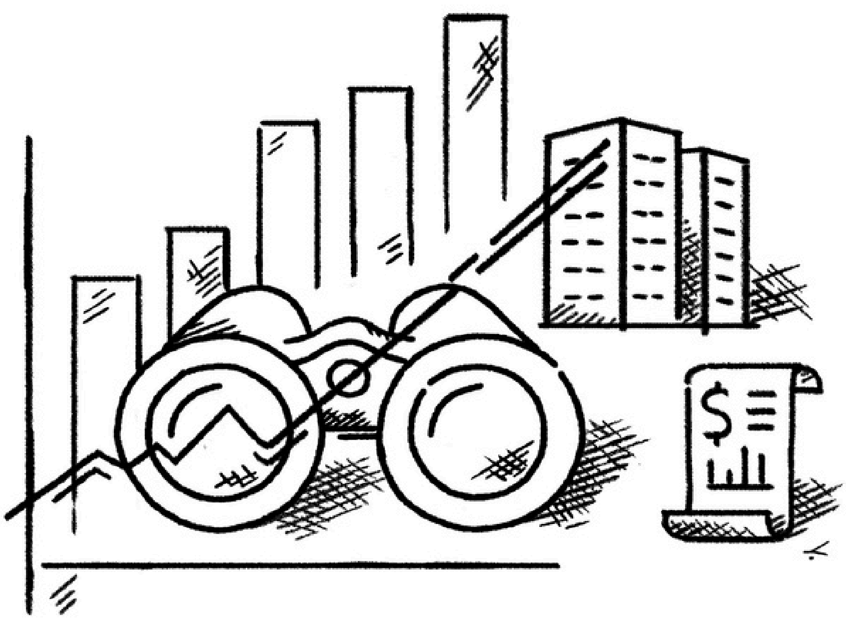
NEXUS

# The Nexus Report

*Stock Markets Soar Through Uncertainty: Can They Do It a Fourth Year in a Row?*




Fourth Quarter 2025

## A Three-Peat

It would be understandable if clients are incredulous when looking at the chart below. The past year has been filled with headlines describing trade wars, shooting wars, and consistently escalating political dysfunction and geopolitical tensions. In the face of these concerns, stock markets soared. It is the third year in a row that investors enjoyed remarkable stock market returns. During this three-year period, the Canadian and U.S. markets were up a little more than 20% per year, while international markets were up slightly less than 20% per year. Almost every market is at, or near, an all-time high.

What also may be surprising is that the victims of the U.S. trade war (Canada, Europe, and Asia) had much stronger stock markets in 2025 than the U.S. itself. Moreover, the 9% decline in the value of the U.S. dollar during the year added to the underperformance of the U.S. relative to other markets.[1]

In Canada, the stock market's 31.7% return was the TSX Composite's best annual return since 2009. Within the TSX, the Materials sector, which is comprised predominantly of gold mining stocks, provided a return of 100% in 2025. Gold bullion climbed relentlessly through 2025, as central banks added to reserves and investors looked to gold as a hedge against the risks of trade disruption and geopolitical tension. The price of an ounce of gold rose 65% during the year, its best performance since 1979.[2] While the gains from gold were extraordinary, the rest of the Canadian market also performed well. Stripping away the contribution from the Materials sector, we estimate that the rest of the TSX Composite still generated a return in excess of 20%. Bank stocks had a particularly strong year.

South of the border, technology stocks, especially those involved in the development of artificial intelligence, continued to lead the way. Concentration in the U.S. market, which we have written about before, has reached another all-time high. The top 10 stocks in the S&P 500 now represent 40.7% of the total market capitalization of the Index.[3] For context, the concentration of the top 10 stocks bounced around the 20% mark for most of the years between 1995 and 2020. Investors can debate the extent to which technology stocks are overvalued or fairly valued. However, there is no denying that the fate of the U.S. equity market is significantly wrapped up in the performance of these giant companies.

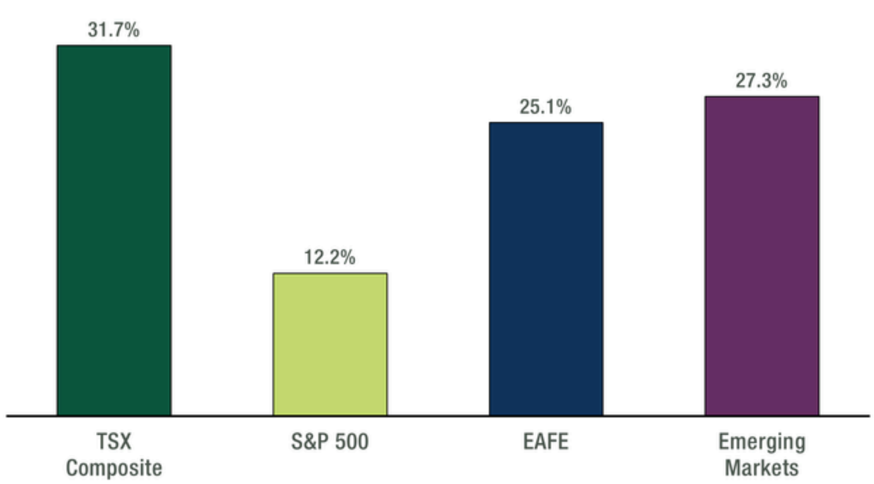
## Muddling Through

It is a confusing time for investors trying to assess the economic outlook in Canada and the U.S. Stock market exuberance seems to anticipate that a period of strong growth lies ahead. Certain economic data, such as consumer confidence (see below), suggests a much more sombre future. In all likelihood, the reality will be somewhere in between.

The Canadian economy continues to surprise economists and investors with its resilience. From the onset of the U.S.-led trade war in early 2025, most expected the Canadian economy to be hit hard. We are a trading nation. To be sure, certain industries – like steel and aluminum manufacturing – were hit hard. However, the overall economy bent but did not break. Following a significant sag in economic growth in the second quarter, GDP bounced back strongly in the third quarter, posting a surprising 2.6% rate of growth. Overall GDP growth in 2025 is expected to be 1.7% according to BMO estimates.[4]

What has been truly remarkable about the Canadian economy is employment growth. While the December report of 8,200 new jobs seems modest on the surface, it was the fourth month in a row of better-than-expected results and follows an incredibly strong three-month

**Total Returns – 12 Months Ended December 31, 2025 (C$)**




NOTE: Unless indicated otherwise, all Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees (which are charged to client accounts and vary by client). Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Stock-specific returns are price-only returns, and for U.S.-listed stocks are in U.S. dollars. Past performance is not indicative of future results. For more information about benchmarks, please refer to https://tinyurl.com/NexusOnBenchmarks.

1 U.S. dollar as measured by the DXY, an index of the value of the U.S. dollar against a basket of other currencies.
2 *The Globe and Mail*, January 1, 2026. Bullion gain in USD.
3 J.P. Morgan "Guide to the Markets", Q1 2026.
4 Douglas Porter, "Talking Points", BMO Capital Markets, November 28, 2025.

stretch. During this four-month period, 189,000 new jobs were created in Canada, with the details underlying the headline equally robust. The unemployment rate ticked higher in December but did so because of a large increase in the labour force – a sign that Canadians are optimistic about employment opportunities. It remains below the summertime high of 7.1%.

In contrast, the U.S. labour market is weak. In December, 50,000 new jobs were created. This is only slightly lower than expectations, but previous months were revised significantly lower. Since President Trump's "Liberation Day" tariff announcement in early April, the U.S. labour market has struggled. Job growth was negative in four months since then and nearly flat in three others. Only September had a meaningful increase in employment. Moreover, jobs in the manufacturing sector – the sector that tariffs are supposed to support – have declined. Most new jobs have been created in healthcare, a sector that will face a huge reduction in government funding in 2026. The outlook for jobs in 2026 is not rosy.

Perhaps reflecting difficult conditions in the labour market, U.S. consumer confidence is at historic lows. The University of Michigan survey has recovered slightly from the recent November low, but it remains 25% below the level it was at a year ago. It is lower than it was during several recent recessions, including the Global Financial Crisis. Confidence is particularly weak among low-income consumers. The affluent remain optimistic.[5]

In contrast with the weak labour market and downbeat confidence measures, GDP growth in the U.S. has stayed strong. Auto sales recorded their best full-year tally since 2019. While the Institute for Supply Management manufacturing survey is weak, its survey of the services sector is strong. Some economists are looking for real GDP growth in the range of 2.5% for 2026.[6] Of course, there are lots of positive and negative forces affecting economic growth. However, capital spending by technology companies is the single biggest driver of U.S. growth at the moment. One analyst estimated that it accounted for 40-45% of the growth in U.S. GDP over the first three quarters of 2025.[7] While there is no particular reason to forecast a slowdown in the near term, U.S. growth clearly has become reliant on the artificial intelligence gold rush.

## Market Outlook

With stock markets in many countries at, or near, all-time highs it is not sensible to expect a fourth year of extraordinary stock market returns. Some U.S. economic data is concerning, and many stocks in the U.S. are expensive. While rational investors can debate the merits of individual stocks, in aggregate, the S&P 500 trades at 22.3x 2026 earnings, compared to a 5-year average of 20x.[8] Over the longer term, the average multiple of the S&P 500 is considerably lower than 20x. It's possible that strong U.S. economic growth will persist and U.S. stocks will march higher. However, there is no doubt that the U.S. stock market's vulnerability to a negative turn of events is high.

Canadian stock market valuations have risen as well, although not to the same extent as in the U.S. While the dark cloud of trade disruption is unlikely to dissipate any time soon, we are optimistic that Canadian companies can continue to grow their earnings. It seems unlikely that gold stocks will be the engine of the Canadian market in 2026 the way they were in 2025, although we have no view on the outlook for the commodity. An article in *The Globe and Mail* pointed out that only 9% of the demand for gold was the result of industrial uses. The rest was for non-economic uses, including speculation.

Overall, we expect investment returns to moderate from those of the last three years, with the most likely outcome being small positive returns. We have no reason to expect a bear market, but we are prepared for one. It is certain to happen sooner or later. It's the reason we invest the way we do. We search for investments that will prosper in good times, but will be resilient in more difficult times. This approach is the basis of our success over time. We are confident it will serve clients just as well in the years ahead.

"*We search for investments that will prosper in good times, but will be resilient in more difficult times.*"

[5] David Rosenberg in *The Globe and Mail*, January 2, 2026.
[6] Douglas Porter, "Talking Points", BMO Capital Markets, January 9, 2026.
[7] Michael Cembalest, "Eye on the Market", January 2026.
[8] *Barron's*, January 8, 2026.

## Fog Everywhere, Stability Nowhere

North American equities navigated a low-visibility quarter, as a prolonged U.S. government shutdown created a temporary "data fog" in economic releases. At the same time, central banks shifted towards lower interest rates. The Federal Reserve cut rates in September and added two more 25-basis-point reductions in the fourth quarter, while the Bank of Canada made one cut before pausing. Against this backdrop, the S&P/TSX Composite Index rose 6.3% in the fourth quarter and finished up a remarkable 31.7% for 2025. The S&P 500 gained 1.1% in the quarter and 12.2% for the year, both in Canadian dollar terms.

Looking back, 2025 was shaped by competing forces: massive AI investments provided a powerful tailwind, while tariff uncertainty slowed business decisions. In a year that also included great uncertainty about inflation and heightened geopolitical tensions, stability was in short supply.

## North American Equities

Nexus's Canadian stocks returned 4.2% in the fourth quarter, compared with a 6.3% gain for the TSX Composite Index. In the quarter, the Materials sector continued its streak of large gains, while Real Estate lagged. Our Canadian holdings produced good returns but fell short of the index, primarily due to limited gold exposure and weakness in Allied Properties, which has struggled with a slower-than-anticipated recovery in office occupancy. For the full year, Canadian equities delivered gains across multiple sectors, with Materials doubling on gold strength and Financials, Consumer Discretionary, and Technology also advancing strongly.

Our U.S. stocks returned 6.1% in the quarter, compared with a 1.1% gain for the S&P 500. Citigroup shares reached a 15-year high as CEO Jane Fraser's restructuring efforts continued to show results. Alphabet also gained in the quarter, supported by continued advances in AI. Beyond these standouts, several holdings – including Dollar General, Thermo Fisher, UPS, Ross Stores, Cisco, and Gilead – posted double-digit gains in the period, while CarMax declined. Over the course of the year, performance varied significantly across sectors and geographies. While a handful of AI-driven technology giants fueled about half the U.S. gains, this narrow leadership left the S&P 500 trailing most other major global markets for the first time in twenty years. It's remarkable, but a 12.2% gain for the U.S. market just wasn't up to snuff in 2025 (see chart on page one).

During the quarter, we trimmed Citigroup as a matter of position-sizing discipline, rebalancing the holding following the strong performance described above.

## International Equity Investments

We continue to hold two externally-managed pooled funds.[9] EQIT (international developed market equities) rose 0.6% in the fourth quarter, while EMEC (emerging market equities) gained 7.2%.

International equity markets moved higher in the quarter, supported by lower inflation, a weaker U.S. dollar, and expectations of further global interest rate cuts in 2026. Improving earnings and ongoing excitement about new developments in artificial intelligence contributed to a positive outlook across global markets.

Developed international markets broadly performed well in the quarter, supported by more accommodative monetary policies and rising valuations. Investor confidence across Europe and Asia-Pacific improved as inflation slowed and economies proved more resilient than expected. Strong government spending in European defense and infrastructure, along with key corporate reforms in Japan, also contributed to these regional results.

Emerging markets gained momentum as U.S. interest rate cuts and a weaker dollar drew in more investment and gave local central banks room to maneuver. Growth remained steady in India and Southeast Asia. Meanwhile, increased demand for AI fueled gains in Korea and Taiwan, which dominate the global supply of specialized memory and advanced semiconductors, respectively.

From a portfolio standpoint, we believe that international exposure serves several key purposes: it enhances diversification, provides access to more attractive valuations than those currently seen in the U.S. market, and offers exposure to compelling growth opportunities abroad. Over the past year, international holdings have rewarded the patient investor, a sharp turn from nearly two decades of American market primacy. Their 32.4% return in 2025 left the S&P 500's 17.9% looking rather plain by comparison.[10]

*Looking back, 2025 was shaped by competing forces: massive AI investments provided a powerful tailwind, while tariff uncertainty slowed business decisions.*

NOTE: The overall and geographic level return data in this section are for the Equity Fund. Equity returns within the Balanced Fund were similar. For specific performance, please refer to your own quarterly report.

[9] Both pooled funds are managed by teams from J.P. Morgan Asset Management in the U.K. and are held in our International, Equity, and Balanced Funds.

[10] The 32.4% return refers to the performance of the MSCI ACWI ex-US Index in 2025, measured in U.S. dollars. The MSCI ACWI ex-US is a global equity index that measures the performance of developed and emerging market stocks outside the United States. The S&P 500 return is also presented in U.S. dollar terms.

## Resilience and Recalibration

The Canadian bond market delivered subdued performance in the fourth quarter, with the FTSE Canada Universe Bond Index declining 0.3%. A sharp reversal in December erased the gains in October and November. For the full year, the Index posted a modest gain of 2.7%.

Against this backdrop, the Nexus bond holdings outperformed in both periods. The holdings delivered a positive return of 0.2% in the fourth quarter and generated a robust 4.8% return for the full year.

The bond market's modest 2.7% return for 2025 was driven entirely by interest income, which was partially eroded by a drop in the overall price of the bond index. As a reminder, bonds generate returns in two ways: interest income (coupon) and price change. This price weakness was the result of a steepening of the yield curve, where short- and long-term yields moved in opposite directions. The Bank of Canada cut its policy rate from 3.75% to 2.25% during the year, pushing short-term yields lower (the 2-year Government of Canada yield fell from 2.9% to 2.6%), while long-term yields rose as investors priced in better growth prospects. Because the bond index is highly sensitive to long-term rates, the price decline at the long end outweighed the gains at the short end.

The Nexus portfolio's outperformance was driven by its shorter-duration positioning relative to the index, meaning it was less exposed to the sell-off in long-term bonds. As well, our holdings benefited directly from the decline in short-term yields. For our portfolio, both interest income and price appreciation contributed positively to total return.

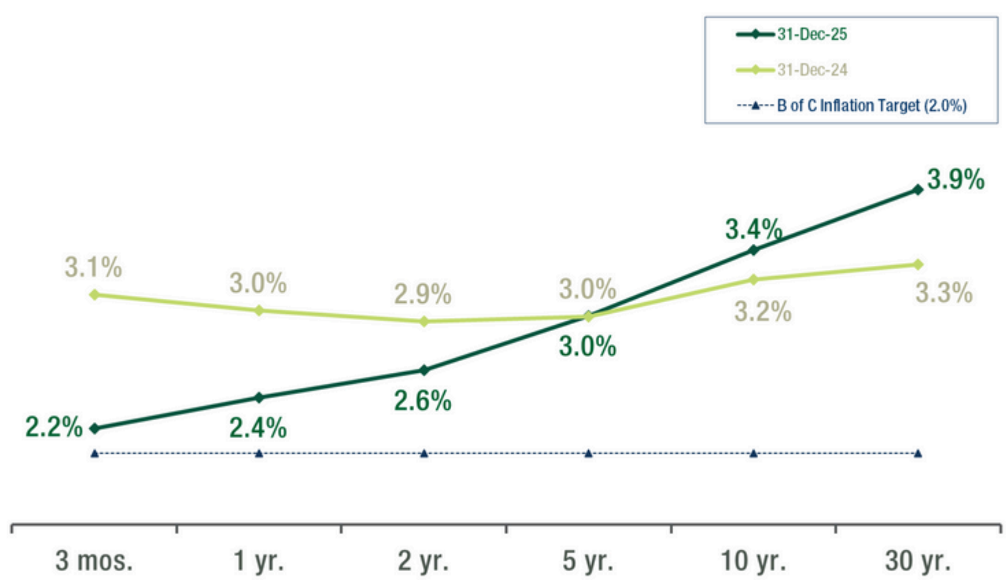
The volatility in bond yields was driven by a Canadian economy that defied bearish expectations. While 2025 was widely expected to be a year of recession and job losses – exacerbated by trade uncertainty – the economy proved resilient.

Canada added over 200,000 jobs in 2025. While the pace of hiring has slowed compared to previous years, it exceeded expectations. Notably, the fourth quarter saw the addition of roughly 128,000 jobs, reversing the losses seen in the prior quarter. The unemployment rate which began the year at 6.7%, finished at 6.8%, largely because more people entered the job market in search of work. Moreover, Statistics Canada revised GDP growth higher for the past three years, suggesting that the economy has been performing better than earlier data indicated. The new federal government promises to be growth-focused, aiming to create a more diversified economy across sectors such as energy, defense, mining, and transportation. Also, the government is moving to diversify Canada's trading partners, which might act as a tailwind for the economy. This string of positive economic data, combined with the government's pro-growth agenda, forced financial markets to recalibrate their expectations. Investors have tempered their optimism for rate cuts; at the time of writing, the market was pricing in a 64% probability of a rate hike by the end of 2026. This recalibration in expectations drove yields on longer-term bonds higher: 10-year Government of Canada bond yields rose from 3.2% to 3.4% over the year, and the 30-year bond yield rose from 3.3% to 3.9%.

As the year progressed and the economy proved more resilient, investors also became comfortable accepting a lower "risk premium" to lend to companies, resulting in narrower credit spreads. This narrowing of spreads boosted the returns on corporate bonds relative to government bonds, enabling our corporate holdings to outperform government bonds for the year.

During the year, we opportunistically added to longer-term bonds to partially offset the portfolio's natural drift lower in duration. We continued to invest in high-quality issuers, investing across federal and provincial government bonds, as well as investment-grade corporate credit, including senior bank debt. With the yield curve having steepened further, offering more attractive yields to compensate for the risk of locking away capital for longer periods, we may look to extend duration further in the coming quarters.

**Government of Canada Yield Curve**



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