



An Object in Motion...

Equities

Developed Market (DM) equities concluded a terrific year of gains with a robust fourth quarter. The MSCI EAFE¹ markets in Europe and Asia rose 4.9%, while in the U.S., the S&P 500 Index² gained 2.7%, both in U.S. dollar terms, although a slightly stronger Canadian dollar reduced these figures for domestic investors this quarter (+3.3% and +1.1%, in Canadian dollar terms respectively). Over the quarter, the Canadian market fared even better. The S&P/TSX Composite Index³ rose 6.3% (Canadian dollar basis), propelled in part by an ongoing rally in gold bullion, which rose 11.9%, culminating in a remarkable 64.6% gain in the price of gold over the entirety of 2025. Price strength across several other commodities beyond gold made the Materials sector the best-performing in the Canadian market in 2025, with the group more than doubling over the course of the year, contributing 36.9% of the TSX's 2025 return. That said, every sector in Canada posted a gain since the start of January 2025. The collective result is a gain of 31.7% for the S&P/TSX Composite in 2025, making Canada one of the best-performing stock markets globally this year. Although slightly behind Canada in performance, other equity markets posted fine gains this year, with the S&P 500 rising 11.9% and the MSCI EAFE gaining 25.1%, both in Canadian dollar terms.

This excellent performance in 2025 makes for three straight years of impressive equity market gains in North America, Europe, and Asia. Enthusiasm for the artificial intelligence (AI) boom continues to drive outsized share price performance for companies building data centers, providing equipment to these facilities, and manufacturing components integral to AI servers. Collectively, this buildout is going to require a substantial level of investment that could exceed US\$1.0 trillion, although capital markets have been amenable to providing necessary funding to this point. Importantly, while this growth unfolds and dominates the news headlines, several other sectors of the economy operate under considerable pressure. Housing markets remain lacklustre, shipping volumes on rail and road remain at very low levels, and providers of enterprise software are all under investor scrutiny as possible future casualties of AI competition. As share prices related to these latter groups continue to languish, new investment opportunities might be building, with many high-quality stocks in these sectors now trading at very reasonable valuations as 2026 begins.

Fixed Income

Fixed income markets ended a volatile year on a volatile note, albeit the magnitude of the moves over the final quarter of 2025 was somewhat muted relative to that seen in recent periods.

While both the Bank of Canada (25 basis points in October) and U.S. Federal Reserve (Fed) (25 basis points in October and again in December) cut policy interest rates in the fourth quarter, indications of economic resiliency prompted comments from central banks on both sides of the 49th parallel that dampened expectations of further imminent easing — policymakers at the Fed are considering “*the extent and timing*”

IN REVIEW:

QUARTER 4



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of any further adjustments going forward, language that previously presaged a pause in the easing cycle, while their counterparts at the Bank of Canada emphasized that they see “*the current policy rate at about the right level.*”

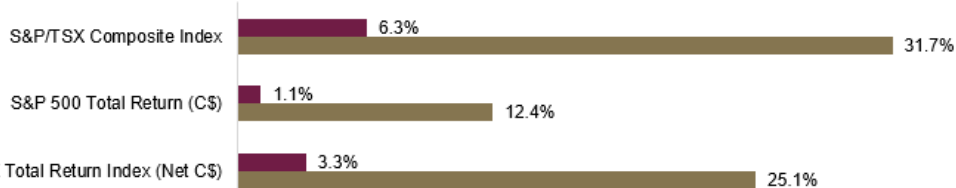
Moreover, a string of material upside surprises in the economic dataflow in Canada as the quarter came to a close saw markets begin to price in the prospect of rate *hikes* in the Great White North before the end of 2026. These shifts in views put upward pressure on market yields across the curve and ultimately erased gains for the quarter. The benchmark FTSE Canada Universe Bond Index⁴ ended Q4 down 0.3% in Canadian dollar terms (though +2.6% for the year as a whole) with the more interest rate sensitive longer-term (FTSE Canada Long Term Bond Index⁵ -1.4%) and government bonds (FTSE Canada All Government Bond Index⁶ -0.5%) underperforming corporate credit (FTSE Canada All Corporate Bond Index⁷ +0.3%) and securities with shorter duration (FTSE Canada Short Term Bond Index⁸ +0.3%).

Looking to the year ahead, the expectation of a continued and broadening economic expansion suggests that coupon payments will drive bond investors’ returns rather than capital gains. Rates appear likely to remain rangebound as the Bank of Canada sits comfortably on the sidelines — the bar for further easing in the absence of a negative shock remains high; the bar for the central bank to begin seriously contemplating reversing course appears even higher, despite the shift in market pricing, given the challenges facing the Canadian economy. For corporate bonds, credit spreads are already tight, which suggests there is potentially more scope for widening than tightening; however, continued strength in company fundamentals and comparatively higher yield available make for a constructive outlook for the coming year.

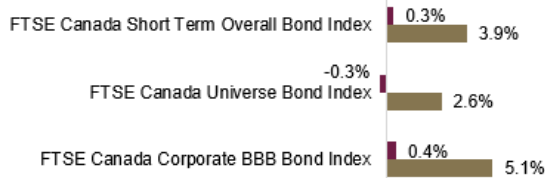


Market Indices Performance (C\$ - December 31, 2025)

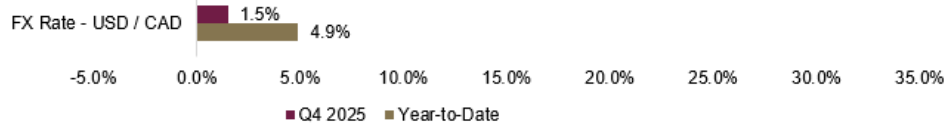
Equity



Fixed Income



Foreign Exchange Rate



Source: Guardian Capital, using data from Bloomberg as of December 31, 2025

Commentary

Despite an extremely tumultuous start to the year that saw a surge in uncertainty as the changing of the guard in the White House threatened long-standing global economic relationships, and the constant firehose of political noise in the months that followed, 2025 ended up being a solid year for markets as well as the global economy.

Indeed, persistent better-than-expected economic performance — and with it, upside surprises in earnings — underpinned broad global equity performance, with the MSCI World Index⁹ up 19.5% for the year in U.S. dollar terms. This added to the impressive gains of the previous two years, for a cumulative 77.9% return that marks the seventh-best three-year stretch on record back to 1970 (behind the periods ended 2021, 1999, 1988, 1987, 1986 and 1985).

What makes this last year unique relative to the prior two, however, is that despite the continued strength of the AI trade — Communication Services was the top-performing global sector with both Information Technology and Utilities also outperforming the index — the performance stretched beyond the so-called “Magnificent 7¹⁰.” The 24.9% aggregated return on these seven mega-cap AI-adjacent stocks lagged the decidedly not AI-centric DM outside of the U.S. — the MSCI World Index excluding the U.S.¹¹ was up 31.9%.

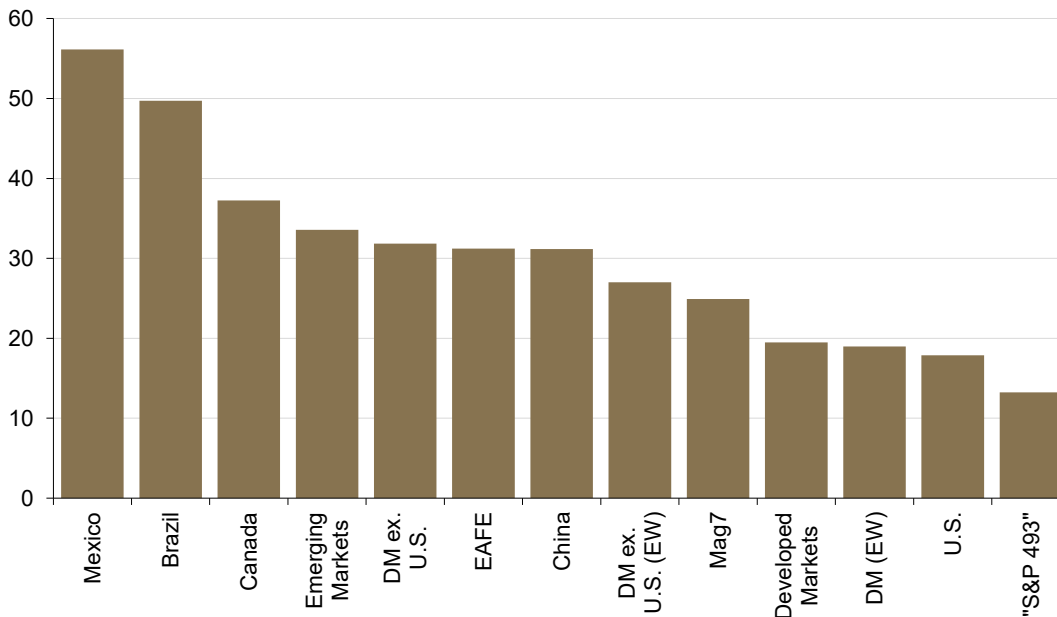


Moreover, the gap between the market capitalization-weighted (in which the big companies carry more importance) and equal-weighted (where all stocks have the same weight) MSCI World Index was actually the narrowest it has been since 2017 (aside from 2022 selloff) in a sign that this year was not just about a narrow set of stocks like the Magnificent 7 or the FAANG¹² before it.

Further, while the shift in economic policy seemingly set the table for continued American exceptionalism, U.S. equities (S&P 500 +17.9% in U.S. dollar terms) trailed the areas that bore the brunt of the White House’s ire. Canada (S&P/TSX Composite +37.3%) and the aggregated Europe, Australasia & the Far East (MSCI EAFE Index +31.2%) both beat the U.S., which fell out of the top spot in DM for the first time since 2017 (outside of the 2022 down-year) — as did tariff-targeted Emerging Markets of China (MSCI China Index¹³ +31.2%), Brazil (MSCI Brazil Index¹⁴ +49.7%) and Mexico (MSCI Mexico Index¹⁵ +56.1%).

2025 Equity Market Performance

(percent total return; U.S. dollar basis)



*EW denotes "equal-weighted version of index; source: Guardian Capital, using data from Bloomberg to December 31, 2025

For the Canadian market — which registered its best year since 2009 and first outperformance versus the U.S. in an up-year since 2016 — the 64.6% rally in gold prices and the related 143.7% increase in the S&P/TSX gold sector clearly played a role in its relative outperformance, but even excluding gold stocks, domestic equities were up by 27.0% in U.S. dollar terms, which still outpaced the U.S.



The story of the year was that the underlying global economy, underpinned by consumers and AI-driven investments, broadly gained traction in spite of the gale-force headwinds, which was also reflected in the strengthening earnings. Looking ahead at the year to come, there is little reason to anticipate that this object in motion will not stay in motion, barring any sort of exogenous and unforeseen shock.

The worst of the U.S. government economic policy-related shocks to the system appears to be in the past, as there will likely be a diminished appetite to disrupt activity and stoke market volatility ahead of the U.S. midterms slated for November. With respect to monetary policy, while the coming year will not see the same magnitude of easing as occurred over the last two years, as central banks approach their “neutral” policy settings, the bar appears to be elevated for any course correction — the Bank of Canada, in particular, appears comfortable on the sidelines — suggesting market yields will remain around the bottom of their ranges from the last few years.

The prospect of increased clarity for the outlook and fairly benign interest rates, combined with needed investment, would appear to be supportive of continued business capital investment. Add in ongoing, if somewhat more moderate, consumer spending growth supported by strong household balance sheets and the renewed global focus on government investment, and that sets the stage for sustained economic momentum in the months ahead.

Altogether, that represents a constructive fundamental backdrop for financial markets in the year to come that can support further, if likely more modest, positive performance across asset classes, even with generally elevated valuations. In the near term, Newton’s first law of motion looks to apply to markets.

End notes

¹ The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

² The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.

³ The S&P/TSX Composite Index is the benchmark Canadian index, representing roughly 70.0% of the total market capitalization on the Toronto Stock Exchange (TSX) with about 250 companies included.

⁴ The FTSE Canada Universe Bond Index is the broadest and most widely used measure of performance of marketable government and corporate bonds outstanding in the Canadian market.

⁵ The FTSE Canada Long Term Bond Index measures long-term bond performance in the Canadian domestic bond market.

⁶ The FTSE Canada All Government Bond Index measures the performance of the Canadian dollar-denominated investment-grade fixed income market, covering Canadian government and quasi-government bonds.

⁷ FTSE Canada All Corporate Bond, a measure of investment-grade corporate bond performance in the Canadian domestic bond market.

⁸ The FTSE Canada Short Term Bond Index measures short-term bond performance in the Canadian domestic bond market.

⁹ The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.

¹⁰ Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla

¹¹ The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets DM countries*—excluding the United States. With 776 constituents, the index covers approximately 85.0% of the free float-adjusted market capitalization in each country.

¹² FAANG is an acronym for the five best-performing American tech stocks in the market: Meta (formerly Facebook), Apple, Amazon, Netflix, and Alphabet (formerly Google).

¹³ The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

¹⁴ The MSCI Brazil Index is designed to measure the performance of the large and mid-cap segments of the Brazilian market.

¹⁵ The MSCI Mexico Index is designed to measure the performance of the large and mid-cap segments of the Mexican market.



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