

# Quarterly Commentary

December 31, 2025



## A resilient finish to a remarkable year

As we closed out 2025, markets around the world delivered strong results despite a backdrop of shifting economic conditions, political uncertainty, and evolving central bank policy.

### Economic overview

#### Canada: slower momentum, measured rate cuts

The Canadian economy remained soft through the fourth quarter. Consumers are feeling the effects of higher leverage, and business investment has been subdued.

The Bank of Canada cut rates by **25 basis points**, but signaled that further easing will likely be limited. This contributed to a modest steepening in the Canadian yield curve.

#### United States: growth still holding up

The U.S. economy continued to show resilience, supported by strong consumer spending. Job growth has slowed, but largely due to fewer new hires in industries being reshaped by AI rather than widespread layoffs.

A major driver of U.S. growth this year has been **AI-related capital spending**—particularly the rapid buildout of data centres and supporting power infrastructure. Capital is flowing into these sectors, both internally from large technology companies and externally from public and private credit markets.

Inflation continued to ease, prompting the Federal Reserve to cut rates by 50 basis points, bringing financial conditions to their most supportive levels in several years.

#### Global developments

- **Europe** is shifting away from fiscal restraint, increasing public spending on defense and infrastructure.
- **Japan** has exited decades of ultra-low rates, with long-term bond yields reaching multi decade highs.

- **China** posted a **\$1 trillion+ trade surplus**, helped by diversified export markets and competitive pricing. However, domestic demand and excess capacity remain major challenges.

### Bond markets

Bond markets were generally flat to slightly negative for the quarter, as higher long-term yields largely offset income earned from coupons.

#### Key themes:

- Canadian yields rose across the curve (10–25 bps), contributing to a steeper curve.
- U.S., German, and Japanese long-term yields all reached multi year highs.
- Credit spreads remained stable, indicating investors have not significantly repriced corporate credit risk.
- With longer-term spreads tight and new issuance still low, **shorter-term corporate bonds remain more attractive.**

### Equity markets

#### A strong quarter and a standout year

Global equities continued their strong run in Q4, completing what proved to be an exceptional year for stock markets.

- **Canada** was among the world's top performers, driven by strength in materials (gold and base metals) and financials.
- **International markets** (including emerging markets) posted mid single digit gains.
- **U.S. equities** rose but lagged other regions on a relative basis.

## Sector performance varied widely:

- **Health care** rebounded in developed markets as regulatory concerns eased.
- **Technology**—particularly AI related companies—remained a major driver globally.
- **Defensive sectors**, including consumer staples and real estate, lagged through the quarter and the year.

For 2025 overall, performance was **pro cyclical** and **concentrated**, with leadership from financials, precious metals, defense companies, and AI-linked technology. This pattern is consistent with **late cycle market behavior**.

## Looking ahead: 2026 outlook

The economic environment points toward **continued productivity gains**, particularly as businesses integrate AI and adapt workforces to new demands.

## Key considerations for 2026:

### Federal Reserve

- Slower job growth remains a focus, though the issue appears structural rather than cyclical.
- With a new Fed Chair expected in April, markets anticipate **~50 bps of rate cuts** next year—less than most major central banks.

### Policy Tools Beyond Interest Rates

If U.S. economic strength reignites affordability concerns, policymakers may increasingly rely on:

- tariff adjustments
- regulatory measures
- targeted fiscal interventions

These tools could influence inflation, trade dynamics, and consumer conditions.

## Risks to Watch

- The U.S. fiscal deficit remains large and growing. As the government issues more short term debt, fiscal and monetary policy become more intertwined—raising the possibility of future market volatility.
- Equity valuations are elevated relative to historical norms, introducing the risk of a correction if markets reprice toward long term averages.

## Our positioning at Johnstone Wealth

### In this environment, we remain focused on:

- **High quality companies** with durable earnings and sound balance sheets
- **Disciplined portfolio construction** to navigate concentrated market leadership
- **Prudent risk management**, particularly as volatility may rise from elevated valuations
- **Opportunities in shorter duration fixed income**, where risk adjusted return potential remains attractive

The global economy continues to demonstrate resilience, and policy remains broadly supportive. We believe a thoughtful, valuation sensitive approach remains the best way to protect and grow wealth as we move through a late cycle environment into the next phase of the economic cycle.

## Our Approach

At Johnstone Wealth, we remain focused on helping clients navigate these dynamic markets with a disciplined, risk-aware approach. We continue to emphasize quality, diversification, and proactive portfolio management to help you achieve your long-term financial goals.

If you have questions about your portfolio or would like to discuss how these developments may impact your investment strategy, please reach out to our team.

## Contact our team of experts today!

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