THE COERENTE VIEW

4[TH] QUARTER 2025

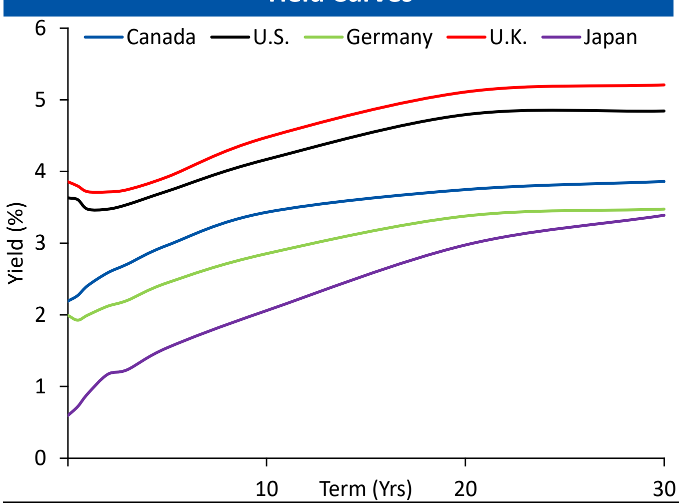
Market Statistics

	Dec/25	Sep/25	Jun/25	Dec/24
Yields (%)				
90 Day T-Bill	2.19	2.49	2.65	3.13
10 Yr. Canada Bond	3.43	3.18	3.27	3.23
30 Yr. Canada Bond	3.86	3.63	3.56	3.33
Rates				
C.P.I. (annual %)	2.20	2.40	1.90	1.80
C$/US$	0.73	0.72	0.73	0.70
C$/Euro	0.62	0.61	0.62	0.67
Prices (US$)				
Crude Oil (bbl.)	57	62	65	72
Natural Gas (mm)	3.70	3.30	3.50	3.60
Gold (oz.)	4,308	3,807	3,277	2,611

Market Returns

	Periods Ending Dec. 31/25			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	6.3	31.7	16.1	12.7
S&P 500 (C$)	1.2	12.3	16.2	14.7
S&P 500 (US$)	2.7	17.9	14.4	14.8
MSCI EAFE Net (C$)	3.4	25.1	10.6	8.1
MSCI EAFE Net (US$)	4.9	31.2	8.9	8.2
MSCI World Net (C$)	1.6	15.5	13.9	12.1
MSCI World Net (US$)	3.1	21.1	12.2	12.2
Bond Universe	-0.3	2.6	-0.4	1.9
91 Day T-Bills	0.6	2.8	2.9	1.9

Yield Curves



The Economy

At the start of 2025, President Trump's implementation of tariffs globally, and particularly his focus on Canada and Mexico, sparked fears of slower economic growth, potential recessions and higher inflation in the targeted economies. As the year progressed, trade policy remained volatile with "on-again, off-again" tariff implementation and variable rates. Surprisingly, most companies absorbed the costs of the tariffs that were ultimately implemented rather than passing them along to consumers. This was likely due to reasonably strong economic growth and the unknown duration of the tariffs. Nevertheless, the expectation is that any permanent levies will eventually lead to higher consumer prices. Amidst all the uncertainty, US GDP growth is projected to be 2.5% for 2025 and slightly lower in 2026, while Canada is forecast to hold steady at a more modest 1.5% growth rate for both years.

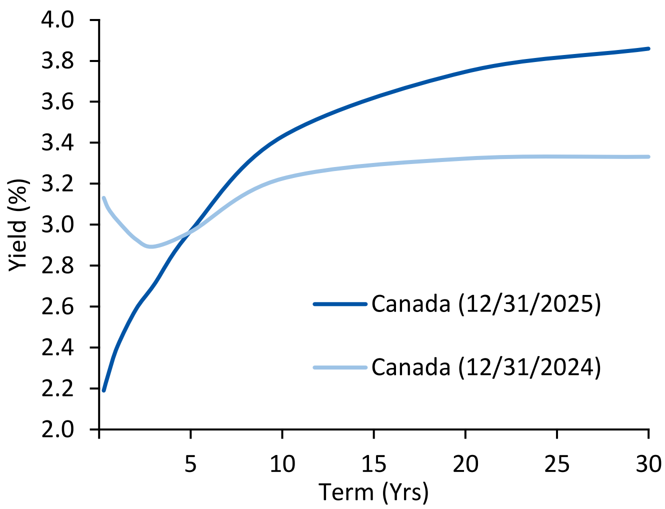
The US-Mexico-Canada Agreement (USMCA) covers most trade between these countries and it saved both Canada and Mexico from any recession in 2025. Canada did face significant duties on autos, aluminum, steel and forest products but these sectors collectively account for only about 10% of Canada's GDP limiting the overall economic fallout. The USMCA expires in 2026 and pre-negotiations have begun. While it is uncertain what the outcome will be, it is increasingly clear that there will be a shift to a more restrictive trade environment and that the new framework will not be as beneficial to Canada or Mexico.

For Canada, there is finally the realization that having 75% of our trade with the US is risky. The Trump administration has made it clear they are focused on securing Canadian resources for which there is an immediate and longer-term need. This would suggest that current US threats to our sovereignty and the use of economic pressure as diplomatic leverage will likely persist beyond Trump's tenure as President. So far, in response the Canadian government has committed to a multi-year infrastructure spending strategy. The plan is aimed at diversifying trade and is forecast to result in a deficit of $78.3 billion for the coming fiscal year alone with declining interest rates providing some relief in a slower economic growth environment. While our debt-to-GDP ratio is average relative to other G7 countries, a prolonged period of rising debt without measurable progress toward trade diversification will not sit well with bond holders and may trigger demands for higher interest rates.

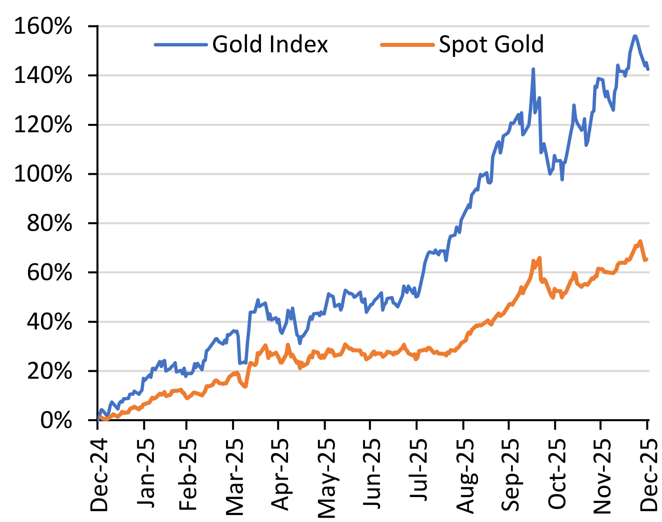
The Markets

It was a strong quarter in the equity markets with all subsectors contributing to the 3.2% gain in the World Index (1.6% in Canadian dollar terms). The S&P/TSX outperformed,

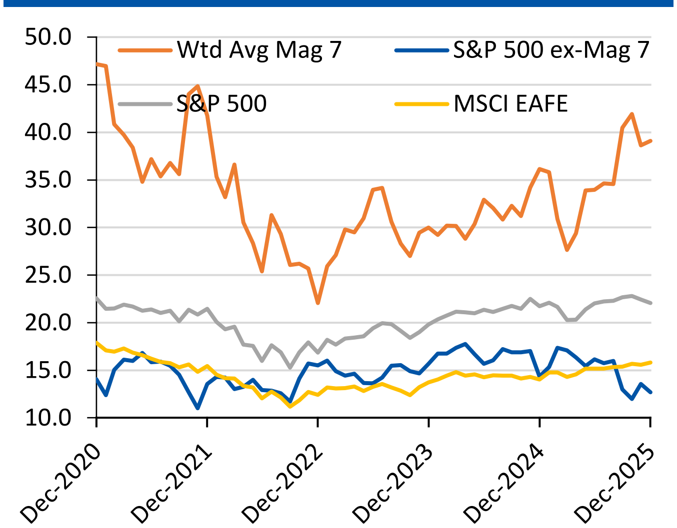
Canada Yield Curves



S&P/TSX Gold Index vs. Spot Gold



Forward P/E – Magnificent 7



rising 6.3% in the fourth quarter, largely driven by gold stocks. For the year, the World Index returned 15.5% in Canadian dollars and the S&P/TSX surged 31.7%.

The technology subsector, fueled by the momentum of artificial intelligence, dominated world equity markets in 2025. Technology stocks now make up half of the S&P 500 index and 35% of the World Index, and they accounted for a staggering 75% of the S&P 500's return for the year and 55% of the World Index's gains. This heavy concentration and the high valuations of many of the stocks in this area have elevated the risk profile of indexed portfolios. The bottom chart on this page illustrates that today, technology related companies (orange line) are trading at more than three times the level of non-technology companies (blue line). As a result of concern regarding technology valuations and in the interest of diversification, we have continued to trim our technology holdings to ensure our industry weighting does not exceed the 25-30% level. Outside of technology, we find the market's average price/earnings multiple of 12.5 times to be quite reasonable.

In Canada, gold stocks were the primary driver of the S&P/TSX. As the price of gold surged 65%, the gold subsector rose 140%, generating 65% of the index's return. The gold rally began early in the year as China sold US dollar securities and bought gold for their central bank reserves in a move some believe was a trade negotiation strategy against US tariff threats. Although China did eventually end their program, retail investors piled in and took over, driving gold prices significantly higher. Gold equities outpaced bullion itself rising at more than twice the rate of the commodity (per opposite chart). We have never been in favour of owning gold bullion in portfolios as it has historically failed to keep pace with inflation or major equity indices. Ultimately, gold stocks have been extremely volatile and poor long-term wealth builders.

Fixed income returns were disappointing, with the Bond Universe Index falling 0.3% in the fourth quarter and posting a pedestrian 2.6% return for the full year, barely keeping up with inflation. Although North American central banks lowered short-term interest rates in 2025, long-term rates did not decline but rather increased, as persistent inflationary concerns kept upward pressure on yields (as shown in the top chart opposite). Given the ongoing threat of inflation and the reasonable valuation levels found in non-technology sectors, we continue to maintain a clear preference for equities over fixed income investments.

Sources: Bloomberg, National Bank Financial, Statistics Canada