

2025 - FINANCIAL MARKETS REVIEW

FIXED INCOME (historical average returns: 2% to 4%)

BONDS: 2025 return below historical average – The Bank of Canada lowered its key interest rate four times in 2025, ending the year at 2.25%. However, these rate cuts have not had the desired effect on bond yields. Exceptionally, the yield on a 10-year Canadian government bond remained virtually unchanged over the same period. TMX Universe Bond Index 2025 return: 2.4%.

EQUITIES (historical average returns: 7% to 10%)

CANADA: 2025 return above historical average – In 2025, Canadian equities had their second-best year this century. Donald Trump had just unleashed the harshest tariffs since the great Depression, effectively choking off trade and tearing up a trade agreement he had negotiated. Then Trump backed down from his most punishing tariffs. Technocrat Mark Carney took over as prime minister, easing financial market jitters and cooling tensions with his US counterpart. Canada’s economy – driven by miners and financial firms – was perfectly situated for the chaos of Trump’s new world order. S&P/TSX Composite Index 2025 return: 31.7%.

UNITED-STATES: 2025 return above historical average - Artificial Intelligence (AI) remained the dominant theme driving US equity markets in 2025. However, as investors started to try and discern the eventual winners and losers in the AI race, only two of the “Magnificent Seven” tech companies outperformed the S&P 500. Consumer-facing sectors struggled as sluggish job growth weighed on consumer confidence. 2025 was the first time in 20 years that the S&P 500 was the worst performing major equity market. S&P 500 CAD 2025 return: 12.5%.

INTERNATIONAL: 2025 return above historical average – Asian markets outside of China reflected the spillover of AI enthusiasm as investors focused on the crucial role the region plays in the tech supply chain. In Japan, hopes for continued reflation were boosted by the election of Prime Minister Takaichi, with markets factoring in the likelihood of greater government spending. European equities underperformed in local currency terms in a year of strong returns for equities. However, currency movements played an outsized role, the euro was a major beneficiary, rising 13.4% against the US dollar. MSCI EAFE CAD 2025 return: 25.9%.

ALTERNATIVE INVESTMENTS: Canadian REITs finished 2025 with a 10.1% total return, around what investors should expect from the underlying assets and businesses. US REITs returned 3.4%, US residential and data center sectors were notable laggards.

Overall, 2025 was a very good year for investors. Looking forward to 2026, there are reasons to think stocks can sustain their momentum. There are strong themes across sectors highlighted by the AI buildout that could continue to bolster communication services, tech and industrials, as well as utilities and energy. Additional themes could power other sectors like materials (metals) and health care (diabetes drugs). Every year brings new opportunities and challenges, a reminder to stay diversified and balanced.

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