Market in Review

Markets around the world posted steady gains during Q4, capping a strong year for risk assets overall. The weaker U.S dollar was a factor in the remarkable performance of non-U.S. equities, including Canada, which significantly outperformed the U.S. market for the full year.

Indeed, 2025 was exceptional for Canadian stocks. The S&P/TSX Composite Index, led by materials and financials, notched fresh record highs on 63 trading days.

On the final trading day of the year, December 31, 2025, the index printed a close of 31,712.76 — the highest closing value it had ever recorded.

In the U.S, large-caps finished the fourth quarter and the year near record levels as investors continued to reward companies tied to the AI build-out (data-center providers, GPU suppliers and the large cloud platforms) while also reacting positively to the Federal Reserve's interest rate cuts.

Meanwhile, fixed income produced positive returns overall in response to Fed's easing and the market's lowered expectations for aggressive tightening. Bonds have now produced positive returns for four consecutive quarters.

Risk factors

Despite the positive performance backdrop, several risk themes emerged in Q4.
Monetary authorities in major economies are balancing persistent inflation pressures against slowing growth. Global outlooks continue to forecast somewhat sticky inflation that could delay further rate reductions.

U.S. economic growth decelerated through 2025, with first-half real GDP running significantly below prior years — a trend that extended into Q4 and prompted more cautious positioning among investors.

Concerns about valuations in mega-cap technology stocks have become a recurring theme. The increasing concentration of market leadership in the sectors raises the possibility of sharper volatility if sentiment shifts.

Geopolitical uncertainty is rising, driven by America's recent foreign policy shifts, military action against Venezuela and threats against its allies. Additionally, the ongoing Russia-Ukraine war and Middle East conflicts continue to act as drag on investor confidence.

KEY TAKEAWAYS

- Globally, most markets posted steady gains in Q4, capping a strong year for risk assets overall.
- 2025 was exceptional for Canadian stocks, with the S&P/TSX Composite Index notching fresh record highs on 63 trading days.
- In the U.S, large-caps finished the fourth quarter and the year near record levels as investors continued to reward companies tied to the AI build-out.
- Global central banks, including the Bank of Canada (BoC), broadly shifted toward neutral interest rate stances by late 2025.
- Market forecasts continue to flag the potential for sticky inflation, which could delay further rate reductions.
- Despite a sharp April sell-off triggered by the Trump Administration's tariff announcements, the S&P 500 still finished the year up roughly 18%.
- European markets delivered modest Q4 gains, supported by fiscal spending and moderate inflation.
- The S&P/TSX Composite returned 5.6% in Q4 2025, excluding dividends, and +28.2% for the full year.

Global Outlook

On the monetary policy front, global central banks, including the Bank of Canada (BoC), broadly shifted toward neutral stances by late 2025, with some moving beyond easing into a period of policy accommodation reflecting lower inflation expectations.
European markets delivered modest Q4 gains, supported by constructive fiscal spending and moderate inflation trends. However, economic conditions across the eurozone remained mixed. Manufacturing activity, especially in Germany, continued to contract, and that negatively affected export-focused sectors.

In the U.K., stocks performed well during the fourth quarter of 2025, and the full year proved to be one of the strongest for U.K. equities in more than a decade. Concern about U.K. economic growth in an ongoing theme, but the country benefited during the quarter from investors seeking opportunities outside the US.

In China, stocks performed well for much of 2025, but the market gave back some gains on profit-taking in the final quarter. Additionally, softer macro data and heightened concerns about ongoing weakness in the property market weighed on the market at the end of the year.

United States Snapshot

U.S. stocks ended the year on a resilient note, but the gains were more moderate compared to earlier quarters. Large-cap equities delivered most of the upside, while smaller cap and growth-oriented segments produced uneven results. Broader leadership will likely depend on upcoming corporate earnings and the Fed's future interest-rate path.

Despite a sharp April sell-off triggered by the Trump Administration's tariff announcements, the S&P 500 still finished the year up roughly 18%.
Due to heightened year-end market volatility, investors failed to receive a "Santa Claus" rally, but the good news is the price swings appeared driven more by profit-taking than by weakening fundamentals. That said, optimism is tempered by worries over lofty valuations in technology shares and by questions about how sustainable and widespread the AI-related gains will be.

Spotlight on Canada

Canadian equities outperformed once again in Q4, supported by strong performances from the materials and energy sectors. The financial and consumer discretionary sectors showed mixed results — consistent with the global backdrop of differentiated sector performance.

The Canadian economy, for the most part, has weathered the
storms of the past year remarkably well. After lowering its policy interest rate in October, BoC held steady in December, reflecting that fact that inflation had settled over the previous three months to just above the target midpoint of 2%.
Canada's economy added 128,400 jobs in the quarter, pushing the unemployment rate to its lowest level since 2024.

The S&P/TSX Composite returned 5.6% in Q4 2025, excluding dividends, and +28.2% for the full year. This marked the best year for the index since 2009. Of the 240 stocks that were in the TSX Composite at some point during 2025, 174 (73%) recorded a gain.

In 2025, the Canadian market outperformed the U.S. market in home-currency terms (the U.S. returned +16.4%) and in Canadian dollar terms (the U.S. returned +10.9% in C$ terms). Canada outperformed the U.S. in 2025 by the largest gap since 2005.

What's next?

Q4 2025 closed a year in which tariff tensions, monetary policy shifts and a massive increase in AI stock valuations defined markets. Those same themes will matter in 2026 — but there's no predicting either the timing or what the impacts will be.

In response to market uncertainty, some people become overly cautions with their investments, while others take on more risk

A more prudent course is to follow a disciplined, strategic plan that balances risk and opportunity, avoids guesswork and remains aligned with your long-term objectives.

MARKET MONITOR (Returns in CAD)

MARKET INDICATORS	MARKET CLOSE*	2024 ANNUAL RETURN	2025 Q4 ACTUAL*	2025 YTD ACTUAL*
S&P/TSX Composite	31,712.76	21.65%	6.25%	31.68%
S&P 500	6,845.50	36.36%	1.13%	12.35%
Dow Jones	48,063.29	25.42%	2.48%	9.53%
MSCI World	4,430.38	30.01%	1.67%	15.90%

*As of December 31, 2025

TOP GIC RATES

ACCOUNT TYPE	1YR	2YR	3YR	4YR	5YR
Non-Registered	2.85	3.16	3.40	3.47	3.62
RRSP	2.85	3.15	3.39	3.47	3.62
RRIF	2.85	3.15	3.38	3.45	3.60

*As of December 31, 2025

Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

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