Monthly Market Perspectives

'What You Need to Know'

January 12.2026

Timeless Investment Lessons from 2025 to Help Us Navigate 2026

As we look back at 2025, it's fair to say the wall of worry was higher than ever. We started last year with 'experts' warning that the "delayed" recession was finally arriving. We saw massive volatility around "Liberation Day" in April, where the S&P 500 nearly fell into a bear market. We heard constant chatter about an "AI Bubble" bursting and political turmoil scrambling expectations.

And yet? Market performance was overwhelmingly positive across the board. 2025 tested investor conviction, delivered outsized returns across asset classes, and reinforced several timeless investment principles. As we begin 2026, it's valuable to reflect on the market dynamics of the year that was and use those insights into practical guidance to help guide us for the year ahead.

Lesson 1: Beware When Everyone Agrees

Consensus forecasts early in 2025 heavily favoured U.S. equity dominance. While the U.S. market performed well, international and emerging markets actually outpaced U.S. returns, with major MSCI indexes advancing more than 30%, compared to a roughly 17% gain in the S&P 500. This highlights the value of disciplined, data-driven positioning versus herd sentiment.

Lesson 2: Politics and Investing Don't Mix

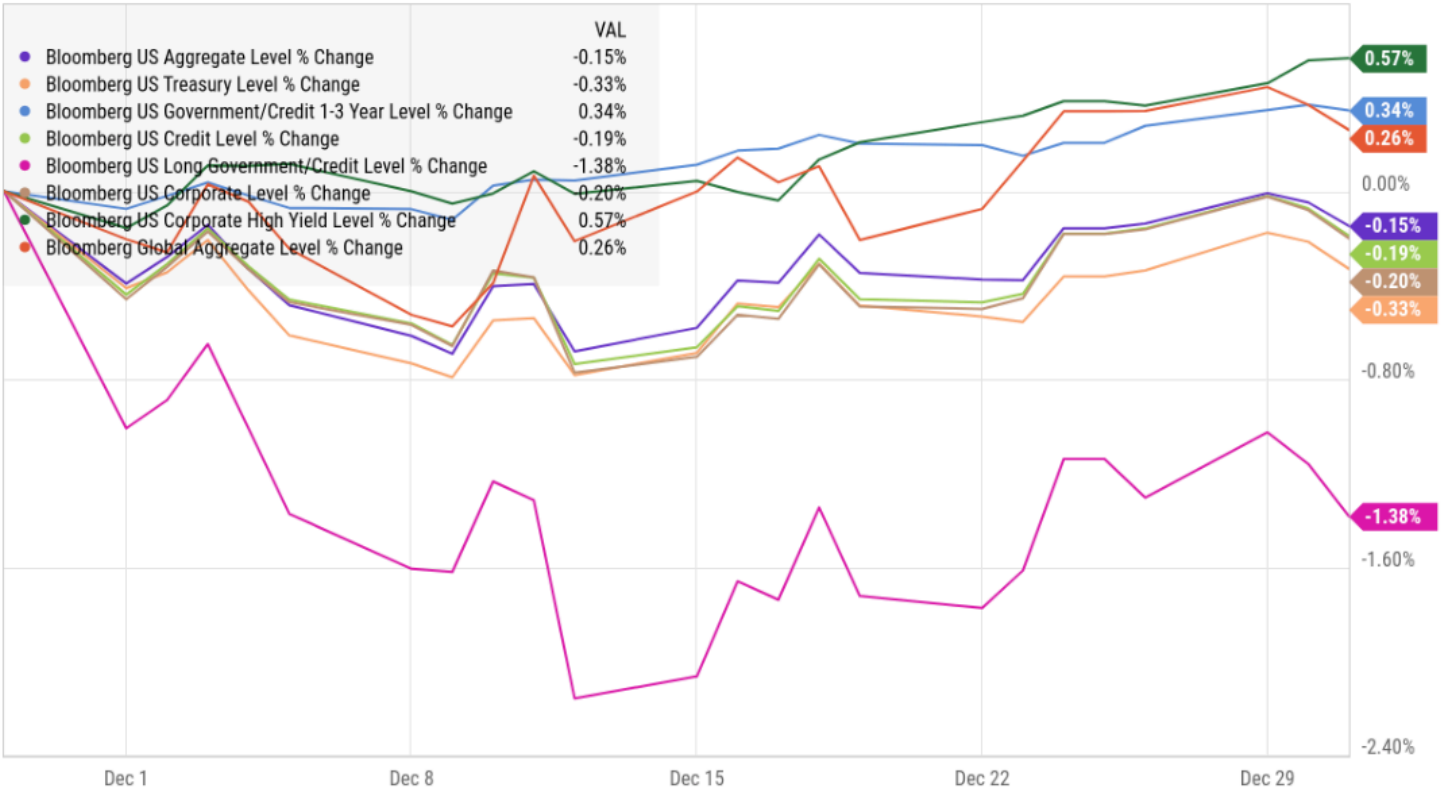
Market outcomes rarely hinge on political headlines. In 2025, investors who let political concerns drive asset allocation decisions likely underperformed those who focused on fundamentals. Last years' experience underscores why strategic positioning should be rooted in economic data and valuation, not political narratives.

Lesson 3: Discipline Beats Prediction

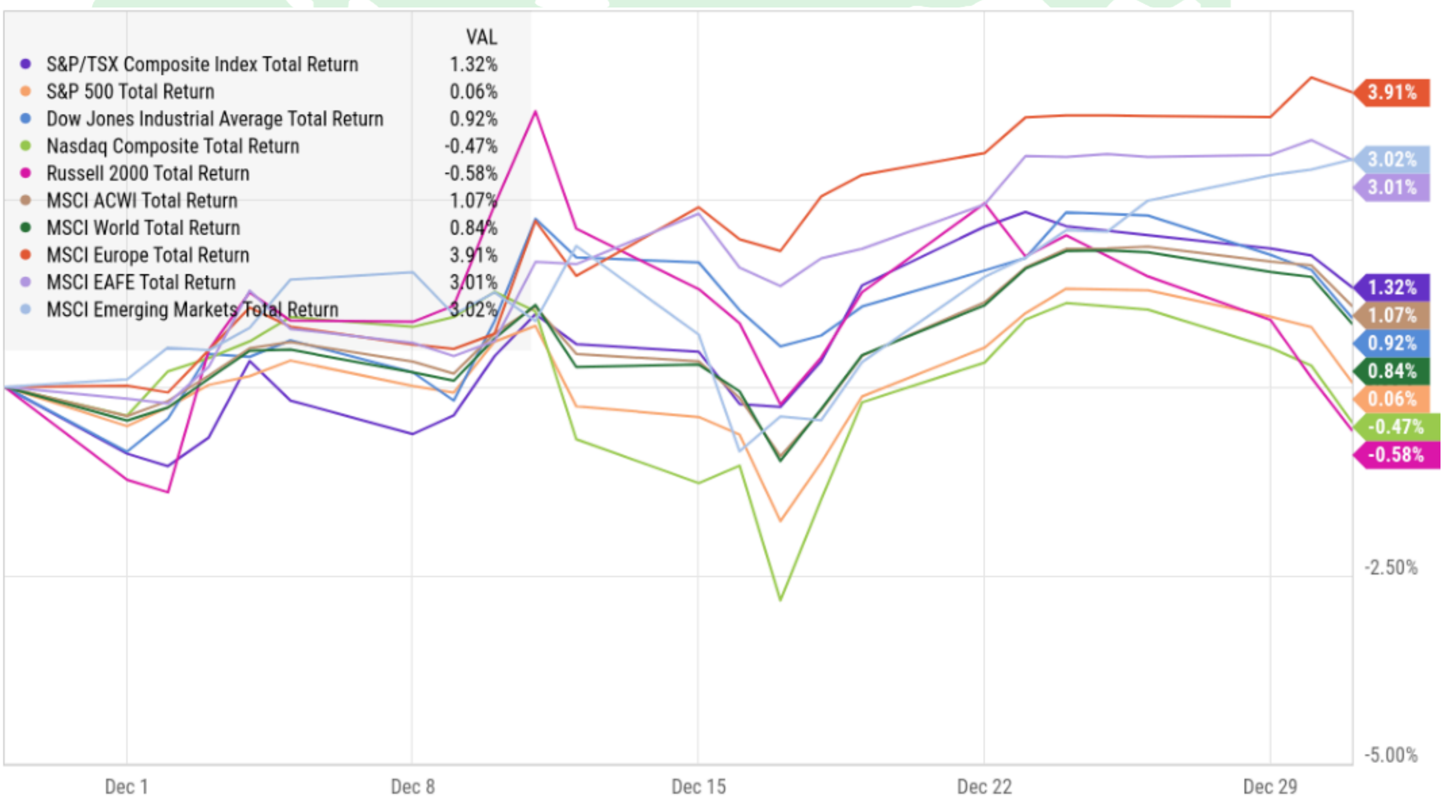
Despite widespread volatility — including a near-bear market scare around April's "Liberation Day" — sticking to a disciplined process paid off. Attempting to time markets or react to every headline is rarely successful. Instead, capitalizing on structured rebalancing and risk management contributed to strong portfolio outcomes.

In late December, I shared a piece on six important lessons learned through charts as it related to 2025. If you haven't had an opportunity to check that out, I would urge you to do so. There're enough visuals in that piece to make it an easy read for almost anyone.

Fixed Income Indices – December 2025



Equity Indices – December 2025



December / Q4 / 2025 Market Review

Fixed Income

- The Canadian fixed income universe pulled back at the end of the year as bond yields rose in response to much-stronger-than-expected employment figures. For the year, Canadian bonds underperformed compared to 2023 and 2024, with modest gains of 2.4%. In fact, despite several rate cuts by the BoC, long-term bond yields rose slightly during the year.

Equities

- Equity leadership in 2025 was characterized by a certain shift away from the United States, with the S&P 500 underperforming the rest of the world, where Canada, EAFE, and Emerging Markets all posted sizeable returns
- In Canada, the S&P/TSX benefitted from the spectacular annual performance of the Materials sector, in an environment of sharp price increases for gold and several other precious metals (copper, silver, etc.)

FX & Commodities

- Oil prices fell in December, in Q4, and over the year against a backdrop of weak global demand growth while OPEC+ unwound its production cuts. Gold, meanwhile, had a phenomenal year, rising nearly 65%, a performance almost three times that of the global equity market.
- The U.S. dollar had one of its worst years ever in 2025, with DXY index falling nearly 10%. However, this decline was more modest against the Loonie.

Market Total Returns

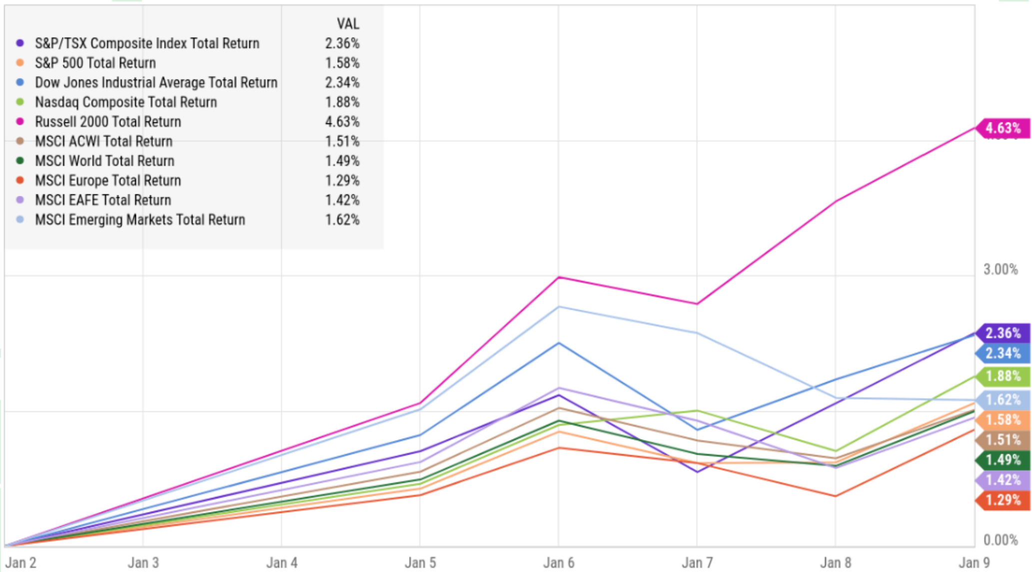
Asset Classes	Dec	Q4	2025
Cash (S&P Canada T-bill)	**0.2%**	**0.6%**	**2.9%**
Bonds (ICE Canada Universe)	**-1.3%**	**-0.4%**	**2.4%**
Short Term	-0.3%	0.3%	3.8%
Mid Term	-1.1%	-0.3%	3.8%
Long Term	-3.1%	-1.3%	-1.0%
Federal Government	-1.2%	-0.5%	2.0%
Corporate	-0.6%	0.3%	4.3%
U.S. Treasuries (US$)	-0.5%	0.7%	6.2%
U.S. Corporate (US$)	-0.3%	0.8%	7.8%
U.S. High Yield (US$)	0.7%	1.3%	8.5%
Canadian Equities (S&P/TSX)	**1.3%**	**6.3%**	**31.7%**
Communication Services	-0.6%	-1.7%	11.0%
Consumer Discretionary	1.6%	11.0%	31.0%
Consumer Staples	-0.7%	6.7%	12.8%
Energy	-1.7%	1.8%	19.2%
Financials	4.4%	10.5%	35.3%
Health Care	2.0%	1.4%	0.4%
Industrials	0.5%	-1.4%	3.1%
Information Technology	-2.8%	2.8%	23.1%
Materials	2.7%	11.9%	100.6%
Real Estate	-0.1%	-5.8%	4.6%
Utilities	-2.4%	1.8%	19.7%
S&P/TSX Small Caps	2.4%	10.2%	50.2%
U.S. Equities (S&P 500 US$)	**0.1%**	**2.7%**	**17.9%**
Communication Services	-1.0%	7.3%	33.6%
Consumer Discretionary	0.8%	0.7%	6.0%
Consumer Staples	-1.6%	0.0%	3.9%
Energy	0.2%	1.5%	8.7%
Financials	3.1%	2.0%	15.0%
Health Care	-1.4%	11.7%	14.6%
Industrials	1.3%	0.9%	19.4%
Information Technology	-0.3%	1.4%	24.0%
Materials	2.2%	1.1%	10.5%
Real Estate	-2.2%	-2.9%	3.2%
Utilities	-5.1%	-1.4%	16.0%
Russell 2000 (US$)	-0.6%	2.2%	12.8%
World Equities (MSCI ACWI US$)	**1.1%**	**3.4%**	**22.9%**
MSCI EAFE (US$)	3.0%	4.9%	31.9%
MSCI Emerging Markets (US$)	3.0%	4.8%	34.4%
Commodities (GSCI US$)	**-0.3%**	**1.0%**	**7.1%**
WTI Oil (US$/barrel)	-2.3%	-9.4%	-21.0%
Gold (US$/oz)	3.0%	12.8%	64.7%
Copper (US$/tonne)	10.9%	21.8%	43.9%
Forex (US$ Index DXY)	**-1.1%**	**0.6%**	**-9.4%**
USD per EUR	1.2%	0.0%	13.4%
CAD per USD	-1.8%	-1.4%	-4.6%

CIO Office (data via Refinitiv, as of 2025-12-31)

What Really Moves Markets & Why This Matters Now

On January 3rd, 2026, global headlines were dominated by reports that the United States had conducted a military operation in Venezuela resulting in the capture of President Nicolás Maduro and his wife, with Maduro flown to New York to face criminal charges.

Market Reaction since the event:



You'd think that a secret U.S. operation to detain a foreign leader in the middle of the night and fly him to New York to face federal charges would spark volatility in the stock market, right?

Nope. In fact, we've started the year by hitting new all-time highs.

So, you might be wondering: What does move the stock market? What does it care about if not headline-grabbing global events like we just witnessed? Allow me to really simplify it for you.

There are four major forces that drive stock market movements on a day-to-day basis:

1. **Earnings** - What are companies saying about their profits, their forward outlooks, and the current state of their business? Earnings growth remains the most important long-term driver of equity returns. Market valuations adjust based on expectations for future corporate profitability and revenue growth.

2. **Interest Rates** - Are interest rates going up or down? Will the Federal Reserve cut rates or hike them at their next meeting? Rates affect everything in the economy. Actions and guidance from the Federal Reserve shape expectations around borrowing costs, discount rates, and asset valuations. A shift in interest rate expectations can translate quickly into market moves.

3. **Capital Flows** - Are people moving money in and out of the stock market in such a way that it affects prices? Where money is flowing—into equities, bonds, or cash—matters. Large institutional reallocations or rises in retail participation can create momentum independent of headlines.

4. **Investor Sentiment** - How do people feel about their jobs, their homes, and their prospects for future economic security? Confidence around economic conditions, labour markets, and inflation can spur or dampen investor risk appetites, influencing valuation multiples and market breadth.

Now ask yourself: *Does the event I'm watching on TV or reading about in the news affect those four things in a meaningful way?*

Often, the answer is No.

Let me give you a few examples of major global shocks and how the market acted one month later:

Event	S&P 500 Return (one-month)
Iraq War begins (3/23/2003)	+1.9%
Russia invades Ukraine (2/24/2022)	+5.9%
Cuban Missile Crisis (10/16/1962)	+5.1%
Lehman Brothers collapse (9/15/2008)	-16.3%
Germany invades France (5/10/1940)	-19.9%
Asian financial crisis (10/8/1997)	-3.7%

Notice which events caused declines in U.S. stock prices. It was the ones that affected all four of the forces just mentioned—earnings, interest rates, flows, and investor sentiment—all at once.

The best way I've seen day-to-day stock market movement explained is this simple question: "Are things getting better, worse, or staying the same for the economy and the companies inside it?"

Remember the massive tariff-related selloff in April of 2025? The market thought to itself "*If this happens, things will get worse for U.S. companies and consumers.*" Then, the massive tariff levels were backed off and stocks rallied.

Better…worse…same? That's all the market is thinking about every second of the day.

Could there be longer-term consequences for the actions of the U.S. in Venezuela? Like, say, the price of oil or global perceptions of the U.S.? Sure, but the market will deal with them as they come.

When global headlines scare you, I want you to remember that history is full of chaotic events. It's always been like this. History is just one darn thing after another.

News events may cause short-term volatility, but a disciplined focus on earnings trends, policy outlooks, and portfolio diversification tends to serve long-term investors best. Reacting emotionally to headlines often undermines strategic positioning.

This framework helps distinguish between noise and signal, especially in times of heightened geopolitical headlines like we saw earlier this month.

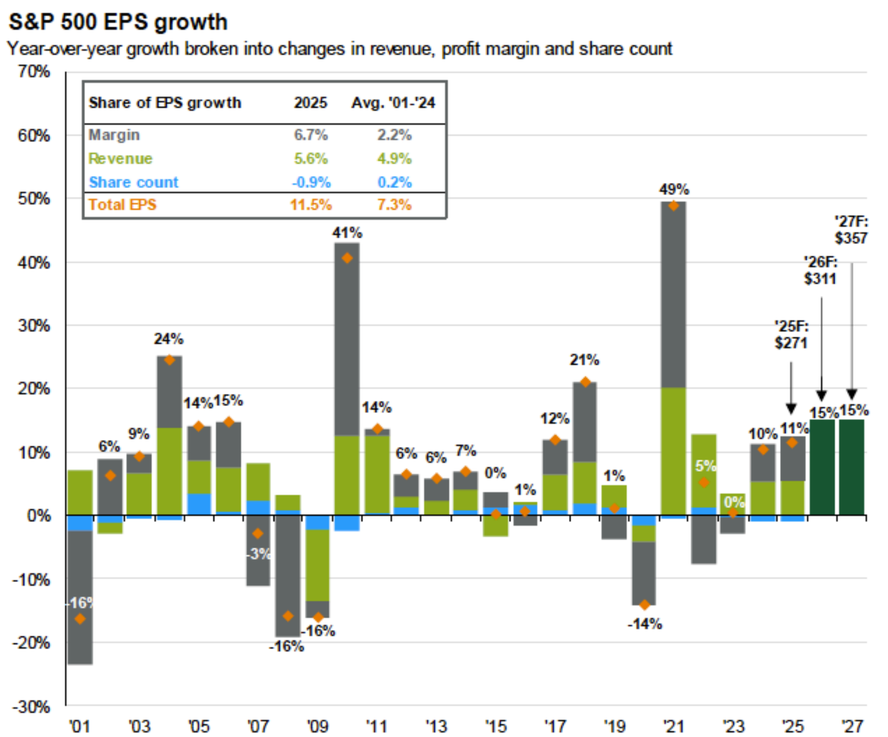
Talk to me, stick to your plan, keep your friends and family close, live your life. That's the way forward.

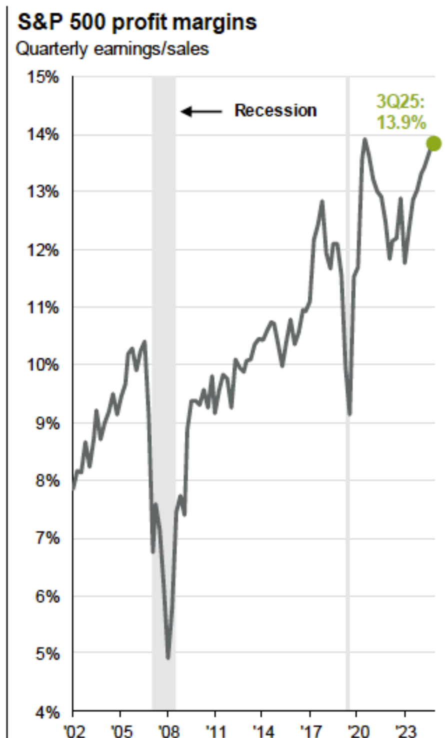
Chart of the Month – Riding the Wave into 2026 on a Foundation of Earnings

It is easy to look at three years of a bull market and assume we are "due" for a pause or even a crash. Trust me, I hear this all the time. Now, as we start 2026, the question changes. We aren't just trying to catch the wave anymore. We are on it. The challenge now is staying on the board.

The reality is, right now, the energy beneath this bull market is stronger than ever, thanks to robust corporate earnings which, as I discussed earlier, is really the only thing that matters.

S&P 500 earnings are expected to grow by approximately 15% in 2026 and 2027, a number J.P Morgan and many other astute market strategists think is quite attainable. This isn't just hype; profit margins are expanding and hitting cycle highs as well. When companies are making more money per dollar of sales, that is a tailwind hard to bet against.





2026 Market & Economic Outlook: Riding a Resilient, Broader Cycle

After navigating a volatile but ultimately rewarding 2025, we enter 2026 with a constructive—though not complacent—outlook for markets and the global economy. Across multiple leading research firms, a consistent message emerges; economic resilience, policy support, and a broadening opportunity set are likely to define the year ahead .

Economic Growth: Slower, but Supported

Global growth is expected to moderate rather than contract. The U.S. economy appears to be moving through a soft patch, not toward recession, as fiscal stimulus, easing monetary policy, and ongoing capital investment help offset labour market cooling. Outside the U.S., Europe is benefiting from renewed fiscal spending—particularly on infrastructure and defense—while Japan and parts of emerging Asia show signs of reflation and recovery. China remains uneven, but targeted stimulus should help stabilize growth rather than derail it.

Policy Tailwinds Are Back in Focus:

A major shift from tightening to easing monetary policy underpins much of the optimism for 2026. Central banks, led by the U.S. Federal Reserve, are expected to continue cutting rates as inflation trends gradually lower and labour markets cool. Historically, non-recessionary rate-cutting cycles have been supportive for both equities and bonds, improving financial conditions and extending market cycles .

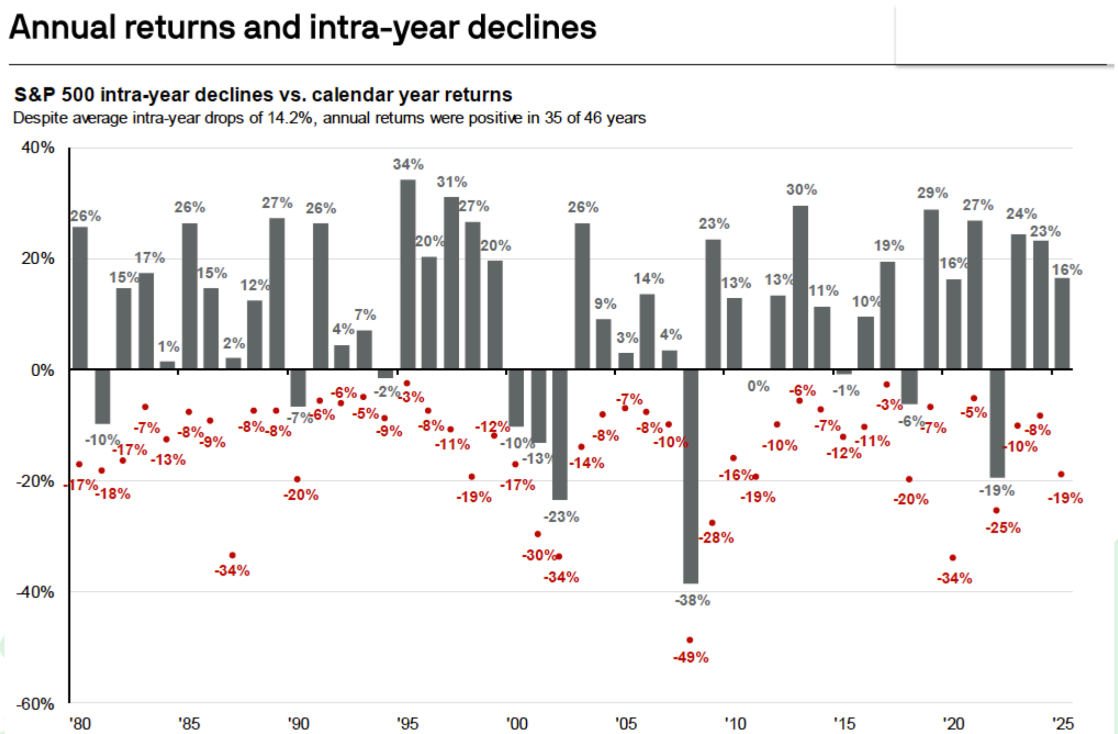
Earnings and the AI Investment Cycle:

Corporate fundamentals remain a key anchor. Earnings growth is projected to stay solid, supported by margin resilience and productivity gains. Artificial intelligence investment continues to be a defining force—not just a market theme, but a genuine economic driver. While valuations in certain AI-linked areas are elevated, research suggests the opportunity set is broadening beyond a handful of mega-cap names, reducing concentration risk over time .

What This Means for Investors

I don't think I would be going out on a limb to predict 2026 will end positive but unlikely to be a straight line. After all, 2026 is a midterm election year. Historically, these years can be choppy, often seeing peak-to-trough corrections of more than 17%, the most in the four-year presidential cycle. But remember, volatility is the toll we pay to invest. A 10 to 15% drop sometime this year doesn't mean the bull market is over; it likely means an opportunity is forming for longer-term investors.

Pullbacks and periods of volatility should be expected, particularly given above-average equity valuations. However, history reminds us that corrections are normal—even in positive years. See chart below which is one of my absolute favourites. Diversification across regions, styles, and asset classes remains critical as leadership broadens and returns become more balanced.



"Long-term plans are built with volatility assumed, not avoided"

The Bottom Line

The dominant theme for 2026 is not euphoria or fear—it is durable momentum supported by policy, profits, and innovation. Staying invested, diversified, and disciplined – rather than reacting to headlines or timing the market– remains the most effective way to participate in what continues to look like an ongoing, though evolving, market cycle.

Thanks for reading and I look forward to helping you navigate the road ahead as it relates to your investment portfolio and financial planning. My focus remains on keeping you informed of what really matters while not deviating from the course toward your long-term goals.

Warmly,

Aaron Pedlar, HBA, CHS, PFA