2025 FOURTH QUARTER MARKET REVIEW
AND YEAR-END COMMENTARY

# Navigating crosswinds with confidence

IG Investment Strategy Team

# As the world shifted, markets held steady

The final quarter of 2025 was a moderated reflection of the year's volatility, upside surprises and resilience. Equity and fixed income markets navigated headline-grabbing events, a record-long U.S. government shutdown, commodity price volatility and mixed signals from central banks. Despite this noise, the prevailing theme remained consistent: global markets rewarded fundamentals over fear.

The U.S. Federal Reserve continued its rate-cutting cycle late in the quarter, while also taking steps to keep money markets well positioned into next year by starting a new lighter version of quantitative easing. The Bank of Canada held its overnight rate at 2.25% after its October cut, effectively signalling that policy is now in a "wait and watch" zone. This collective shift helped calm markets and bolster investor optimism with growth data accelerating.

The U.S. government shutdown early in the quarter briefly unsettled sentiment and delayed critical economic data, but its broader impact quickly diminished upon reopening. Investors refocused on earnings and found encouragement in a resilient corporate backdrop. Meanwhile, global equities advanced, with leadership expanding beyond the United States. For many, 2025 may be remembered as the year that saw renewed interest in opportunities outside traditional U.S. holdings, as Canada, Europe and Asia all contributed meaningfully to global portfolio returns.

The key takeaway remains clear: strong fundamentals are rewarded, headlines fade, and diversification pays off. Those who focused on quality, balance and data rather than distraction were rewarded once more. As we enter 2026, despite the political headlines, the global economic environment appears more stable, central banks more predictable, and investors increasingly aware that opportunities extend well beyond any single market.

The resilience demonstrated in 2025 has laid the groundwork for this realization, and the coming year will reveal how well investors adapt.

*"In 2025, investors woke up to opportunities beyond the U.S. market, prompting them to look more closely at international markets."*

*– Philip Petursson*

**Philip Petursson**
Chief Investment Strategist

**Pierre-Benoît Gauthier**
VP, Investment Strategy

**Ashish Utarid**
AVP, Investment Strategy

# 2025 equity price returns and fixed income total returns

## Table 1 - 2025 equity price returns

| | Currency | Q4 | YTD | 1-year |
|---|---|---|---|---|
| S&P/TSX Composite Index | CAD | 5.6% | 28.2% | 28.2% |
| S&P 500 Index | USD<br>CAD | 2.3%<br>0.9% | 16.4%<br>11.0% | 16.4%<br>11.0% |
| MSCI EAFE Index | USD<br>CAD | 4.5%<br>3.0% | 27.9%<br>21.9% | 27.9%<br>21.9% |
| MSCI Europe Index | EUR<br>CAD | 5.9%<br>4.2% | 16.3%<br>25.8% | 16.3%<br>25.8% |
| MSCI Emerging Markets Index | USD<br>CAD | 4.3%<br>2.8% | 30.6%<br>24.5% | 30.6%<br>24.5% |

## Table 2 - 2025 fixed income total returns

| | Currency | Q4 | YTD | 1-year |
|---|---|---|---|---|
| FTSE Canadian All Government Bond | CAD | -0.5% | 2.1% | 2.1% |
| FTSE Canada Universe Bond | CAD | -0.3% | 2.6% | 2.6% |
| ICE BofA U.S. Corporate Bond | USD<br>CAD | 0.8%<br>-0.7% | 7.8%<br>2.7% | 7.8%<br>2.7% |
| ICE BofA U.S. High Yield Composite | USD<br>CAD | 1.3%<br>-0.2% | 8.5%<br>3.4% | 8.5%<br>3.4% |
| Bloomberg Global Aggregate Bond | USD | 0.2% | 8.2% | 8.2% |

Source: IG Wealth Management; Bloomberg; 1-year, December 31, 2024-December 31, 2025.
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to December 31, 2025.

# Drivers of market performance

## Canadian equities

Canadian equities finished 2025 on a strong note, anchored by a resilient performance across sectors and continued support from commodity markets. The S&P/TSX Composite Index advanced 5.6% in the fourth quarter, extending Canada's position as one of the best-performing developed markets this year.

Materials remained the top-performing sector, rising 11.6% in the quarter and over 98% for the year, fuelled by the ongoing strength in precious metals prices. Gold climbed to a record US$4,319 per ounce, as investors climbed aboard the price-momentum trade.

Beyond materials, the financials sector contributed strongly as the Canadian banks reported consecutive quarters of better-than-expected profit gains.

The more defensive sectors (health care, communications and real estate) underperformed during the quarter and the year, as economic growth proved resilient.

## U.S. equities

While U.S. equities performed well in the latter part of the year, they lagged their global peers. This was likely due to the significant valuation difference across markets along with US-dollar weakness.

Nonetheless, U.S. equities extended their strong yearly gains in Q4, with the S&P 500 Index gaining 2.3% in U.S. dollars (0.9% in Canadian dollars). Returns were anchored by solid earnings and a surprisingly strong macroeconomic backdrop.

Performance by sector remained skewed toward areas tied to structural growth, particularly large-cap technology and select communication services companies. The more important development was a gradual broadening in participation beyond a narrow group of dominant stocks.

This improvement in breadth suggests a healthier market overall, rather than a purely momentum- or AI-driven rally. At the same time, higher long-term yields continued to weigh on rate-sensitive segments of the market.

## International equities

International equities saw gains in the fourth quarter, as investors continued to look at opportunities outside the U.S. The MSCI Europe Index was a standout performer, gaining an impressive 5.9% in euro terms (4.2% in Canadian dollars).

Emerging markets delivered a solid advance, gaining 4.3% in U.S. dollar terms (2.8% in Canadian dollars) for the quarter, mirroring developed markets with the MSCI EAFE Index gaining 4.5% in U.S. dollar terms (3% in Canadian dollars).

The quarter continued to mark a shift in investor sentiment, as global capital flowed toward undervalued international and emerging markets. This trend created a powerful tailwind, helping to diversify market leadership away from traditional U.S. dominance.

## Fixed income

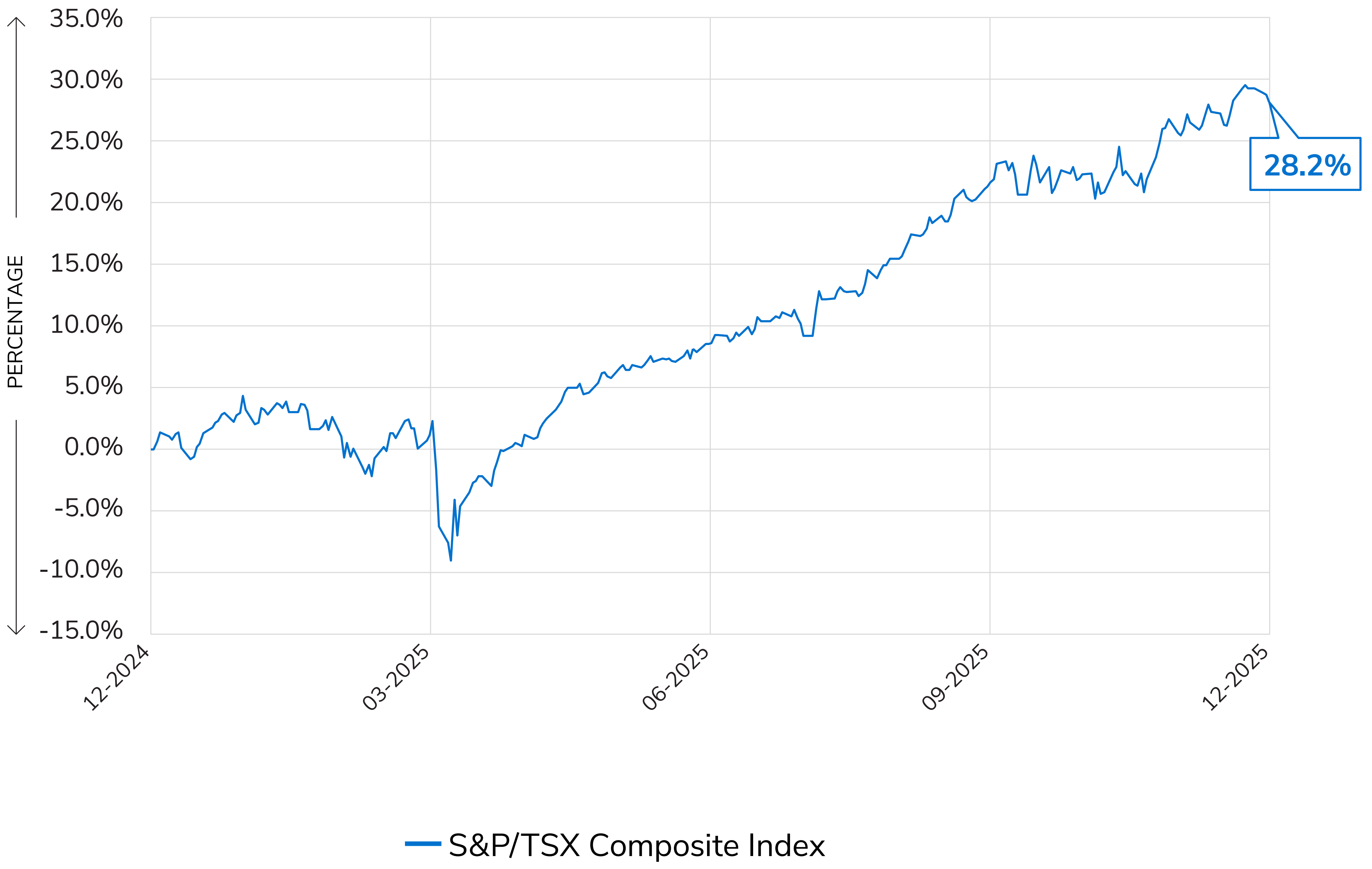
Fixed income markets were modestly positive through the fourth quarter, with no surprises. The global easing cycle kept moving, just at a slower pace. The Bank of Canada cut its policy rate by 25 basis points (0.25 of a percentage point) in October and then held steady at its next announcement in December. In the U.S., the Federal Reserve delivered two 25 basis-point cuts over the quarter; in October and again in December.

For fixed income investors, it was a "carry" quarter. With policy rates drifting lower, front-end yields generally moved down, while longer-term yields were firmer, leaving returns muted and driven more by coupon income than by price gains.

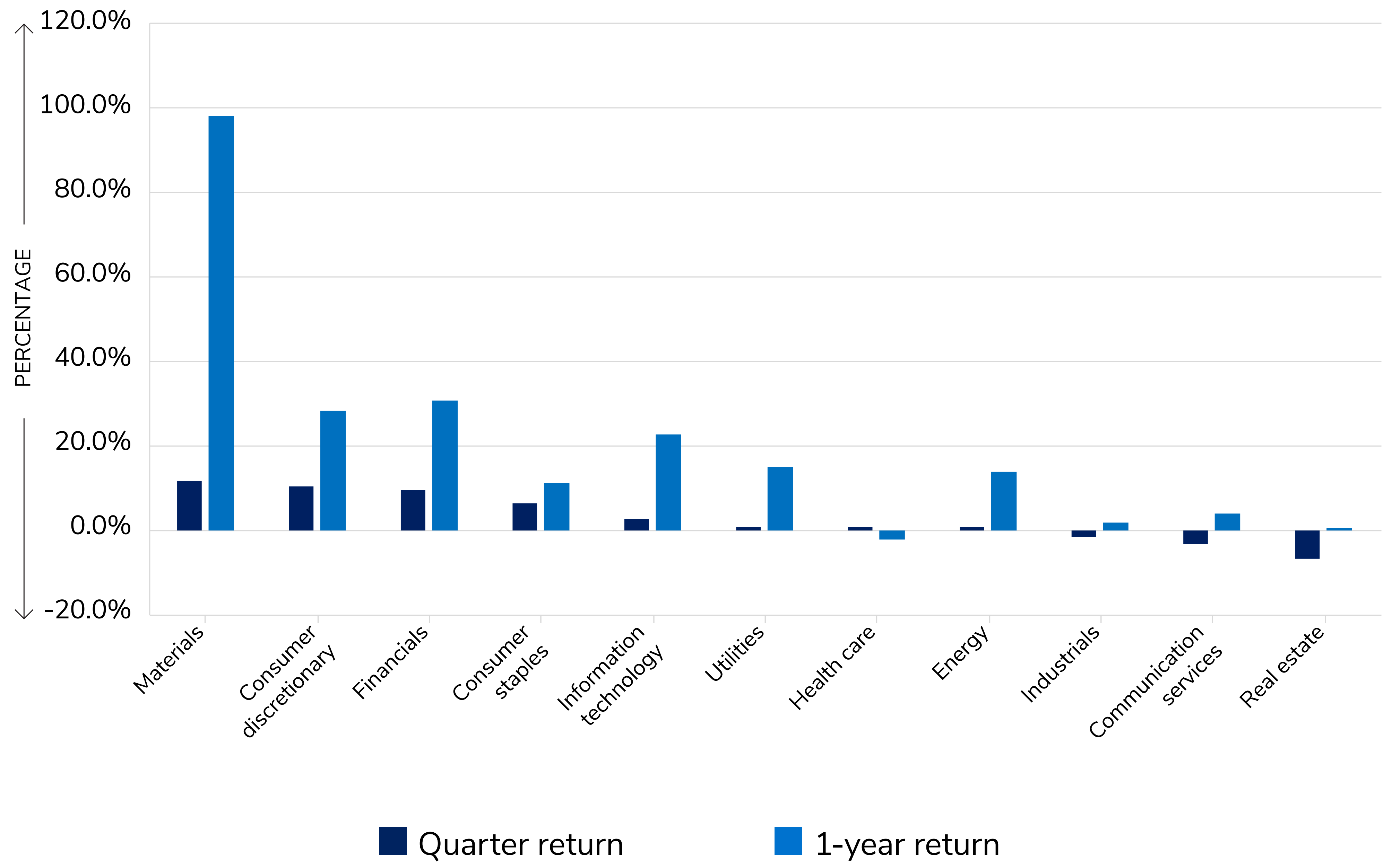
Corporate credit was a bright spot. U.S. investment-grade corporate bonds posted a modest gain, with the ICE BofA U.S. Corporate Total Return Index rising by 0.8%,and high yield bonds also advancing. The ICE BofA U.S. High Yield Total Return Index gained 1.35% in Q4.

# Canadian equities

## Chart 1 - S&P/TSX Composite Index performance



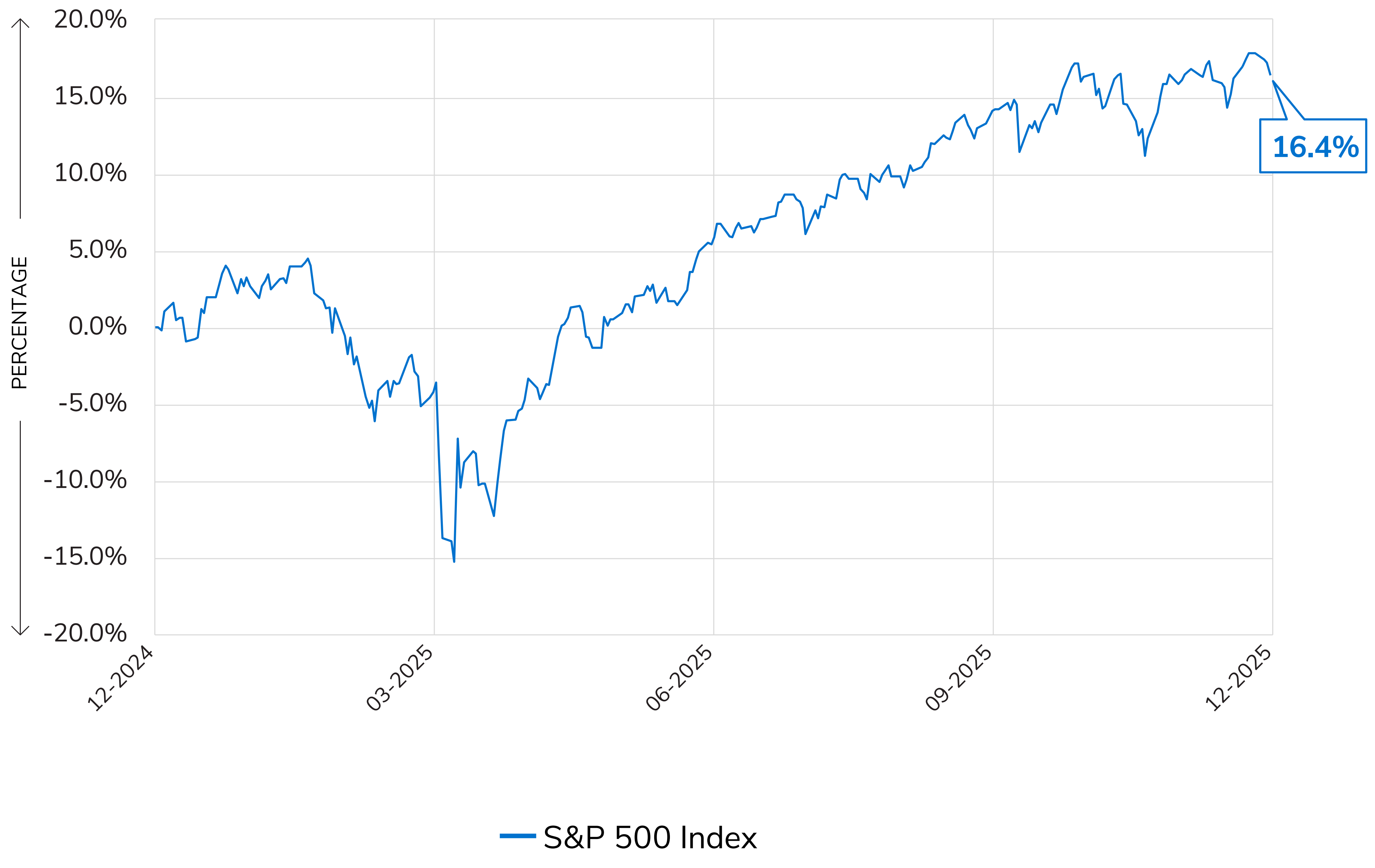

## Chart 2 - S&P/TSX Composite sector level returns



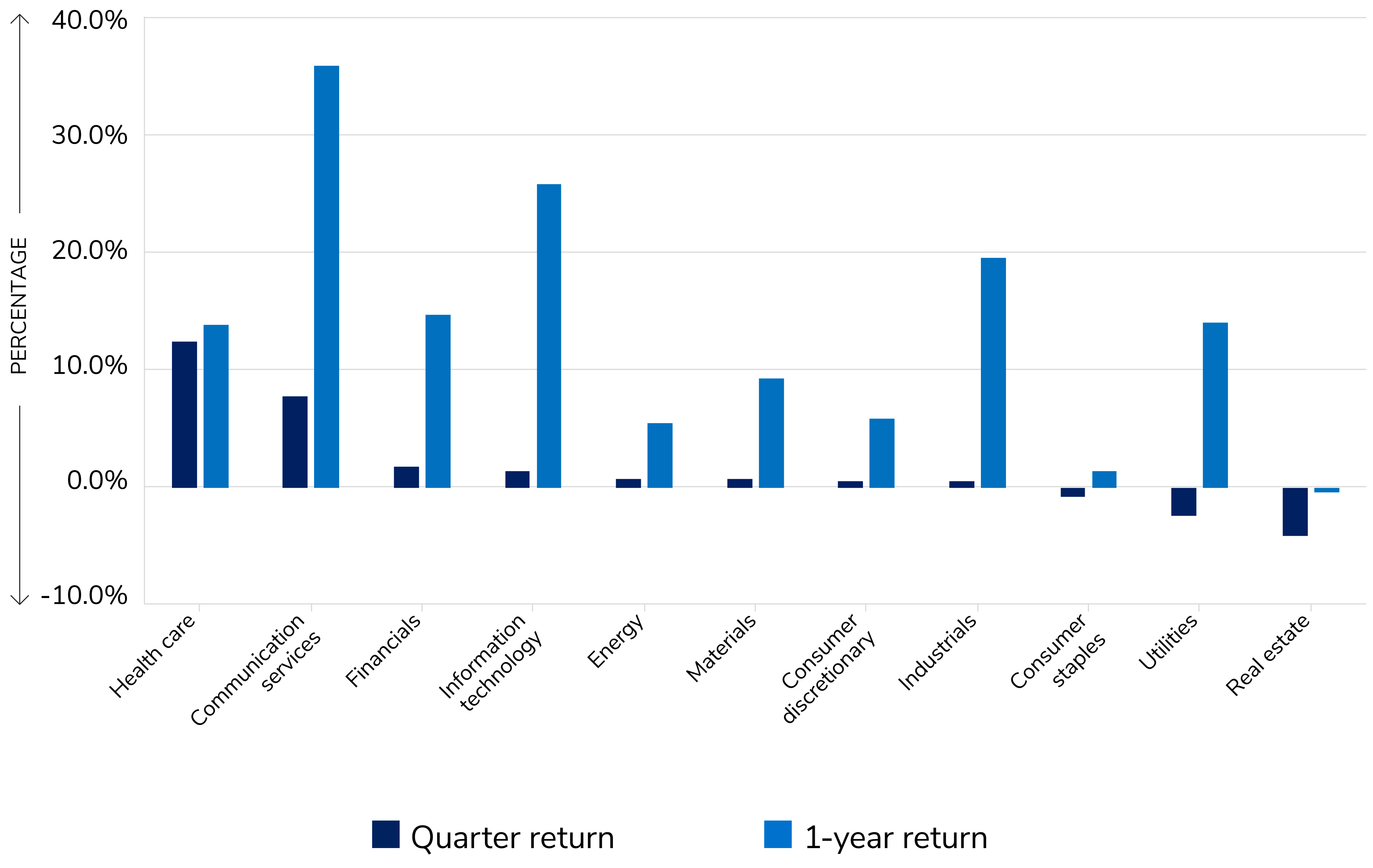

Source: IG Wealth Management, Bloomberg, as of December 31, 2025.

# U.S. equities

## Chart 3 - S&P 500 Index performance (USD)



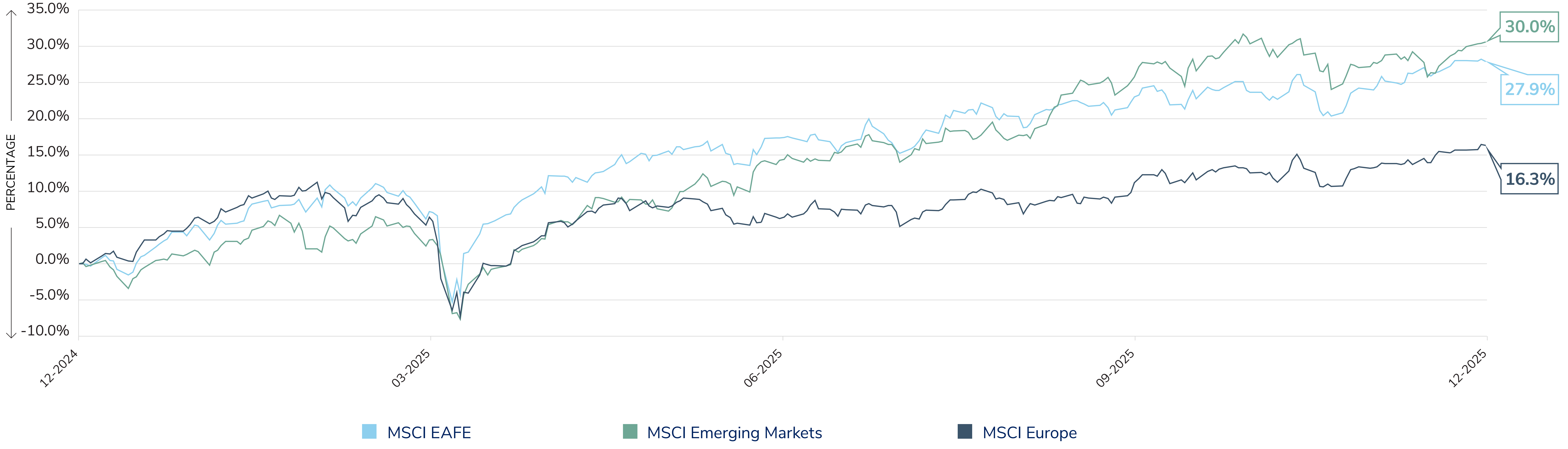

## Chart 4 - S&P 500 Composite sector level returns




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

# International equities

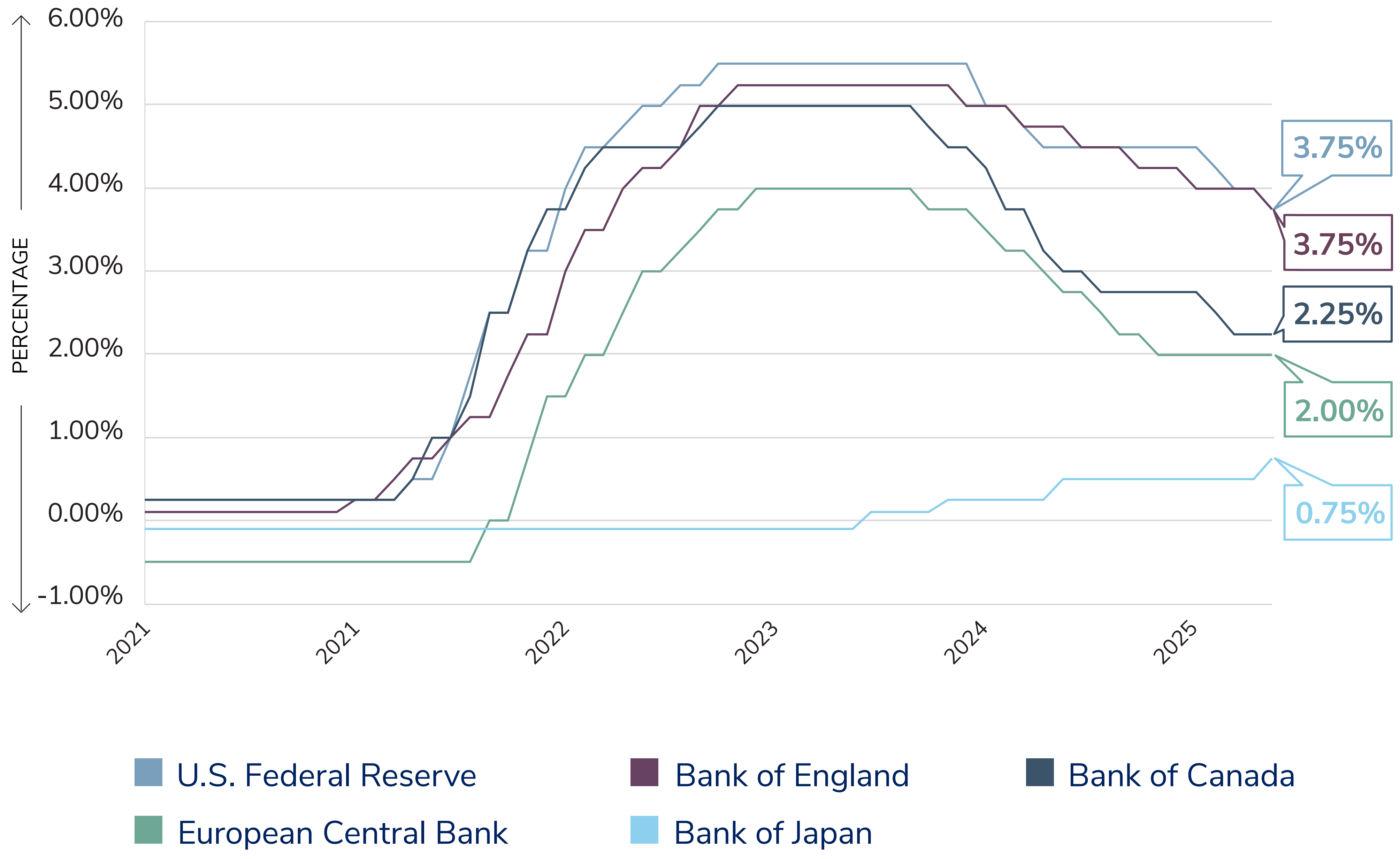
## Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



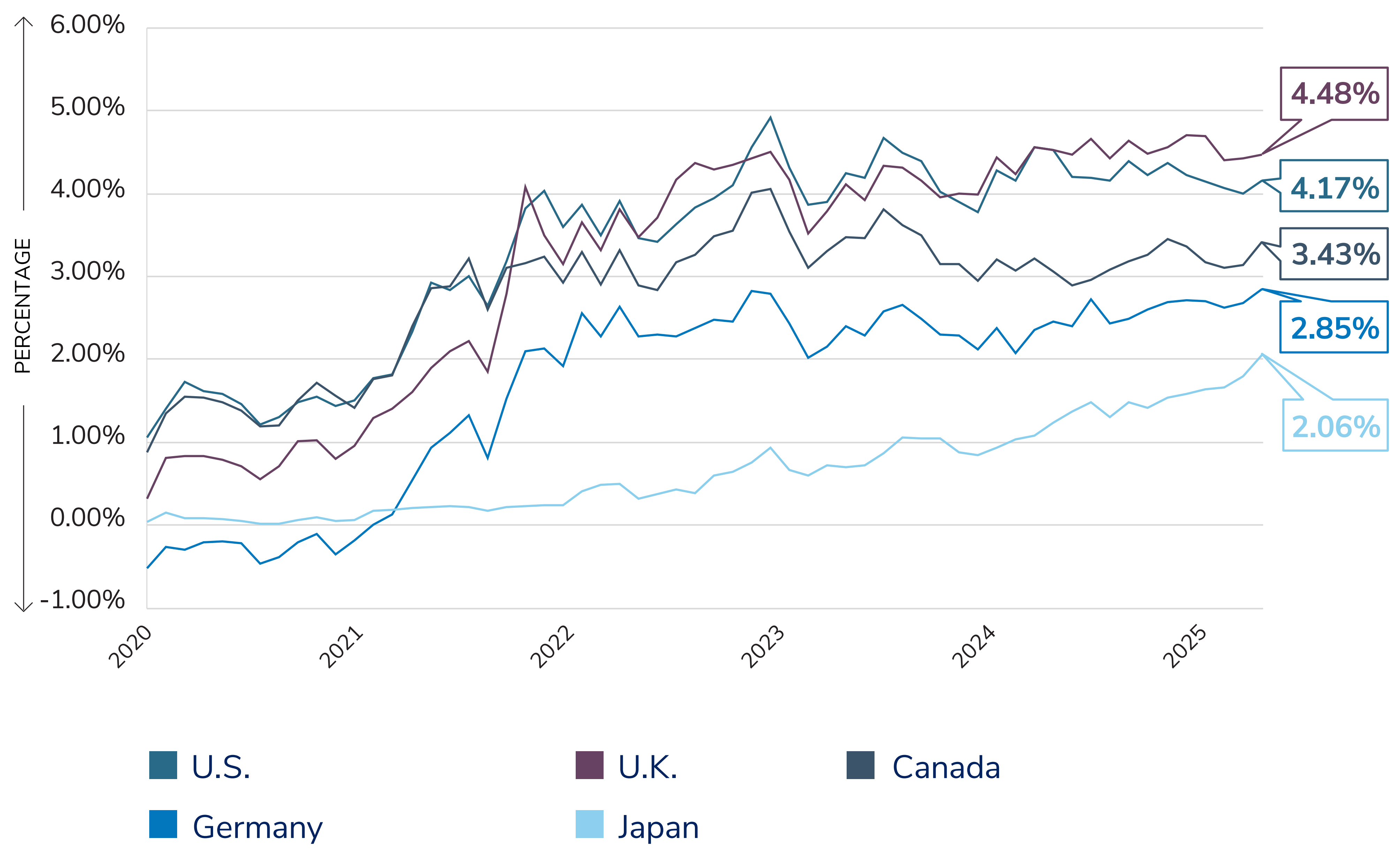

Source: IG Wealth Management, Bloomberg, as of December 31, 2025.

# Fixed income

## Chart 6 – Global central bank policy rates



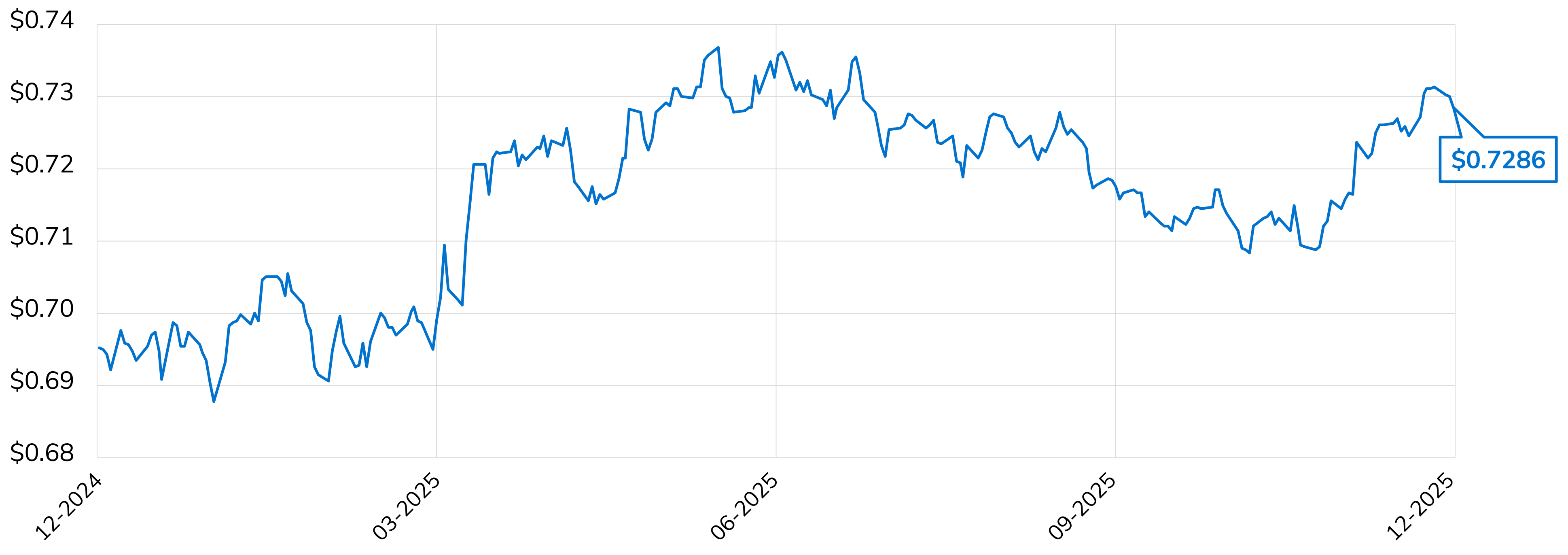

## Chart 7 - Sovereign bond 10-year maturity yields



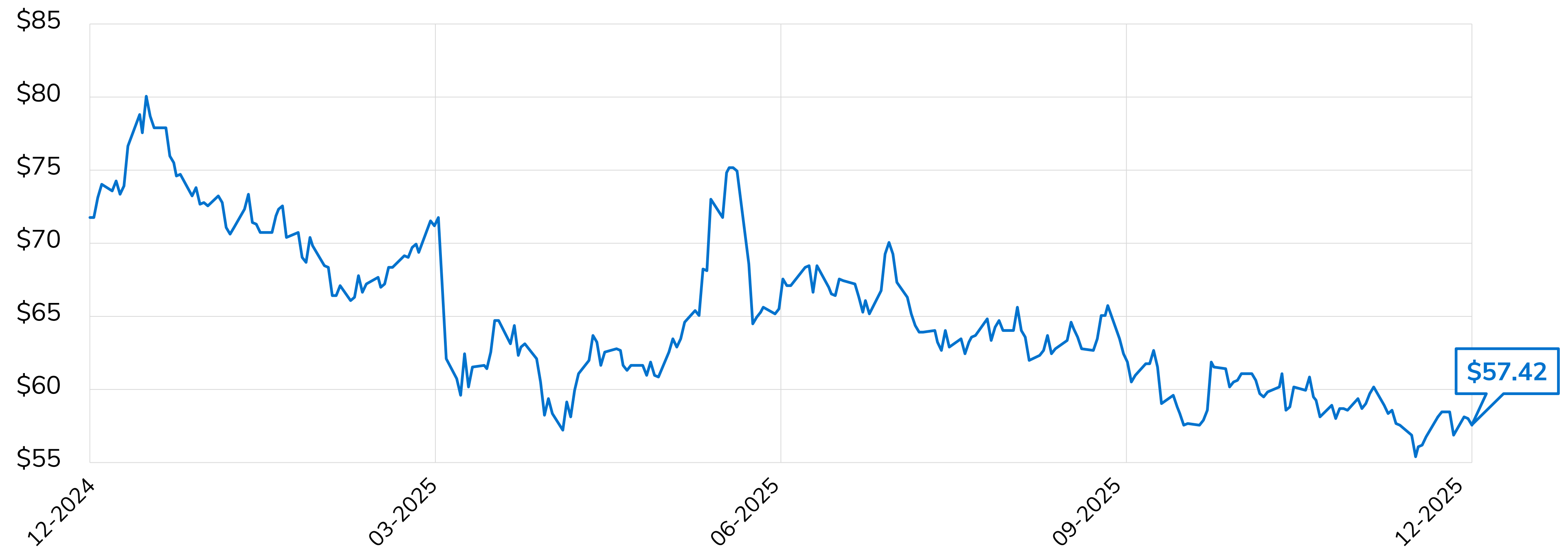

Source: IG Wealth Management, Bloomberg, as of December 31, 2025. Previous five years.

# Key benchmark performance

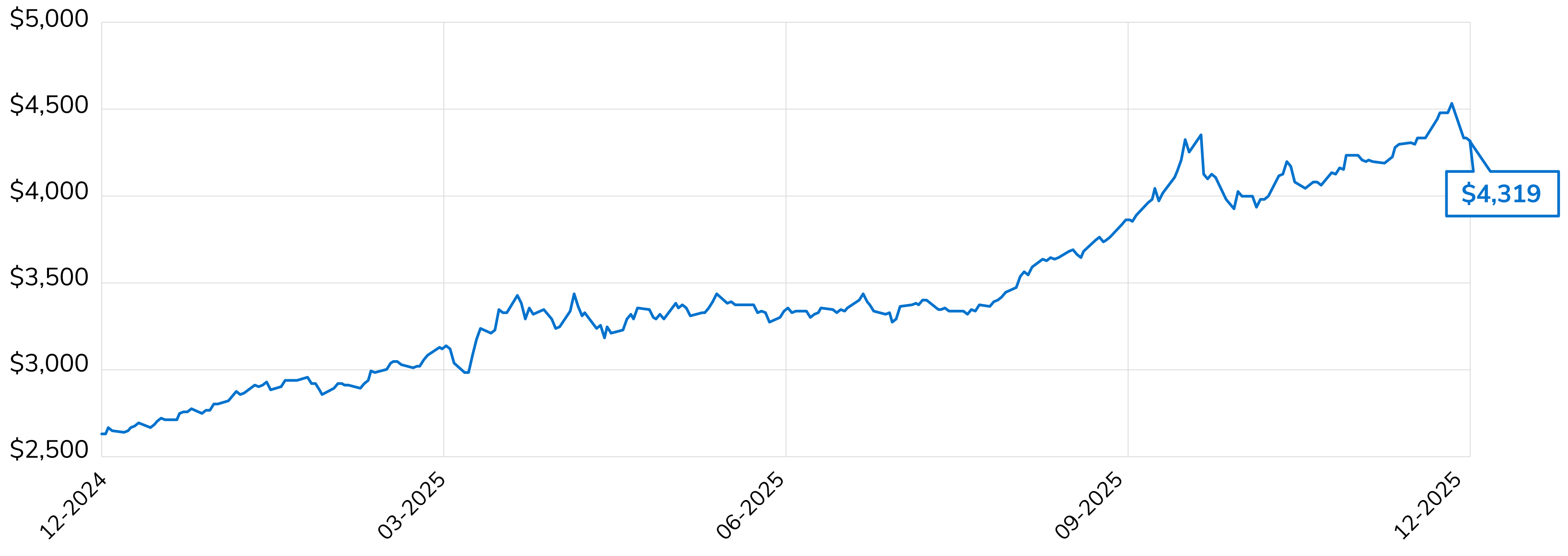
## Chart 8 - Canadian dollar/U.S. dollar cross



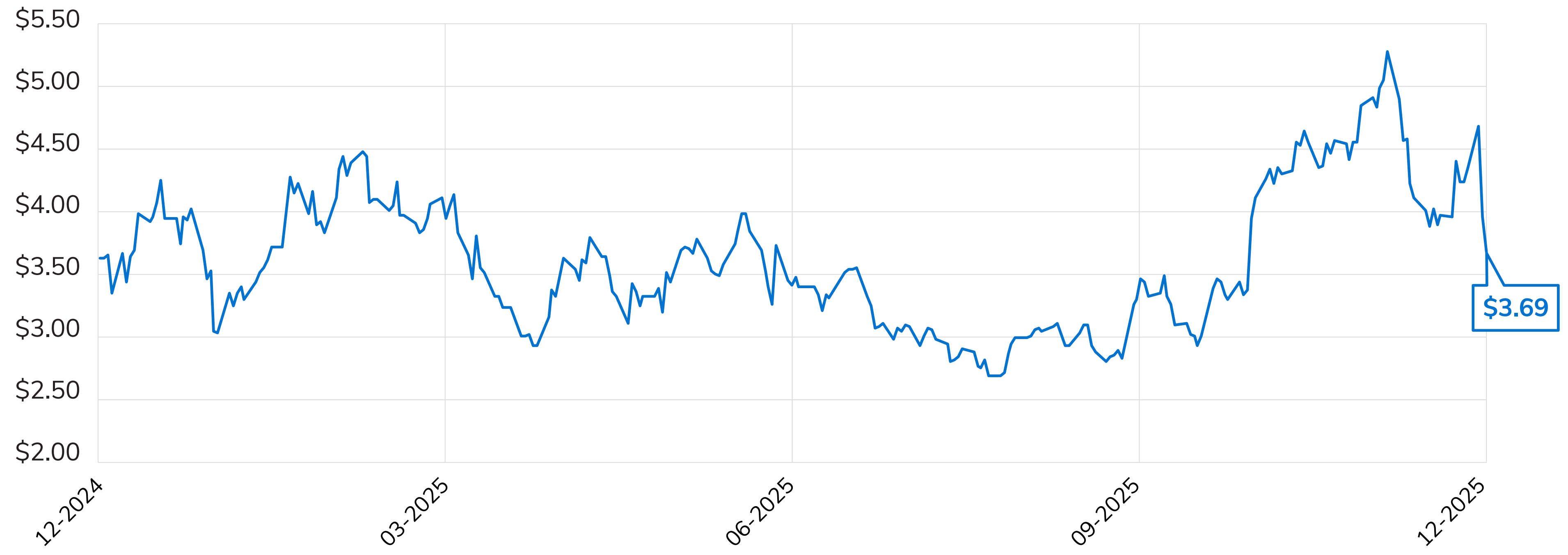

## Chart 9 - Crude oil (WTI) US$/bbl




## Chart 10 - Gold US$/oz.




## Chart 11 - Natural gas US$/mmbtu




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

IG Investment Strategy Team

# Market outlook

While 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. Read our 2026 Market Outlook to explore how 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 story of 2026 is not one of retreat, but of renewal. The economic cycle is evolving, not ending. – Philip Petursson*