



# Market Commentary

FOURTH QUARTER | DECEMBER 31 2025



PLACEMENTS  
**LOUISBOURG**  
INVESTMENTS



# Equity Markets

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Equity markets closed out the year on a strong note, with gains extending through the fourth quarter as investors became more confident that the transition to lower interest rates would be supportive rather than disruptive to growth. Central banks maintained a cautious, data-dependent approach, but easing financial conditions and moderating inflation reinforced expectations that policy would remain accommodative into 2026. Performance has been quite positive across Canadian, U.S., and international equities, with Canadian markets leading due to continued strength in precious metal producers amid firm gold prices and heightened geopolitical uncertainty.

**Canadian equities** maintained their strong upward momentum and leadership into the fourth quarter, adding another 6.3% on solid participation, supported by gold's continued surge higher. While gold-related strength remained a key driver, the advance was reinforced by improving breadth across the market, suggesting performance was not solely reliant on a single theme. Materials (+12%) led the advance again this quarter, closely followed by Financials (+10%) and Consumer Discretionary (+11%). Financials had the most important impact given they represent one-third of the benchmark weight. Breadth was also generally solid, with eight of eleven sectors delivering positive returns. Real Estate (-6%) was the weakest sector despite falling interest rates, while Consumer Discretionary (-2%) and Industrials (-1%) also lagged.

**U.S. equities** delivered measured performance in the final quarter of 2025, capping off another year of solid double-digit gains. The S&P 500 rose 2.7% in USD during the quarter, but the Canadian dollar strengthened against US dollar, resulting in a 1.1% return for Canadian investors. Throughout 2025, markets effectively "climbed a wall of worry," a trend that persisted into Q4. Investors largely looked past continued softness in the labor market and the longest US government shutdown in history, which distorted official economic data for much of the period. On a sector basis, there were two clear standouts. Health Care (+12%) was the quarter's top performer. The sector had underperformed for much of the year due to uncertainty regarding tariffs and drug pricing. However, recent pricing announcements between the Trump administration and some large pharma's helped clear the clouds of negative sentiment. Communication Services (+7%) also outperformed, largely driven by Alphabet, as investors rewarded the company's growing competitiveness in both AI software and hardware solutions.

**International equities** momentum was also positive this quarter, up 3.7% in Canadian dollars. On a sector basis, there were three clear positive standouts. Utilities (+9%) was the top performer this quarter, benefiting from positive sentiment surrounding AI-related demand and rotation into more defensive names. Health Care (+8%) was a close second, benefiting from the same US tailwinds. Finally, momentum in Financials (+6%) continued, driven by banks on favorable earnings results. On the negative side, Communication Services (-9%) significantly underperformed on increasing concerns around the competitive environment.

Equity markets have continued to move higher despite an uneven macro backdrop, supported by easing monetary policy and earnings that have held up better than expected. Trade frictions have continued to ease, though political and geopolitical uncertainty remain meaningful considerations.



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Economic activity appears to be decelerating in an orderly manner, reinforcing confidence that the slowdown is manageable rather than disruptive. Looking ahead, the effects of policy easing are still working their way through the economy, and the outlook remains subject to crosscurrents. Structural tailwinds, including ongoing advances in artificial intelligence, offer the potential to support productivity and earnings over time, helping to offset slower cyclical momentum. Against this backdrop, elevated valuations and a widening dispersion of returns across sectors and regions reinforce the importance of selectivity and risk discipline. Portfolios remain positioned with a balanced to moderately defensive bias, emphasizing companies with durable cash flows, strong balance sheets, and attractive risk-adjusted valuations. While periods of volatility are likely as markets digest mixed economic and policy signals, central banks retain the flexibility to adjust policy in either direction as conditions evolve, which may help moderate market volatility.



# Fixed Income Markets

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During the fourth quarter of 2025, the Canadian bond market demonstrated remarkable stability despite elevated geopolitical risks and frequent policy-related headlines from the United States. Financial markets largely looked through political volatility in Washington. Trade tariffs remained an overhang to global growth due to the added uncertainty for key trading partners and potential for further supply disruptions. Despite these risks, economic data in both Canada and the U.S. surprised to the upside, moving market expectations to the view that policy rates may remain higher for longer and contributing to upward pressure on bond yields.

Economic data released during the period showed that Canada's economy grew at an annualized rate of 2.6% in the third quarter, a strong result given ongoing trade-related uncertainty. Labour markets continued to strengthen, with more than 150,000 jobs created in recent months, while the unemployment rate declined to 6.5%, supported in part by slower population growth. Inflation pressures eased modestly, with headline inflation falling to 2.2% year over year in November due to lower energy prices. Core inflation, however, remained elevated at 2.8% year over year, reflecting continued strength in consumer demand. Business investment improved as strong earnings and efficiency gains from increased adoption of artificial intelligence supported capital spending.

Global bond yields moved higher during the quarter as stronger economic growth and productivity-enhancing investments supported higher long-term rate expectations. In Canada, productivity growth remained modest at just under 1% but improved relative to the negative levels observed in recent years. Looking ahead, Canadian economic growth is expected to moderate to 1.7% in 2025 and 1.4% in 2026, with potential upside should productivity gains continue to materialize.

Central banks continued to ease policy at a measured pace. The Bank of Canada reduced the overnight policy rate by 25 basis points to 2.25% in October, signaling a pause in further easing given the resilience of economic activity and labour markets. The U.S. Federal Reserve also cut policy rates twice during the quarter, bringing the upper bound of the federal funds rate to 3.75%. Despite these rate cuts, stronger economic data, rising global yields, and concerns surrounding increased fiscal spending and government debt levels led to a largely parallel upward shift in the Canadian yield curve. Over the quarter, two-year Government of Canada yields rose 12 basis points to 2.59%, five-year yields increased 22 basis points to 2.97%, ten-year yields climbed 25 basis points to 3.43%, and thirty-year yields rose 23 basis points to 3.86%.

## Outlook

Looking ahead, bond markets are expected to remain sensitive to inflation data, global yield movements, and fiscal developments. While policy rates have moved lower, stronger economic data indicate that further rates cuts will be limited this year. As a result, it will be important to remain disciplined with respect to curve positioning and managing the risk around long duration assets.



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