2026 MARKET OUTLOOK

Beyond the headlines, fundamentals take the wheel

IG Investment Strategy Team

From panic to performance

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Looking back at 2025

When we start building our year-ahead outlook, we always begin by revisiting the prior year's expectations. What did we get right? What surprised us?

Last year, we outlined themes of continued economic growth alongside central bank rate cuts. We held a positive outlook for gold and reiterated that equity market valuation always matters. It does.

Truth be told, the biggest theme heading into 2025 was uncertainty: uncertainty around the U.S. election and what a Trump administration might mean for investors. Our highest-conviction view was that tariffs would be front and centre. And while political policy matters, it rarely carries the long-term influence on equity market performance that many assume. Despite the unknowns, we believed equity and fixed income markets would continue to reward patient investors. That's a fair summary of what played out in 2025.

The year began with an air of uncertainty. What would tariffs look like and when would they be implemented?

Between inauguration day and the so-called "liberation day", markets wrestled with those questions. The S&P 500 fell by 18.9% between February 19 and April 8 (down 21.3% intra-day peak to trough). Other markets declined in sympathy but to a lesser degree: the S&P/TSX Composite dropped by 12.7%, and the MSCI EAFE Index fell by 14.6% (in U.S. dollars). The U.S., at the centre of the tariff storm, bore the brunt of the volatility.

Then came the reversal

On April 9, President Trump backed off tariffs — seemingly in response to market declines — sparking what became known as the "TACO" trade (Trump always chickens out). Following the 18.9% drop, the S&P 500 recovered its prior highs in just 55 days. Since then, while tariffs remain in some form, and deals continue to make headlines, equity markets have behaved as if nothing happened.

Why? Because markets don't hate tariffs, they hate uncertainty

Once clarity returned, investors and corporate management could refocus on business fundamentals. And business has been good. Quarter-over-quarter earnings have surprised to the upside. Fears of recession have faded. Investors embraced the trend, pushing equity indices in the U.S., Canada and globally to new all-time highs.

The takeaway

If 2025 taught us anything, it's that volatility isn't the nemesis of portfolio performance; panic selling is. Those investors who kept their heads through the uncertainty were rewarded in the end. As we look ahead to 2026, that lesson remains as relevant as ever: discipline and patience are the cornerstones of successful investing.

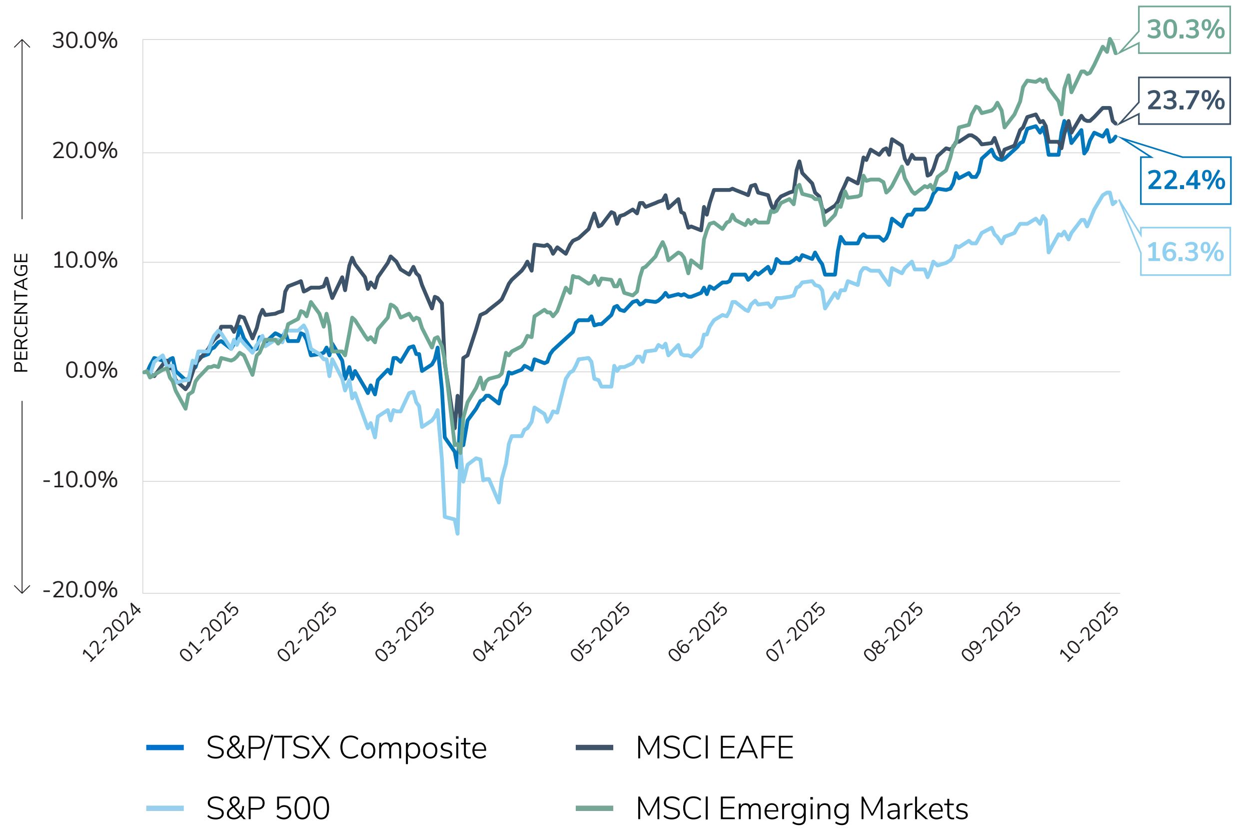
Defying the odds? Or focused on the fundamentals?

The extraordinary path of the S&P 500 Index

S&P 500 Index YTD returns through October 31, 2025

Global markets surprised in 2025

S&P/TSX Composite Index, S&P 500 Index (USD), MSCI Emerging Markets (USD),MSCI EAFE Index (USD)
YTD returns through October 31,2025 (local currency)



Source: IG Wealth Management, Bloomberg, as of October 31, 2025.

2026 economic and market outlook: setting the stage

As we turn our focus to 2026, one thing is clear: investor sentiment remains deeply divided. This rally has been called "the most hated bull market in history". Not because it defies fundamentals, but because it has left skeptics behind, with little chance to buy back in. The past year has shown the difference between headline-driven management and fundamentals-driven management, with fundamentals ultimately winning the day. Politics may sway sentiment in the short term, but fundamentals are what continue to define the opportunities ahead. Yet, as we enter 2026, investors seem to carry more doubt than conviction.

The macro backdrop, however, has shifted materially. Inflation is normalizing. Globally, policy is tilting toward being more market-friendly. Most major central banks are easing, and the question is no longer if rate cuts will happen, but how deep they will go. Fiscal policy, meanwhile, is increasingly expansionary in Canada, the United States and beyond.

On the corporate front, the artificial intelligence renaissance is real and accelerating. The AI-driven boom in capital expenditures, research and development remains a genuine growth engine.

Of course, skepticism persists. Some call for a market top; others warn of an AI bubble. Forecasting is difficult at best, and history reminds us that markets often humble those who predict disaster. Time will tell. What we do know is that investing based on grand proclamations, whether optimistic or pessimistic, tends to be far more destructive to portfolios than many realize.

Markets are not without flaws. Breadth remains a concern, yet equal-weighted indices have held up well. Durable, prolonged periods of market growth are characterized by a broadening of returns, and we believe that is increasingly probable. Could there be overspending on AI? Possibly, but given we are still early in the AI infrastructure buildout, any excess likely won't materialize until well beyond 2026. And then there's politics. To that, we simply say: politics is as politics does.

Our philosophy remains unchanged: how do we best position ourselves for what's in front of us? By focusing on identifying where we are in the economic cycle, the direction for earnings growth, inflation and interest rates, among other factors. Being aware of valuation (but not fixating over it) and understanding that any short-term fickle nature of the market isn't reflective of longer-term opportunities. Despite all the uncertainty, it is the data-driven approach to investment strategy and consistency of process that will keep us on the right path.

Our 2026 outlook will detail the four pillars we believe will support the global economy and capital markets: monetary easing, fiscal support, AI-driven investment and the wealth effect underpinning consumption.

But the base case runs deeper than those pillars. Corporate margins remain solid. Household balance sheets are healthy. Liquidity is slowly shifting from headwind to tailwind.

2026 will not be about chasing performance but about recognizing that the cycle is still supported by real forces. And positioning accordingly.

The economic outlook: our recession indicators would suggest the U.S. economy is improving, not weakening

Risks	Status
Yield curve	Steepening/ improving
Manufacturing output	Improving
Inflation	Stabilizing
Financial conditions	Accommodative
Housing starts	Improving
Unemployment	Modestly weakening
Leading economic indicators	Improving

Navigating the economic signals

Understanding where we stand in the cycle begins with the data. Navigating today's investment landscape starts with a clear view of the broader economy. To simplify this, we track seven key indicators that have historically preceded U.S. recessions, either individually or collectively. These measures capture the structural health of the economy across interest rates, financial conditions, manufacturing, housing and labour.

Right now, the picture remains broadly supportive. The yield curve is steepening, financial conditions are accommodative, and both manufacturing output and housing starts are showing signs of improvement. Inflation is stabilizing, and while unemployment has ticked modestly higher, the strength of the other indicators is keeping the economy on solid footing.

Our Recession Meter has improved steadily over the past year, signalling low recession risk and reinforcing a constructive outlook for 2026. Historically, periods of low recession risk have coincided with positive market performance, a backdrop that adds confidence to the durability of the current cycle.

Global trade: a sign of renewal

One of the clearest signs of an improving economic backdrop is the rebound in global trade. We've moved past the recessionary environment of 2023 and beyond the uncertainty of tariffs into a renewed economic cycle.

Cycles reveal themselves in many ways, but one of our preferred measures is year-over-year export growth among the world's five largest exporters. Recent data shows that after the tariff-related disruptions in early 2025, trade is now regaining momentum.

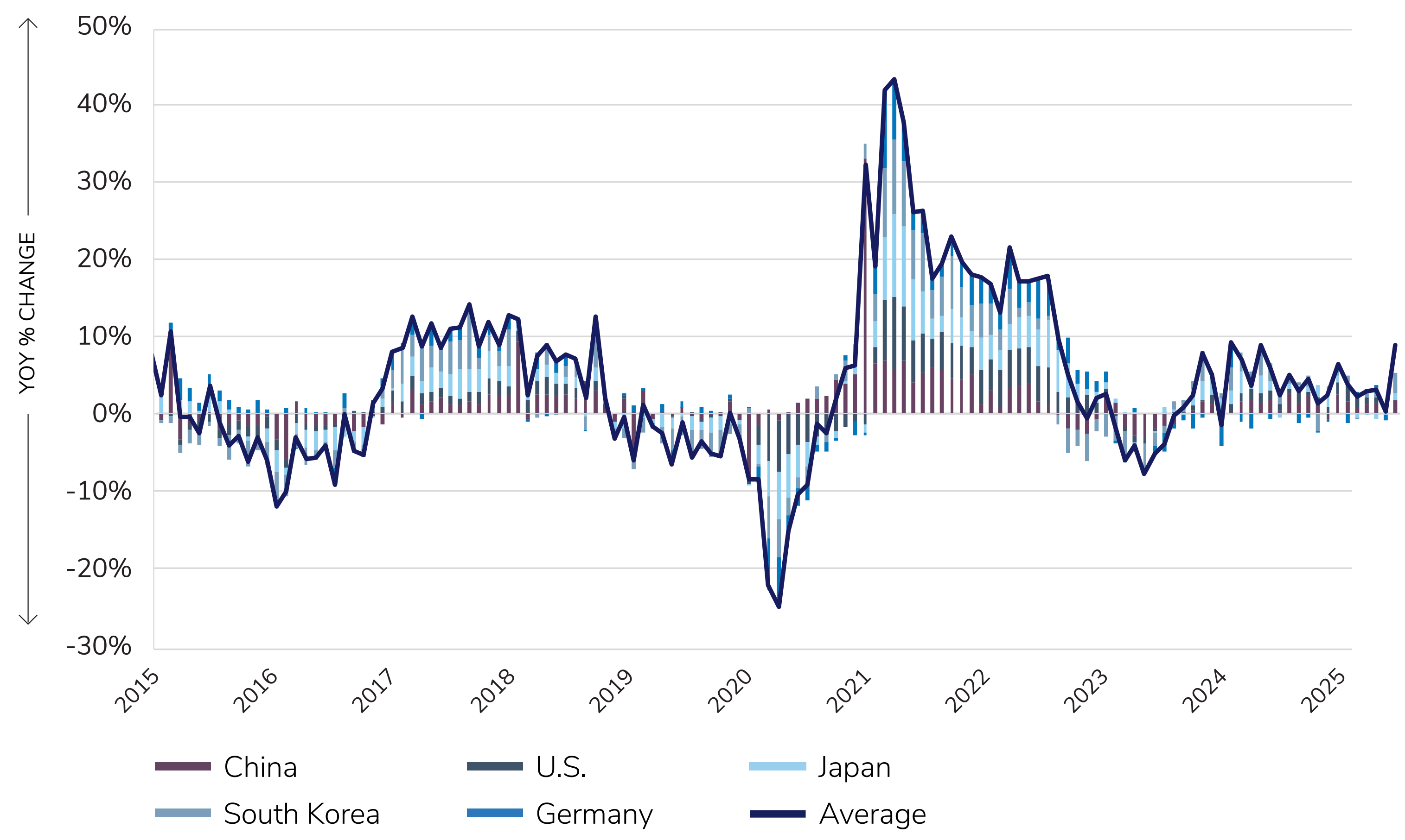
The global economy has adapted. Once the rules became clear, corporations adjusted, manufacturing recalibrated and goods continued to move. In doing so, we avoided the binary outcomes many feared: recession on one side or 1970s-style stagflation on the other. Instead, inflation moderated, earnings expanded, and the consumer proved far more resilient than sentiment suggested.

Today, global activity is quietly turning higher. Purchasing Managers' Indices (measures of the health of the manufacturing and service sectors) are improving, trade volumes are stabilizing, and cross-border flows are picking up. These are not late-cycle signals. They are signs of re-acceleration.

Historically, periods of strengthening global trade have aligned with positive equity market performance, reinforcing the constructive tone of the current cycle.

Global exports % change year-over-year

2015 - current



Source: IG Wealth Management, Bloomberg as of October 2025.

Four pillars supporting the next stage of expansion

The liquidity lift

Monetary stimulus: rate cuts are now a question of pace, not direction. Liquidity is becoming more supportive, via the end of quantitative tightening in the U.S. Global central banks are on the easing path.

The AI supercycle

The investment cycle in AI infrastructure is still accelerating and is an engine for productivity and earnings.

The fiscal engine

Governments are still spending. Fiscal policy remains additive to growth rather than contractionary.

The wealth effect wave

Households remain resilient. Financial windfalls and solid balance sheets continue to drive discretionary spending.

The liquidity lift

Policy shifts and the easing cycle

In Canada, the policy priority has clearly shifted. Inflation control is no longer the binding constraint; employment is.

In the United States, the Federal Reserve (the Fed) has resumed cutting its benchmark rate, even as its gross domestic product remains strong, and equity markets sit at all-time highs. Once President Trump appoints the next Fed Chair to succeed Jerome Powell, the continued easing is likely to be reaffirmed.

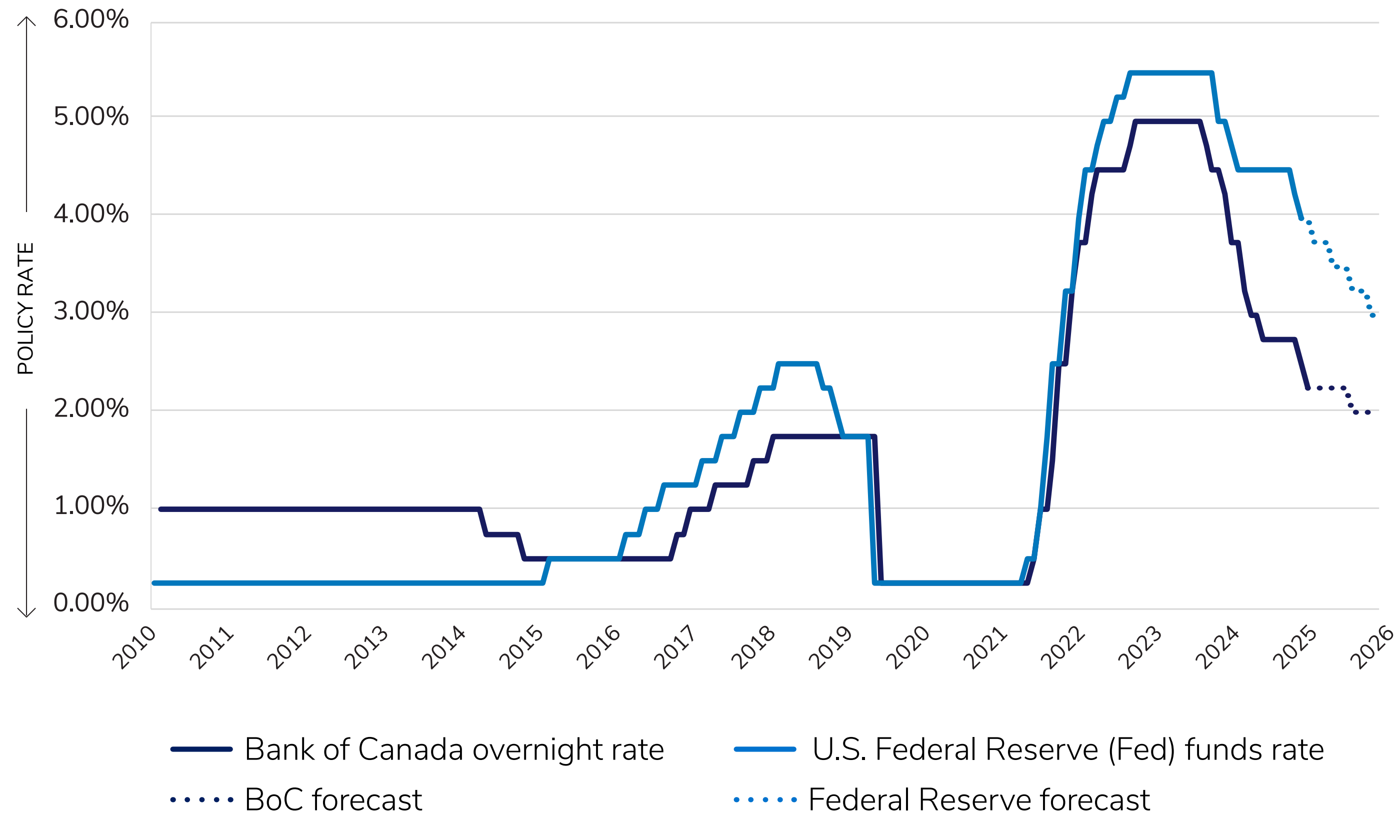
We expect at least one more 25-basis-point (quarter percentage point) cut from the Bank of Canada in 2026, likely in March, and four additional cuts from the Fed through September 2026. Any prospect of rate tightening is, at the earliest, a 2027 story.

This matters for equities because it relieves valuation pressure and supports profit margins. Rate cuts do more than reduce borrowing costs; they also compress discount rates used in equity valuation. That effect is most pronounced in long-duration segments of the market, where cash flows extend further into the future. This is particularly true for technology, where growth and returns on investment are longer-dated.

Historically, even late-cycle easing tends to extend growth leadership rather than end it.

Central bank rates

Last 15 years through 10-31-2026 (forecast)
Bank of Canada vs. U.S. Federal Reserve



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

Liquidity turns positive: the end of quantitative tightening

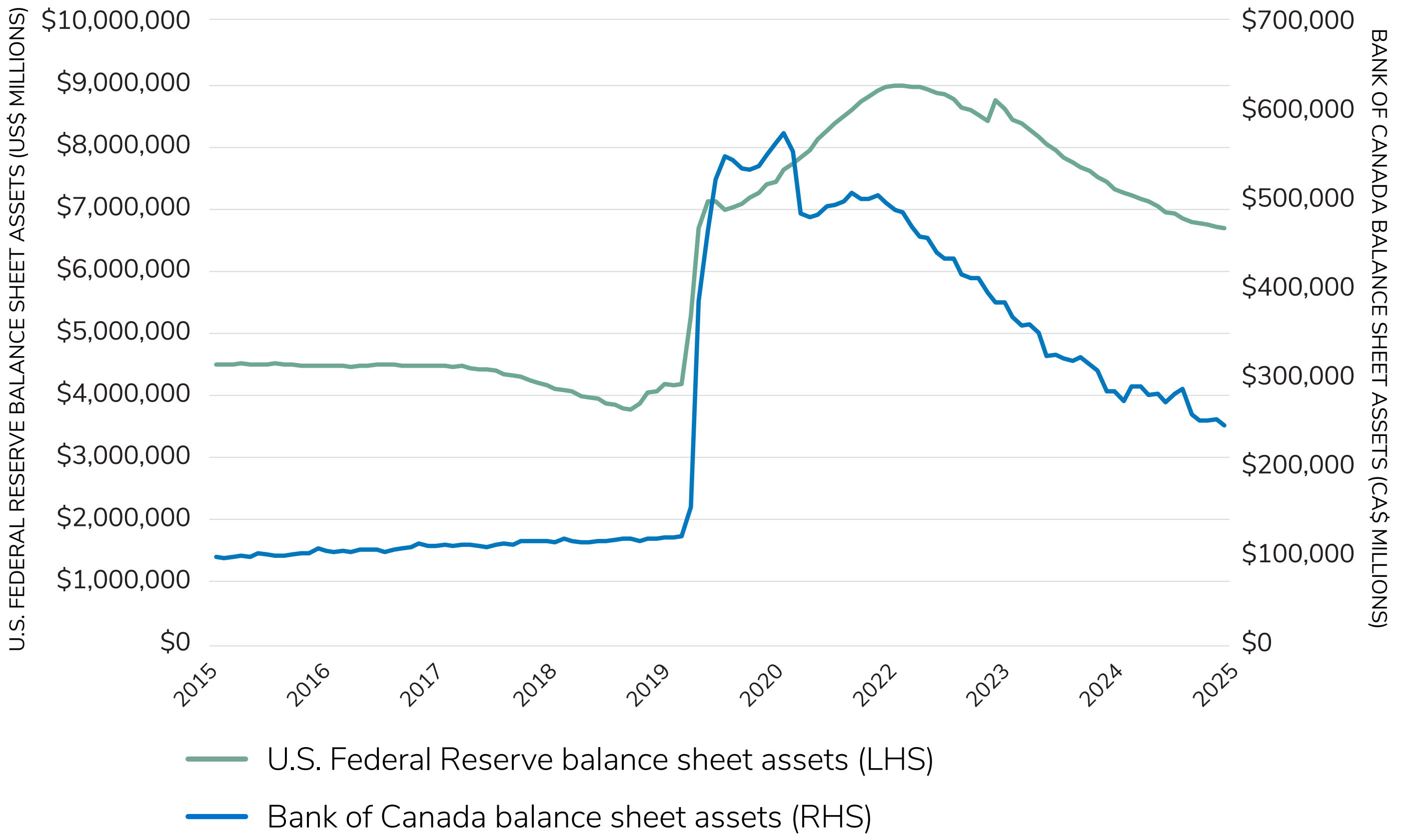
The U.S. Federal Reserve has announced that its balance sheet runoff will end in December 2025. The timing is not coincidental. Inflation risk is fading, while downside risk to employment is rising. In both the United States and Canada, the binding constraint within the dual mandate is shifting from inflation control toward labour market stability. Ending quantitative tightening (QT) is the logical next step to avoid draining liquidity from a softening labour market.

For markets, the signal is clear. When QT ends, reserves stop shrinking, and the liquidity impulse moves from negative to neutral and eventually positive. That shift typically benefits the most rate-sensitive areas of the market, including long-duration equities, credit and mortgage-linked activity.

Ending QT removes a structural headwind that has been in place for more than two years. It marks an incremental shift toward a more market-friendly backdrop as we head into 2026.

Total balance sheet assets

U.S. Federal Reserve and Bank of Canada



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

Canadian dollar: the path of least resistance

Historically, the value of the Canadian dollar relative to the U.S. dollar has been driven by two primary factors: the price of oil (measured by West Texas Intermediate crude) and the interest rate differential between Canadian and U.S. two-year sovereign bonds.

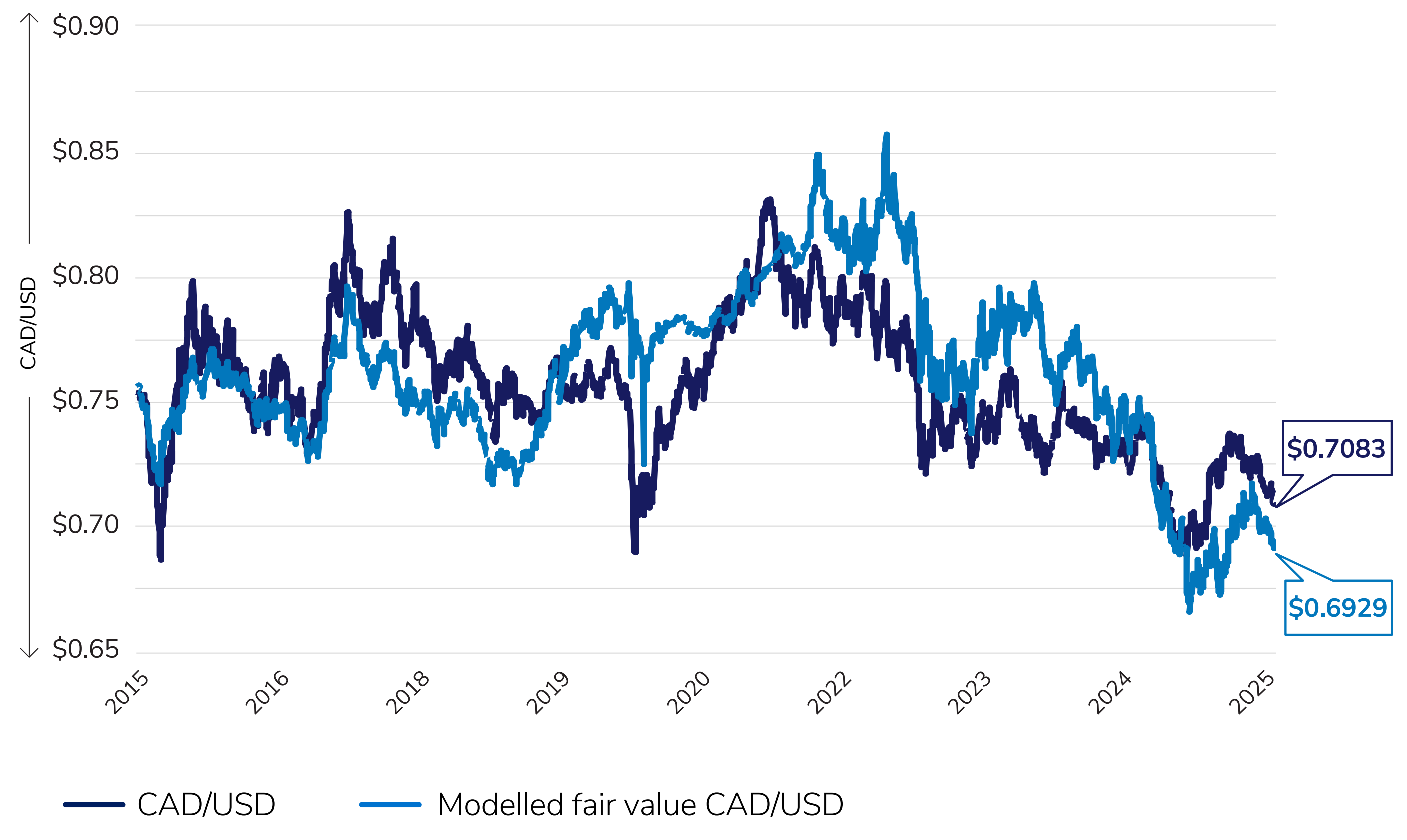
From a relative interest rate perspective, the Canadian/U.S. dollar exchange rate does not appear mispriced. Fair value models anchored on rate spreads point to a very modest risk of movement in either direction. At present, the Canadian dollar lacks a strong macro catalyst.

If our rate path scenario unfolds, with the Bank of Canada cutting once more, and the U.S. Federal Reserve delivering four cuts, the Canadian dollar is likely to remain contained. Realistically, the Canadian/U.S. dollar trading range should hold between US\$0.69 and US\$0.71 (or C\$1.40 to C\$1.45 for U.S./Canadian dollar). That is consistent with the view that the currency is fairly valued.

This is not an environment where we anticipate large swings in foreign exchange. The dominant drivers remain rate differentials and relative growth. Barring an unexpected shock, the outlook is for a stable to slightly softer Canadian dollar, shaped more by the U.S. Federal Reserve's path than by domestic factors. A softer currency, if realized, could provide incremental support for Canadian exports and add a modest tailwind to economic activity.

Modelled Canadian/U.S. dollar exchange rate vs. actual Canadian/U.S. dollar exchange rate

Previous 10 years



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

The fiscal engine

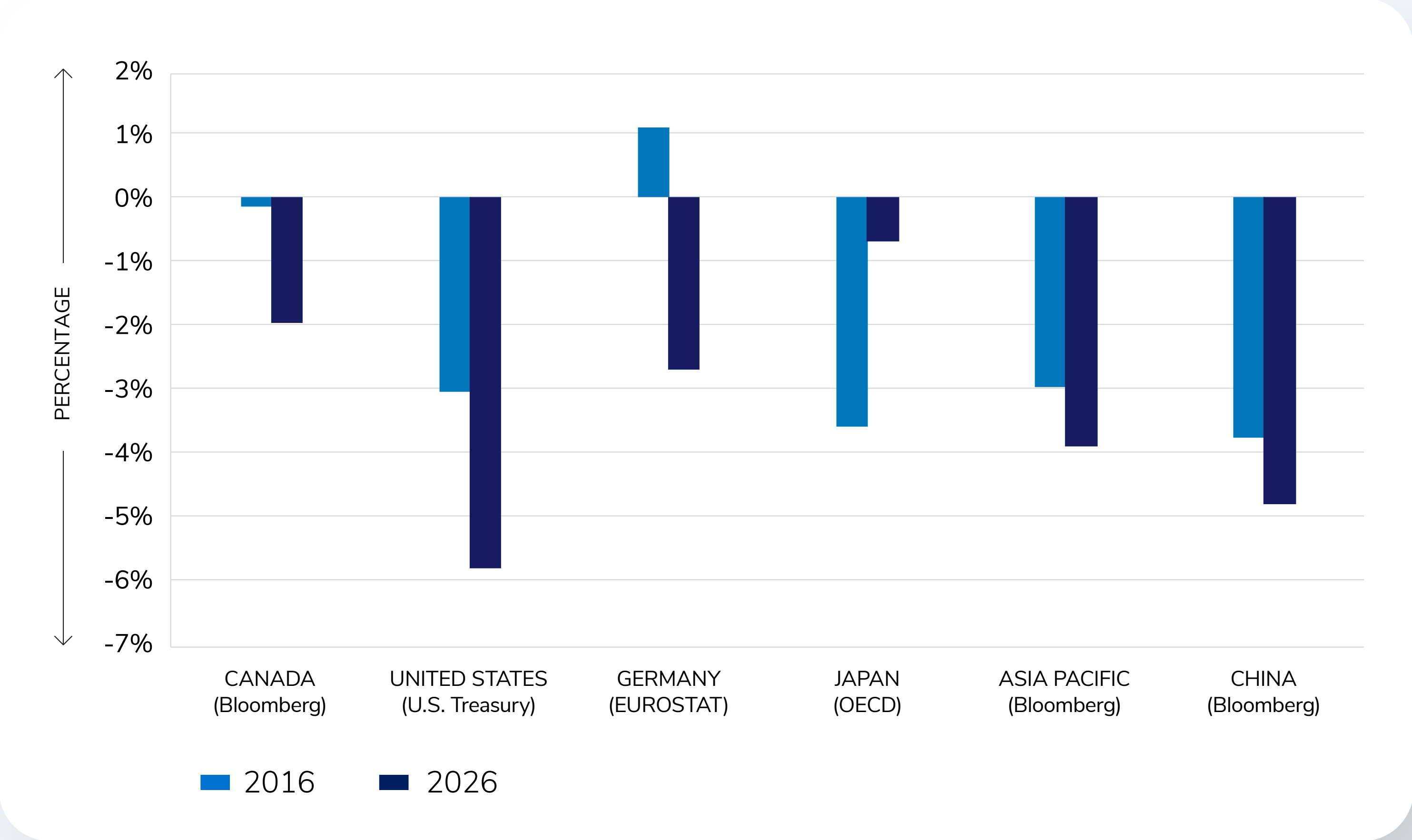
In Washington, the One Big Beautiful Bill Act locked in the post-2017 tax architecture, preserving lower personal and corporate rates. For households, the impact has been meaningful: average tax savings in 2026 are estimated at $2,900, with the top 20% (incomes above $217,000) saving about $12,540. For corporations, the permanence of the 21% rate and accelerated depreciation have unlocked flexibility for capital spending, just as AI infrastructure investment accelerates.

The trade-off is a wider deficit, with more than $4 trillion added to debt over the next decade. In 2026, however, that concern will remain in the background. Markets are focused on stronger earnings, expanding margins and resilient demand. Equities should continue to benefit, particularly companies with quality fundamentals and consistent cash flow generation.

North of the border, Canada's budget is amplifying this theme. Ottawa is leaning into stimulus, front-loading spending on housing, productivity and infrastructure. The fiscal stance is clearly expansionary. Investors are pricing in both the growth impulse and the funding costs: bond yields are nudging higher while the Canadian dollar remains range-bound.

In both countries, policy is aligned: not fighting the cycle but extending it.

Government budget balance % of gross domestic product (GDP)



Source: IG Wealth Management, Bloomberg, Eurostat, U.S. Treasury, OECD, as of October 31, 2025.

The AI supercycle

Hyperscalers (large cloud computing companies) continue to accelerate AI capital spending at a pace that increasingly resembles an arms race. Importantly, this is not being funded primarily by borrowing, at least not yet. These firms are financing the build-out largely through operating cash flows and balance sheet reserves.

This is not 1999, nor even 2021. It is a deliberate capital allocation decision by some of the most profitable companies in the world. Just looking at these eight companies, the committed capital expenditure (capex) equates to approximately 1.5% of U.S. gross domestic product.

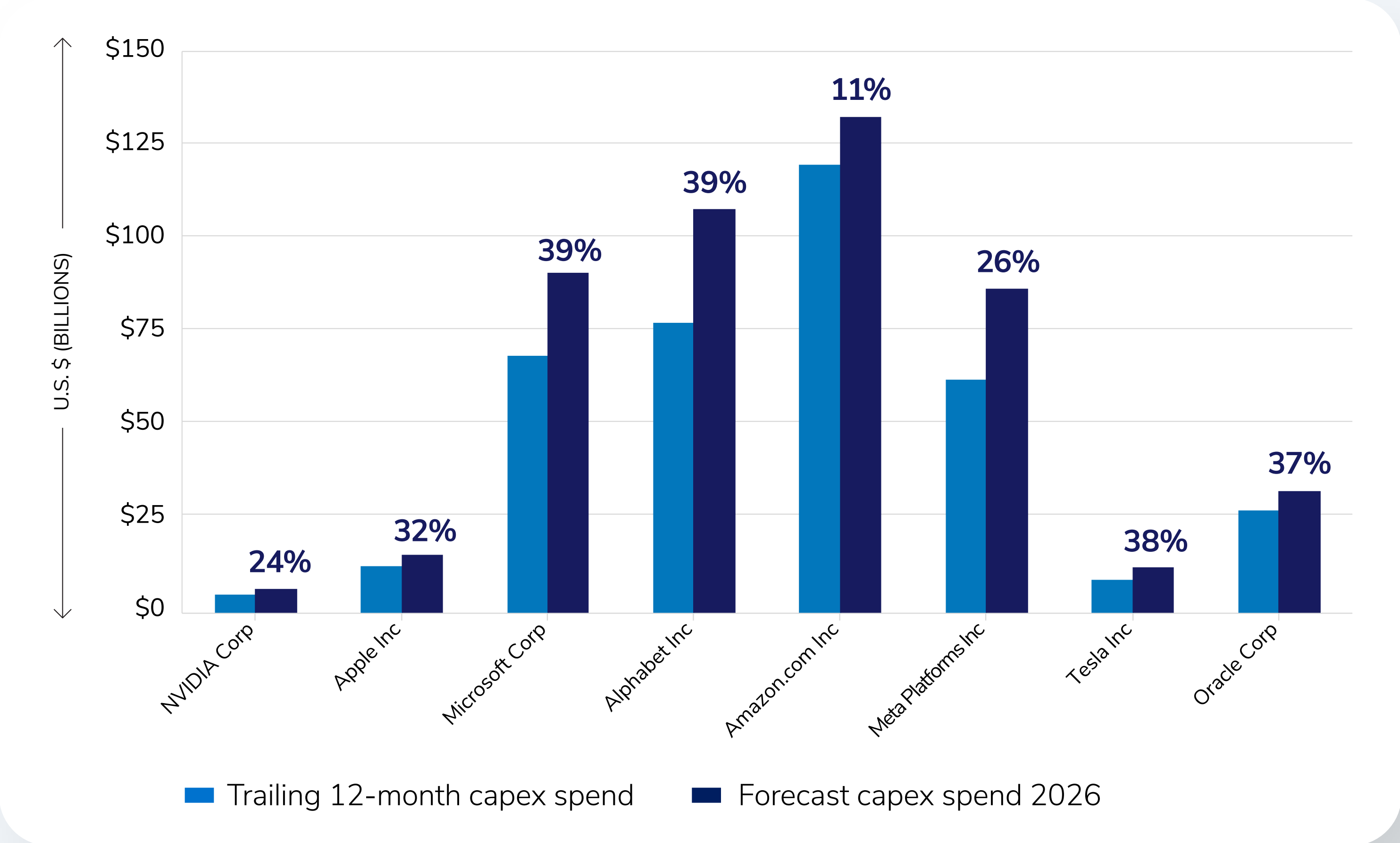
The strategic incentive has been made explicit at the highest level. Mark Zuckerberg (Meta's CEO) stated,

"We may end up misspending a couple hundred billion dollars, but the risk is higher on the other side."

This captures the essence of the dynamic. In this domain, underinvestment poses a greater competitive risk than overinvestment.

This matters for the cycle. When capital spending is funded by internally generated cash, it is more durable and less fragile. As this investment begins to translate into productivity gains, it has the potential to extend the cycle and support broader economic growth over time.

Capital expenditure expected to jump 30%, on average, in 2026



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

Semi-conductor sales lead earnings growth

AI investment: from scale to impact

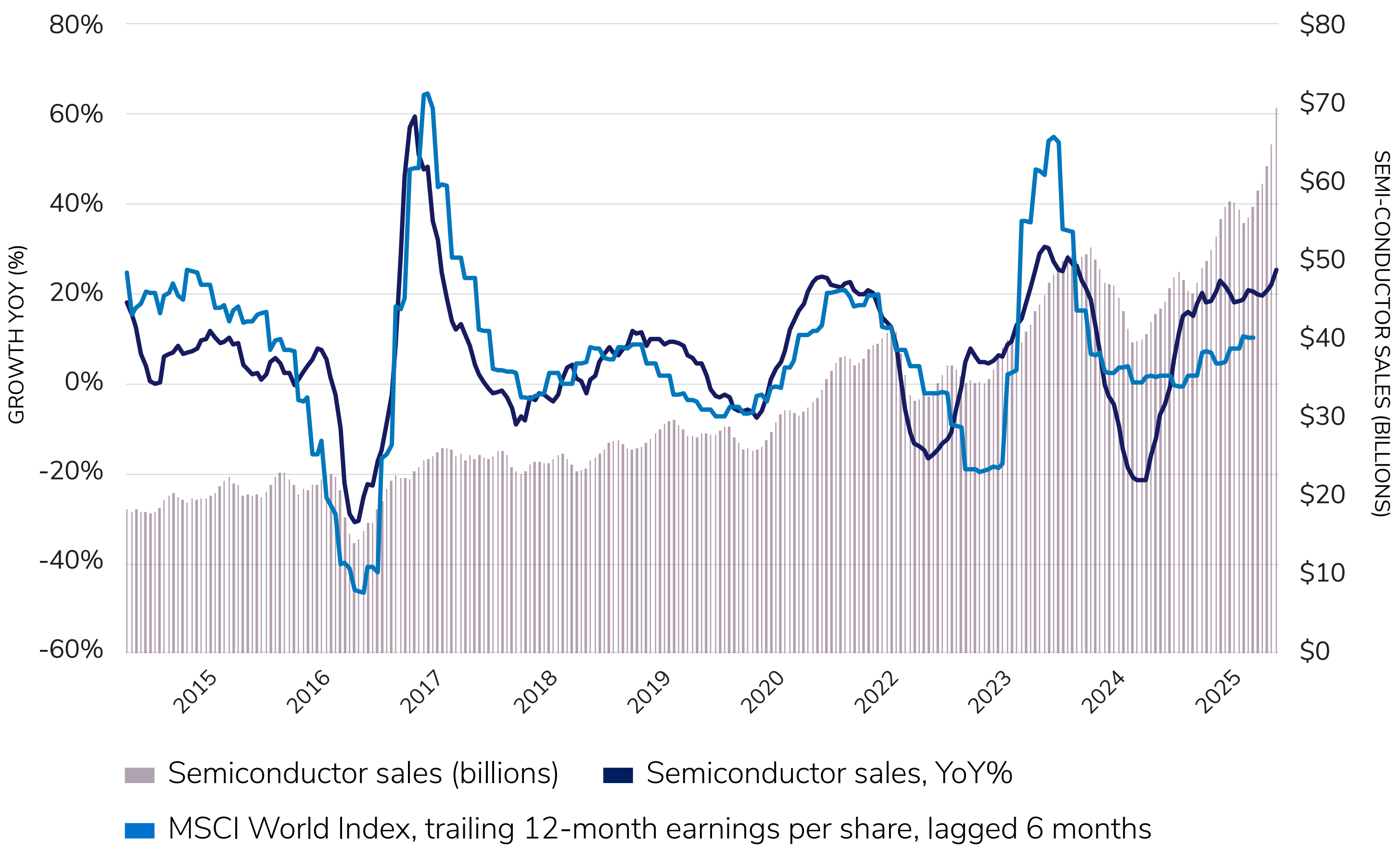
Artificial intelligence investment is entering a phase of true scale and macro significance. It is already feeding through to the real economy. AI infrastructure is now estimated to account for roughly one-third of recent U.S. gross domestic product gains.

We also see confirmation in semiconductor sales, which have begun to re-accelerate. Historically, this has been a powerful signal. As the chart shows, semiconductor sales growth tends to lead MSCI World earnings growth by about six months. This pattern has appeared repeatedly: in 2009, 2013, 2017 and again in 2020. Semiconductor demand turns up first, and earnings expansion in the broader market follows. We are seeing that same leading relationship again today.

The story is not simply that AI spending is high. It is that the earnings flywheel is beginning to take hold, with early signs that productivity gains will reinforce the cycle.

Semi-conductor sales vs. MSCI World EPS growth year-over-year

2005 - September 2025



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

The wealth effect wave

Consumption and market performance

The highest income quintile does not just earn the most; it also owns 85% of the equity market and drives roughly 40% of aggregate consumption. This is the cohort whose spending behaviour is most directly linked to market performance.

Former U.S. Federal Reserve Chair Ben Bernanke described this dynamic as the wealth effect. In his November 2010 op-ed in The Washington Post, he wrote:

“Higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion.”

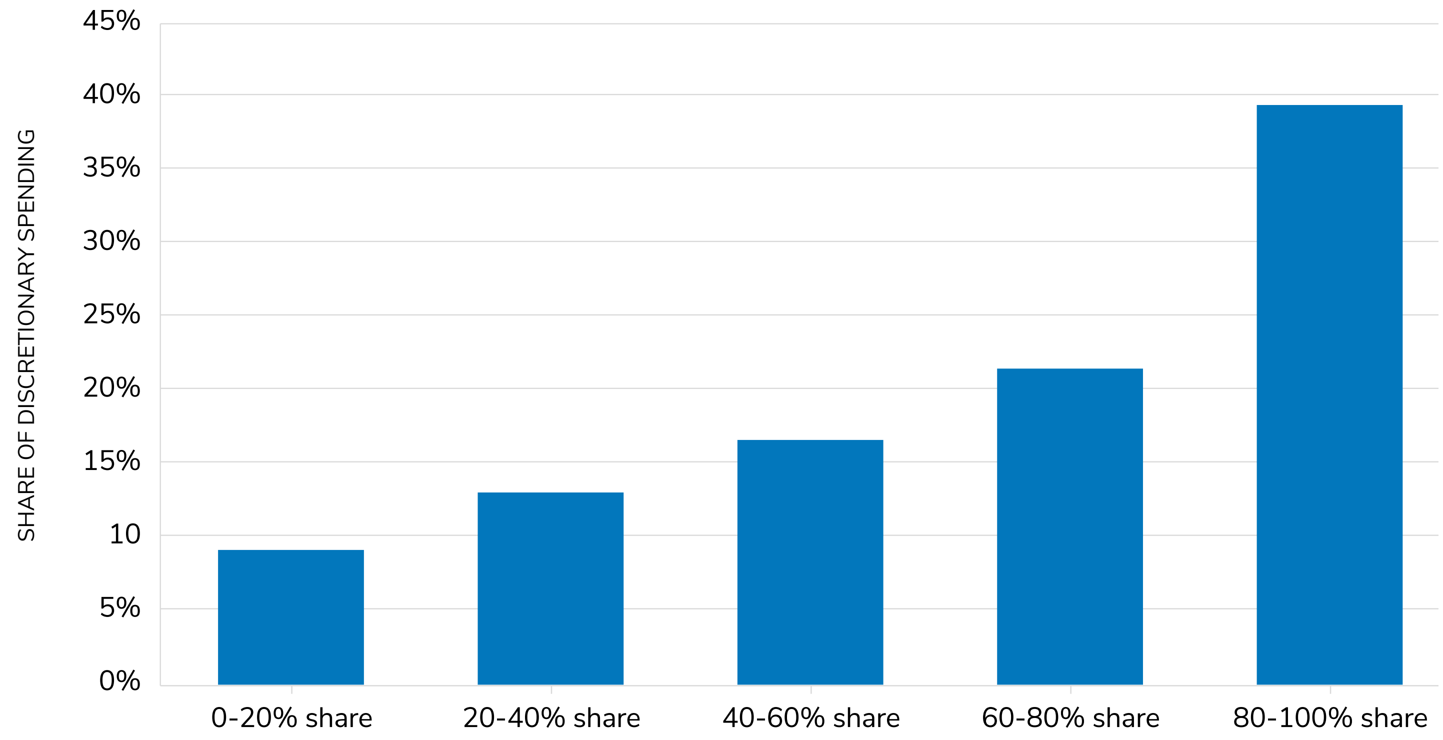
Bernanke wrote this in the context of the Fed’s quantitative easing program, but the principle applies whenever investors benefit from rising equity markets. A clear historical example came after the 2009 market rebound: as equities recovered, household wealth surged, and U.S. consumption growth accelerated, helping to drive one of the longest economic expansions on record.

Visa’s Economic Insights research quantified the magnitude: each dollar of household wealth can generate up to 34 cents of incremental spending. Visa reaffirmed this dynamic on its most recent earnings call, noting that discretionary and non-discretionary spending continue to grow, with the highest spend bracket still expanding the fastest.

When the wealthy get wealthier in a growing market, it shows up in consumption, and that reinforces the cycle.

People in the top 20% income range account for 40% of all discretionary spending

2023 (latest available data)



Source: IG Wealth Management, Visa Business and Economic Insights as of 2023.

Discretionary leadership is a risk-on signal

During the 2022 bear market (a period of market values decreasing), sector performance reflected a classic fear-driven regime: consumer staples materially outperformed discretionary, as investors prioritized capital preservation over potential gains. A smaller echo of that dynamic appeared around Liberation Day in April 2025, when tariff headlines briefly pushed flows back toward safety.

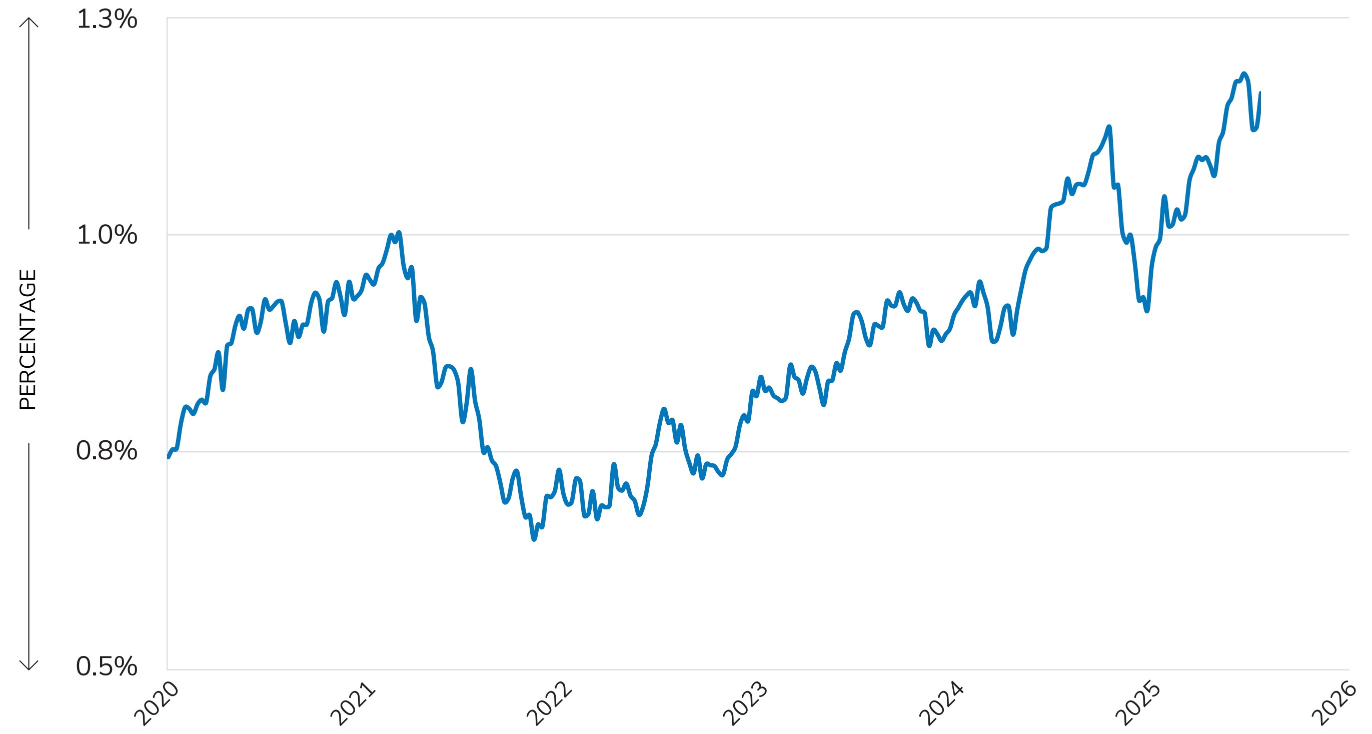
Today, the picture is very different.

Consumer discretionary is decisively leading staples, a textbook risk-on signal. Positioning is not defensive; it is growth-oriented. Investors are leaning into cyclicality and favouring segments with higher operational leverage to improving activity.

This is market behaviour consistent with economic resilience and expansion, not a late-cycle contraction.

S&P 500 Equal Weighted Consumer Discretionary Index over S&P 500 Equal Weighted Consumer Staples Index

Last five years



Source: IG Wealth Management, Bloomberg as of October 31, 2025.

IG Investment Strategy Team

Staying the course in 2026

2025 was a year of uncertainty, 2026 is shaping up to be a year of clarity; not in the absence of noise, but in the strength of the underlying fundamentals. The economic cycle remains intact, supported by monetary easing, fiscal expansion, AI-driven investment and resilient consumers These four pillars are not speculative; they are observable, measurable and actionable.

As investors, our role is not to predict the next headline, but to interpret the data, assess the cycle and position portfolios accordingly. The temptation to chase performance or react to short-term volatility is ever-present. But history has shown that discipline, patience and a focus on fundamentals are what ultimately drive long-term success.

In 2026, we will remain constructive. Not because the path is without risk, but because the foundation is sound. The cycle is not over, it is evolving. And with it, so too must our strategy.

The opportunity lies not in timing the market, but in understanding it.

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