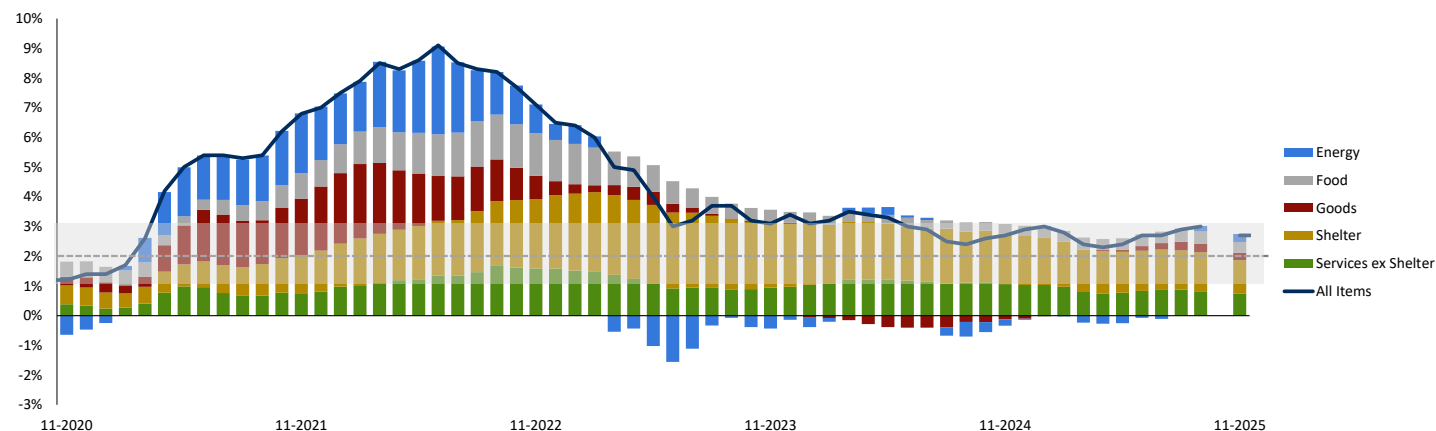
### Fed cuts rates again

At its December meeting, the Federal Reserve lowered the federal funds target range by 25 basis points to 3.50-3.75% (Chart 20), in line with market expectations. The move extended the ongoing easing cycle, but accompanying signals were more hawkish than in prior meetings, underscoring growing divisions within the Committee over the pace of future cuts. The decision was notably split, with three dissenters, the most since 2019. Governor Stephen Miran favoured a larger 50 bp cut, while Chicago Fed President Austan Goolsbee and Kansas City Fed President Jeffrey Schmid preferred to keep rates unchanged. In the press conference, Chair Powell emphasized that the balance of risks has shifted, with greater weight now placed on the employment side of the Fed's dual mandate as labor market conditions gradually soften. At the same time, he cautioned against overinterpreting recent data, given disruptions caused by the government shutdown.

The updated Summary of Economic Projections (SEP) showed little change in the expected policy path. The median dot plot continues to signal just one additional rate cut next year, though the range of projections remains unusually wide. SEP revisions reflected modestly stronger growth expectations, with real GDP forecasts raised for both 2025 and 2026, while inflation projections for headline and core PCE were trimmed slightly over the next two years. Unemployment rate forecasts were largely unchanged.

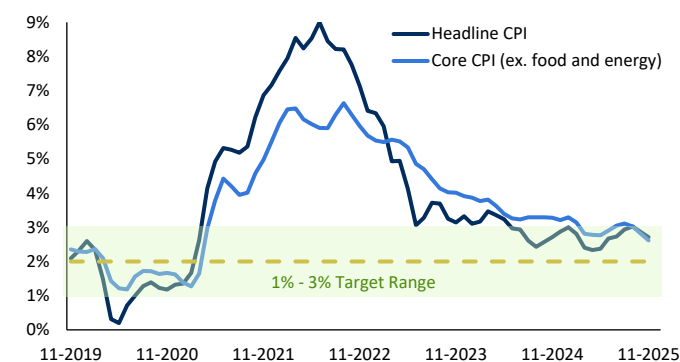
Minutes from the December meeting reinforced a cautious tone. While most participants supported the cut as a step toward a more neutral stance, there was broad agreement that policymakers are well positioned to pause and reassess before making further adjustments. However, recent indicators suggest the balance of risks has shifted away from inflation persistence and toward weakening employment and softer growth prospects. As such, our U.S. team continues to expect one additional rate cut in 2026.

**Chart 18 - Major Components' Contributions to U.S. CPI**



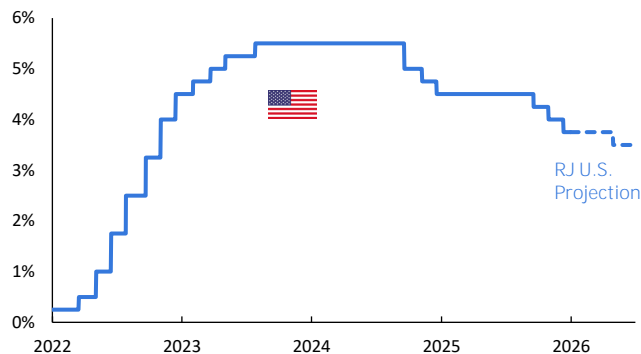
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of November 30, 2025.

**Chart 19 - U.S. Inflation Slows Significantly in November**



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of November 30, 2025.

**Chart 20 - Fed Expected to Deliver One More Cut**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

## Financial Markets

Both the S&P/TSX Composite and the S&P 500 extended the strong momentum of the prior two years into 2025. In December, the S&P/TSX Composite posted price and total returns of 1.1% and 1.3%, respectively, bringing full-year price and total returns to an exceptional 28.2% and 31.7%, levels not seen since 2009. The S&P 500 ended December more subdued, with a -0.1% price return and a 0.1% total return, yet still delivered a solid 2025, finishing the year up 16.4% on a price basis and 17.9% including dividends.

Notably, the three-year period from 2023 to 2025 produced remarkably strong annualized total returns despite persistent “wall of worry” headlines: 21.5% for the S&P/TSX Composite and 23.0% for the S&P 500. Comparable performance was last observed in 2019–2021, with the previous instance before that dating back to the dot-com era of 1997–1999.

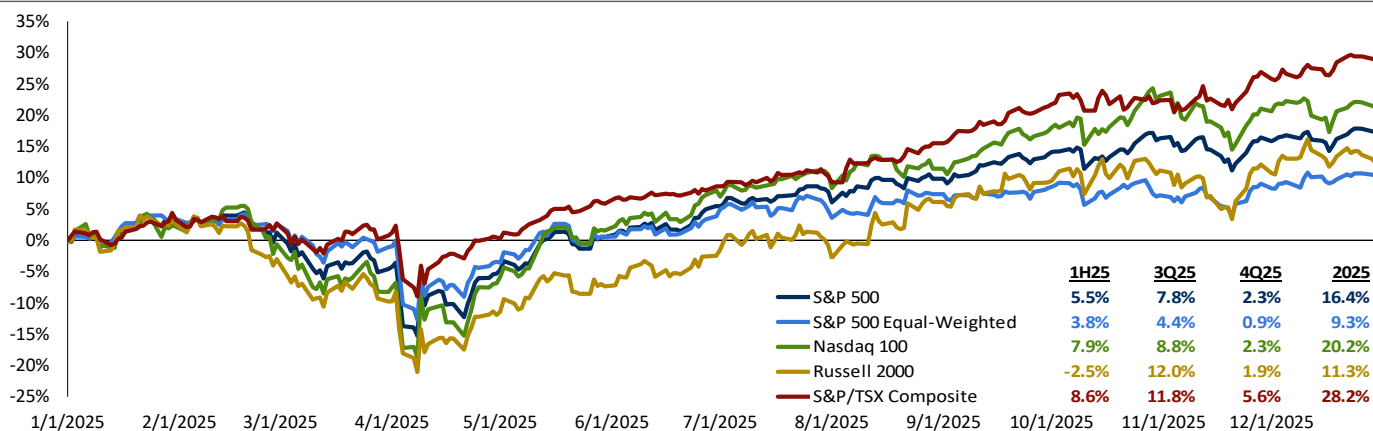
Within the TSX Composite, Financials, Materials, and Consumer Discretionary continued to build on their strong performance from November

into December, delivering the strongest sector-level returns (Health Care excluded from commentary due to minimal index weight). Industrials also posted a positive performance in December, while the remaining sectors finished the month in negative territory, led by underperformance in Information Technology, Utilities, and Energy. Energy sector sentiment weakened as forward-looking earnings expectations were revised lower amid growing oversupply concerns. WTI crude prices fell to US\$55.27 per barrel on December 16, their lowest level since February 2021 during the pandemic. Rising output from OPEC+ and the U.S. is expected to continue capping oil prices. Over the longer term, a return of Venezuelan production to pre-2015 levels would require significant time and capital, as well as substantial investment in pipeline and export infrastructure to reach the U.S. Even in a ramp-up scenario, Venezuelan supply would likely be directed toward heavy crude markets in the Petroleum Administration for Defense Districts (PADD) 1 or PADD 3, where Canada holds limited market share. More broadly, this episode is likely to accelerate Canada's efforts to further diversify its crude export destinations, particularly through increased cooperation with countries in the Asia-Pacific region. Utilities underperformed as rising 10-year government bond yields in December weighed on the sector, while Information Technology remained in a consolidation phase.

Within the S&P 500, Financials, Materials, and Industrials led performance in December, while Utilities, Real Estate, and Consumer Staples lagged. Financials were supported by several tailwinds, including strong earnings growth, lower interest rates, and a more accommodative regulatory and fiscal environment. Materials and Industrials benefited from a relatively resilient economic backdrop, alongside ongoing infrastructure investment and build-out. Among the laggards, rising 10-year treasury yields during December weighed on Utilities' performance. Consumer Staples remained under pressure amid a more value-focused consumer and a muted earnings outlook. As discussed in last month's report, early signs of softness are emerging in consumer spending; notably, excluding Amazon and Tesla, underlying Consumer Discretionary returns across the remainder of the sector have been much more muted in recent months. That said, we continue to believe policy tailwinds should provide support in 2026. Real Estate also lagged, as slower job growth and still-elevated interest rates have extended the sector's consolidation phase.

In the absence of a Santa Claus rally, U.S. equity indices closed December at levels broadly unchanged from the end of November. Looking at full-year 2025 performance, the outperformance of information technology-related companies kept the tech-heavy NASDAQ 100 in the leading position for most of the year, followed by the cap-weighted S&P 500, while its equal-weighted counterpart remained largely range-bound since September. The Russell 2000, which tracks U.S. small-cap stocks, experienced notable volatility throughout the year and attempted to gain momentum from mid-August. However, performance ultimately remained closely tied to shifting policy rate expectations.

**Chart 21 - Selected Indices Price Returns**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025. Price return in local currency.

## U.S. Equity Markets

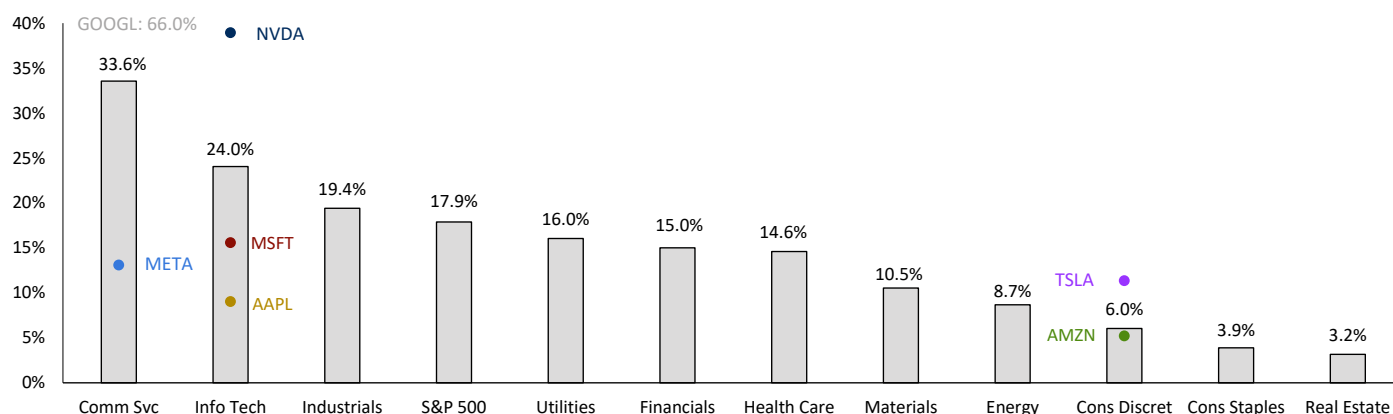
U.S. equity markets once again demonstrated resilience in 2025, amid what was far from an ordinary year. Several developments were unprecedented, or at least without modern precedent. Major headwinds included escalating tariff threats and the subsequent “Liberation Day,” which pushed tariff levels to heights not seen since the 1930s; a hawkish Federal Reserve in the first half of the year; persistently elevated 10-year Treasury yields that weighed on equity valuations; liquidity concerns stemming from quantitative tightening as well as the longest government shutdown in U.S. history; and, toward the end of 2025, growing market concerns around the capital efficiency of hyperscalers.

Despite these challenges, the S&P 500 still delivered a double-digit return, supported by very strong corporate earnings, a continued trajectory toward a soft landing, markets pricing in a more accommodative regulatory and fiscal policy environment, relatively stable inflation, and a slowdown in quantitative tightening alongside rate cuts in the second half of the year. Other notable shifts during the year included renewed investor attention toward oil and gas companies, a continued move away from ESG-driven positioning, and an increasingly K-shaped consumer base. Overall, it was a year that was never short of headlines.

Although the S&P 500 2025 total return of 17.9% is not as high as the previous two years (25.0% in 2024 and 26.3% in 2023), it was still nearly double the long-term annualized return of around 10%. On top of that, we actually saw a lot of positive underlying developments throughout the year. First, while we stated multiple times at the beginning of 2025 that we expected earnings to do the heavy lifting of the stock price, it was impressive to see how it actually happened and to the extent that beyond the street consensus, while valuation largely stayed at the same level compared to the beginning of 2025. The future earnings growth was upward revised by 14% throughout 2025, higher than 12.7% in 2024 and 6.1% in 2023. The improves in earnings growth expectation is pretty broad-based, witness in most of the sectors except Energy and Health Care to a lesser extent. The Info Tech sector in particular, earnings growth expectation up 34% while valuation multiple contracted, signals healthy development as market gradually adjusting the elevated valuation and bringing it back to a more reasonable range. Second, the rally this year has continued broadening, the outperformance is no longer only dominated by sectors containing the Magnificent Seven stocks. The spread between the sector performance has also been smaller. Overall, we consider multiple macro tailwinds to help uplift the U.S. equities in 2026, with strong confidence in the A.I. theme continuing to play out in 2026 and its positive impact diffusing out of the core A.I. sectors.

Our (U.S. Investment Strategy Group’s) S&P 500 base-case target for year-end 2026 is 7,250 (50% probability), based on 24x EPS of US\$300. The bull case (35%) implies a target of 7,750, using 25x EPS of US\$310, while the bear case (15%) points to 6,555, based on 23x EPS of US\$285. Technology, Industrials, and Health Care remain preferred sectors, unchanged from 2025, while Consumer Discretionary has been upgraded as a contrarian idea. This outlook also reinforces the importance of selectivity. From a market-cap perspective, large caps remain favoured over small caps, reflecting stronger control over supply chains, better access to capital, and more resilient balance sheets.

**Chart 22 - S&P 500 Sector and “Magnificent Seven” 2025 Total Returns**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

## Canadian Equity Markets

The TSX Composite Index ended 2025 with a price return of 28.2% and a total return of 31.7%, marking its strongest calendar-year performance since 2009. This momentum is expected to extend into 2026, with our year-end 2026 target of 34,000 for the S&P/TSX Composite, based on projected EPS of \$1,890 and an implied 18.0x price-to-earnings multiple.

The primary headwind for Canadian equities throughout 2025 was ongoing tariff threats and trade-related disruptions from the U.S. However, the TSX Composite's meaningful exposure to gold miners contributed to notable resilience during the April sell-off, with the index experiencing a maximum drawdown of 12.7%, compared with 18.9% for the S&P 500. From that point, the index resumed a steady upward trajectory, supported by its sector composition. Materials and Financials, the first- and second-best performing sectors in 2025, represent the largest and second-largest weights in the index, together accounting for more than 50% of total index weight. Importantly, even excluding the gold sub-industry, which generated a 129.9% price return in 2025, the TSX Composite still delivered a 19.0% price return, underscoring the broad-based strength of the index.

Real Estate, Industrials, and Health Care were the only three sectors that did not post double-digit total returns in 2025. Real Estate and Industrials underperformed primarily due to macroeconomic headwinds. For REITs, slower economic growth, softer consumer spending, a pause in population growth, and structurally higher interest rates relative to the pre-pandemic period weighed on performance. Industrials, meanwhile, sat at the centre of tariff-related uncertainty. That said, the TSX Composite's Industrials sector remains relatively diversified and does not include some of the most heavily impacted industries. Steel and aluminum are largely outside the index, while auto components primarily fall within Consumer Discretionary, limiting the direct impact on Industrials. As a result, the Industrials sector still posted positive returns for the year.

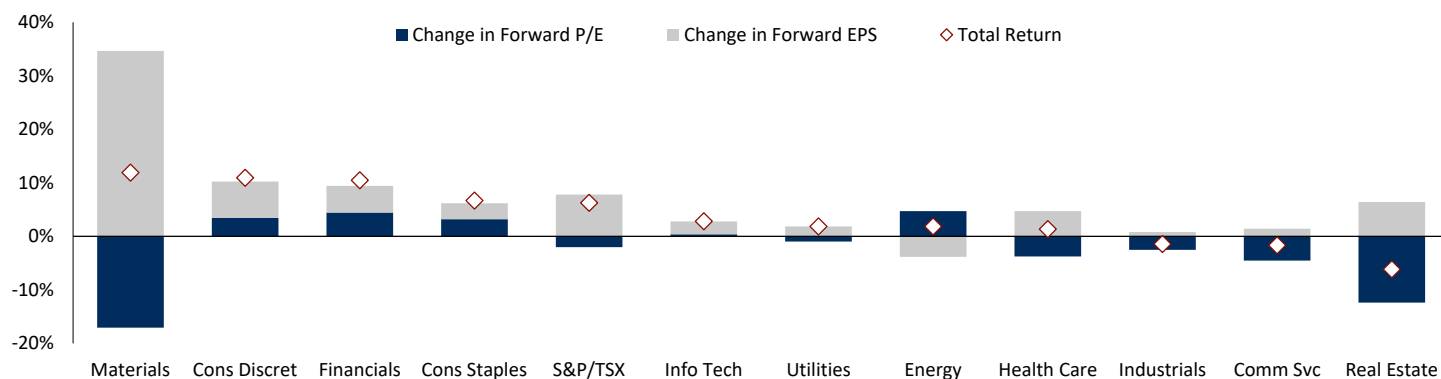
Looking ahead to 2026, Canadian equities are expected to benefit from the investment-heavy Budget 2025, with positive effects likely to emerge ahead of the broader economy. Materials, Energy, and Industrials are positioned to benefit most if implementation proceeds smoothly. Financials, particularly the banking sector, should also see support from stronger loan growth and improved market conditions for investment banking activity. In addition, A.I.-advantaged firms within the Information Technology sector may outperform as the A.I. megatrend continues to unfold. Further details on the 2026 outlook are outlined in the [December report](#).

### Top 3 Sectors (4Q25):

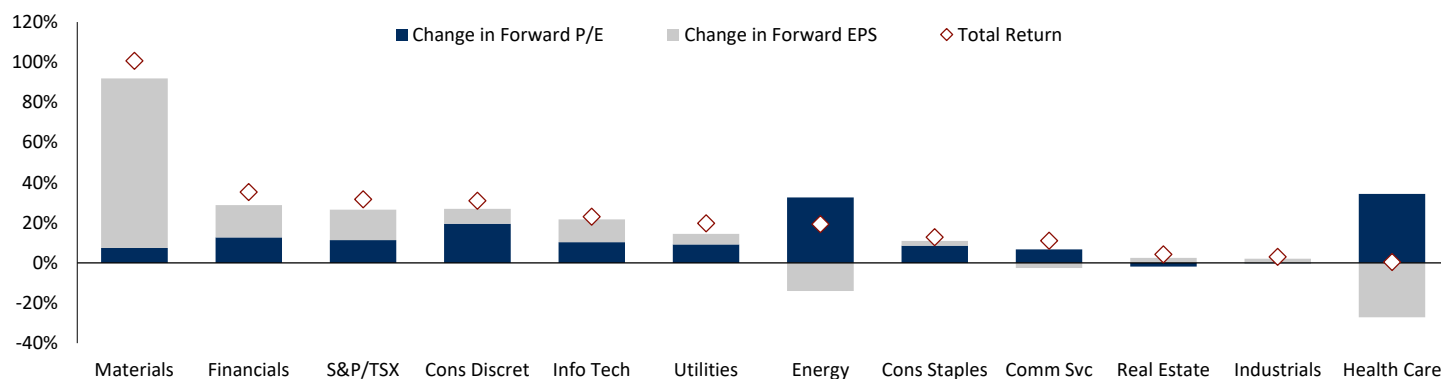
- Materials:** The sector experienced a whipsaw trading pattern as it rebounded from the November 4 low. In addition to ongoing central bank purchases, strong inflows into physically backed ETFs, particularly in North America, provided key support for gold prices. Rising interest in precious metals also spilled over into silver; however, the surge in silver prices has been highly volatile and does not yet suggest sustainability. Margin increases implemented by the CME toward the end of December reduced leveraged participation in precious metals, triggering a sharp pullback in prices, although subsequent U.S. actions involving Venezuela drove prices higher again. After the roughly 65% surge in gold prices in 2025, and with trade tensions temporarily easing, some investors who had accumulated gold for hedging purposes began trimming positions. At the same time, profit-taking added to near-term selling pressure. While these short-term dynamics do not alter the constructive long-term view on gold, Materials sector growth in 2026 is expected to be supported more by project activity and an acceleration in investment outlined in Budget 2025, rather than by another aggressive surge in precious metal prices similar to that seen in 2025.
- Consumer Discretionary:** The sector performed better than expected in the final quarter of 2025, supported largely by its revenue exposure to the U.S. market. With the exception of dollar stores, which operate primarily in Canada and added a degree of defensiveness to the sector amid macro headwinds from slowing consumer spending, the remaining outperformers derive a substantial portion of revenues from the U.S. Looking ahead to 2026, continued fiscal policy support in the U.S. may help underpin demand and remain a supportive factor for the sector.
- Financials:** The sector has followed a steady upward trajectory since mid-April, interrupted only by a brief consolidation phase from October through most of November. It subsequently broke out to new highs as markets gained greater confidence around a Fed rate cut at the December 10 meeting. Net interest margins remained elevated, and net interest income for the six major Canadian banks grew at a mid-double-digit pace in 2025 compared with 2024. A resilient economic backdrop meant that previously built loan-loss provisions (PCLs) were largely not required, while non-interest income, including capital markets and wealth management revenues, rose sharply alongside strong market performance during the year. Together, these factors supported robust earnings growth, with Financials recording the second-largest upward earnings revision among the 11 sectors in 2025, at 16%. The main area of relative weakness was loan growth. However, this is expected to improve in 2026 as fiscal support encourages business activity and investment projects deferred amid tariff-related uncertainty in 2025 begin to resume.

**Bottom 3 Sectors (4Q25):**

- Real Estate:** Following a decline of more than 12% from its mid-September peak, the sector began to rebound in early December. Industrial REITs were the strongest-performing sub-industry in 4Q25, while Residential, Office, Diversified REITs, and real estate management names saw more pronounced declines. More recently, the sector has entered 2026 with signs of a broader-based rebound. That said, structural challenges, including slower population growth and a cooling in consumer spending, remain meaningful headwinds. In addition, 10-year government bond yields remain elevated relative to pre-pandemic levels, continuing to pressure financing costs for developers. Some degree of catch-up performance in early 2026 would not be surprising, given the sector's underperformance over the past two years. However, with limited exposure to higher-growth areas such as data centre REITs, the scope for sustained outperformance appears more limited.
- Communication Services:** The sector remains highly concentrated, with the three largest companies accounting for nearly 90% of its weight. Underperformance in 4Q25 was driven primarily by weakness in one of these major names, although December softness became more broad-based across the sector. Earnings growth of 1.0% appears subdued. While data centre investment could serve as a future growth catalyst, the sector continues to face macro headwinds related to slower immigration and demographic trends heading into 2026. Competitive pressures are also intensifying, particularly as Budget 2025 highlighted the need to increase competition in the telecom industry to lower costs for Canadians, which may place additional pressure on revenue growth.
- Industrials:** The sector experienced an initial pullback in early 4Q25, followed by a gradual recovery, though it has yet to return to prior highs. Commercial services, construction and engineering, and professional services were among the weaker-performing industries over the quarter. That said, industries such as ground transportation and machinery, which were more heavily affected by U.S. tariff pressures earlier in the year, showed relative resilience toward year-end. Looking ahead, Industrials are positioned to be among the sectors most positively influenced by Budget 2025, particularly within aerospace and defense, as well as construction and engineering.

**Chart 23 - S&P/TSX Composite Sector 4Q25 Total Return Breakdown**

Source: Bloomberg, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 24 - S&P/TSX Composite Sector CY2025 Total Return Breakdown**

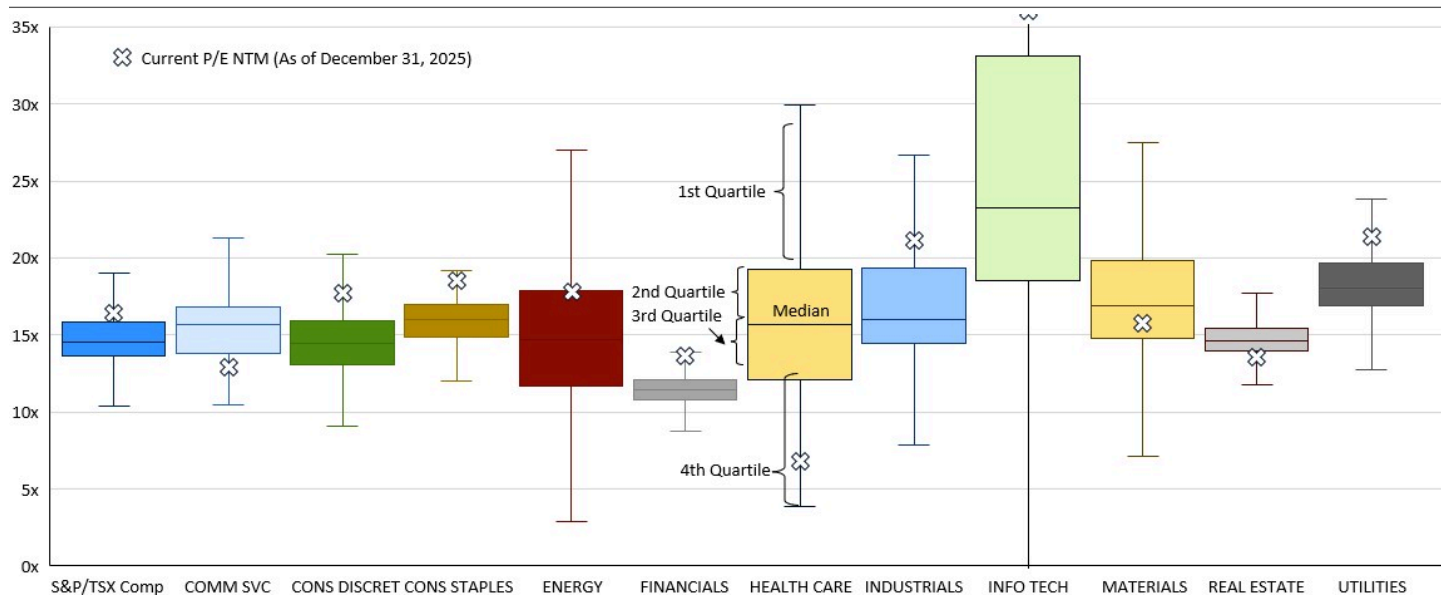
Source: Bloomberg, Raymond James Ltd.; Data as of December 31, 2025.



**Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by 4Q25 Total Return)**

Sector Name	Sector Weight	2025 Total Return	4Q25 Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	19.0%	100.6%	11.9%	2.7%	15.2	16.9
Consumer Discretionary	3.3%	31.0%	11.0%	1.6%	17.9	14.5
Financials	32.8%	35.3%	10.5%	4.4%	13.6	11.4
Consumer Staples	3.3%	12.8%	6.7%	-0.7%	18.5	16.0
S&P/TSX Composite	--	31.7%	6.2%	1.3%	16.6	14.6
Information Technology	9.9%	23.1%	2.8%	-2.8%	38.4	23.2
Utilities	3.3%	19.7%	1.8%	-2.4%	21.5	18.1
Energy	14.4%	19.2%	1.8%	-1.7%	17.8	14.7
Health Care	0.3%	0.4%	1.4%	2.0%	6.9	15.7
Industrials	10.4%	3.1%	-1.4%	0.5%	21.2	16.0
Communication Services	1.9%	11.0%	-1.7%	-0.6%	12.8	15.6
Real Estate	1.5%	4.2%	-6.2%	-0.5%	13.8	14.6

Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

**Chart 25 - S&P/TSX Composite Sector Current vs. Historical P/E NTM**

Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025. Historical P/E: 1/1/2000 - 12/31/2025. Excluding outliers.

**Table 3 - Global Equities Performance**

Select Global Equity Indices	Dec (in LCL)	Dec (in USD)	Dec (in CAD)	4Q25 (in LCL)	4Q25 (in USD)	4Q25 (in CAD)	2025 (in LCL)	2025 (in USD)	2025 (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
<b>Major Aggregates</b>												
World (Global)*	0.8	0.8	-0.9	3.0	3.0	1.5	21.3	21.3	15.6	19.9	16.1	3.8
EAFE (DM ex U.S. & Canada)*	2.7	2.7	1.0	4.3	4.3	2.8	31.4	31.4	25.2	15.4	13.6	1.8
EM (Emerging Markets)*	2.6	2.6	0.8	4.3	4.3	2.8	33.3	33.3	27.1	13.3	11.8	1.5
<b>Selected Developed Markets</b>												
Nikkei 225 (Japan)	0.3	-0.2	-1.8	12.2	5.7	4.1	28.7	29.0	22.9	20.0	16.9	3.2
Euro STOXX 50 (Europe)	2.3	3.4	1.7	5.1	4.7	3.1	22.1	34.2	27.9	16.4	13.3	3.1
FTSE 100 (U.K.)	2.3	3.7	2.0	6.9	6.1	4.5	25.8	30.5	24.4	13.3	12.4	0.9
CAC 40 (France)	0.5	1.7	0.0	3.6	3.6	2.0	14.3	29.6	23.5	16.1	13.5	2.6
DAX (Germany)	2.7	4.0	2.2	2.6	2.5	1.0	23.0	39.5	33.0	15.2	12.7	2.5
Hang Seng (Hong Kong)	-0.6	-0.6	-2.2	-4.1	-4.2	-5.6	32.5	32.2	26.0	11.4	11.7	-0.3
<b>Selected Emerging Markets</b>												
CSI 300 (China)	2.5	3.7	1.8	0.2	2.1	0.6	21.0	26.3	20.5	16.5	13.8	2.7
Nifty 50 (India)	-0.3	-0.9	-2.7	6.4	5.1	3.6	12.0	6.6	1.7	24.0	18.4	5.6

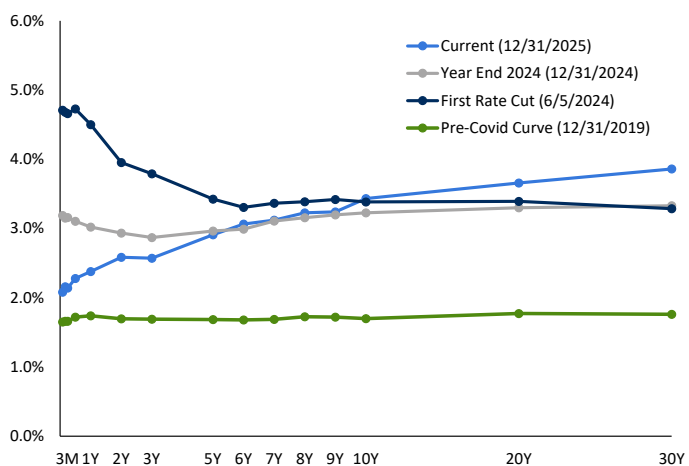
Source: FactSet, Raymond James Ltd; Total returns, data as of December 31, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 - 12/31/2025. \*Indices are represented by their corresponding iShares ETFs, serving as proxies.

### Fixed Income & Treasury Yields

The U.S. Treasury yield curve steepened in December, with yields lower at the front end and higher across the mid- to long-end of the curve. Over the course of 2025, despite periods of volatility, the curve has moved meaningfully toward normalization. The 10-year Treasury yield remained stubbornly range-bound between 4.0% and 4.5% for most of the year. Looking ahead, our U.S. Investment Strategy team expects the 10-year yield to finish 2026 modestly higher, in the 4.25–4.5% range, supported by a gradually improving economy, moderate job growth, and well-anchored inflation expectations. Spreads between investment-grade corporate bonds and Treasuries, as well as between high-yield bonds and Treasuries, remain extremely tight by historical standards, reflecting expectations of a “Goldilocks” macro environment and strong corporate fundamentals. At these levels, spreads offer limited compensation for credit risk, particularly in the high-yield segment.

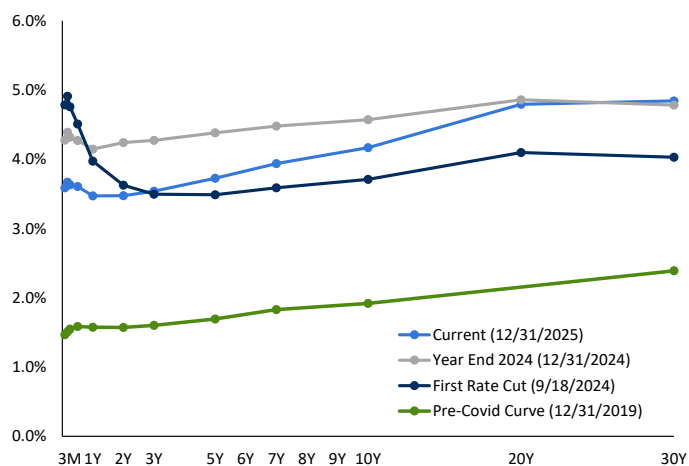
In Canada, the yield curve also normalized meaningfully through most of 2025. However, yields beyond the one-year maturity moved higher in December, supported by a resilient economic backdrop and increased government spending. Looking ahead to 2026, the outlook for the bond market appears relatively benign, as the current yield curve largely reflects prevailing economic conditions. The BoC appears to have found a policy balance, and the economy continues to cope with, and gradually recover from, tariff-related uncertainty and disruptions. The primary source of uncertainty remains trade negotiations with the U.S. Given the high degree of correlation between Canadian yields and U.S. Treasury movements, any significant shifts in U.S. rates are likely to spill over into Canada. While the 10-year Government of Canada yield remains elevated relative to pre-COVID levels, this is increasingly viewed as the new normal, with downside moves likely to be limited.

**Chart 26 - Canada Government Yield Curves**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

**Chart 27 - U.S. Treasury Yield Curves**



Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025.

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