Q4 2025 Newsletter

Firstly, Happy New Year to you and your family! We hope 2026 is already off to a great start, and we wish you all the health, happiness, and good things the new year can bring.

We think everyone will agree that 2025 had more than its fair share of surprises, none the least of which were the U.S. tariff announcements on April 2nd, which caused the U.S. S&P 500 to swoon by -19% from its recent peak in February. Unlike the March 2020 market declines led by COVID, this time it was not the U.S. Federal Reserve (FED) to the rescue, and this time the Trump Administration was not concerned about the equity market turmoil, presumably because it was so early into the President's new mandate. What caused the Trump Administration to blink was that the U.S. bond market started to falter, paving the way for a recalibration of the tariff policies and giving rise to the moniker, "TACO", (Trump Always Chickens Out). The U.S. Administration realised that they could not be so cavalier about tariffs with a reeling bond market, which was signified by falling bond prices and rising interest rates. Given that the huge U.S. budget deficits have given rise to ever increasing debt obligations, the rising interest rates fuelled by the bond market were a problem for the finances of the country and the Trump Administration was forced to reverse its tariff policy and quickly. The resilience of the U.S. consumer to continue spending, and the U.S. businesses to continue investing after the reduction in the original tariffs is mainly why the U.S. S&P 500 went on to produce a 2025 return of almost +17% and achieve 38 record highs along the way.

In this Newsletter, we will expand upon the "Bond Revolt" and comment on the fact that equity markets in most countries outperformed the U.S. market in 2025. As usual, we will outline the Managed Portfolio trades in the last quarter of 2025 and discuss portfolio returns for the year. Finally, we will discuss ten possible themes that will guide our strategy for 2026, giving rise to our predictions of possible returns for both the U.S. and Canadian markets.

Your Portfolio and Performance Report(s) for 2025 will be sent separately within a week or as soon as they are available. These reports take longer to produce at year end and rather than wait, we wanted to send you our Newsletter outlining our thoughts for 2026 early.

BMO | Private Wealth

Pipe, Lok and Cheung Wealth Management

BMO Nesbitt Burns

www.PLCwealth.ca

Tel: 604-443-1520
Jim.Pipe@nbpcd.com

Tel: 604-443-1591
Wendy.Lok@nbpcd.com

Tel: 604-443-1606
Ricky.Cheung@nbpcd.com

Tel: 604-443-1602
Crystal.AuYeung@nbpcd.com

Tel: 778-327-5227
Sara.DiazCranage@nbpcd.com

4th Quarter Trades in MPA Accounts

In the 4th Quarter of 2025, we only made one trade by purchasing shares of Weyerhaeuser (WY). WY is trading at historically low levels and it is a completely opposite stock to the Magnificent Seven stocks. The stock has faced headwinds over the past four years due to housing market weakness. Analysts in New York believe that it has the capacity to quickly appreciate by 50% or more once U.S. housing constructions pick up, as lower interest rates may help fuel a housing recovery. Such an advance would only bring it to its normal trading range, so it has the capacity to rise even further. While many recognize Weyerhaeuser as a timber company, its operations span five key segments: Timberlands, Real Estate, Energy, Natural Resources, and Wood Products.

We view Weyerhaeuser as a compelling value opportunity and a way to participate in a potential U.S. housing rebound. In the meantime, investors benefit from a 3.4% dividend yield while waiting for the story to unfold.

2025 MPA Portfolio Returns[1]

In 2025, The S&P/TSX returned an astounding 28%, almost entirely on the back of appreciating Gold stocks with the help of Financials. In fact the Canadian Materials and Financial Sectors combined accounted for 73% of the S&P/TSX return. The only managers that were able to match, or better this return in Canada were pure Gold funds. The S&P 500 returned 16.5%, but like Canada, there was a hitch. If we exclude the Magnificent Seven, so as to analyze the return of the "S&P 493", it only returned 10.36%. Furthermore, if we go back to the S&P 500 and analyze its return in Canadian dollars (as it is reported on our client statements in Canada), the S&P 500 CAD dollar return was 11.35%. This all seems very confusing, but it is relevant because the CAD dollar appreciated by 4.8% over the US dollar in 2025.

Our MPA Cash accounts that are mandated Growth finished the year returning between 9.56% and 12.00% after fees. (The difference between accounts is due to money inflows and outflows during the year). MPA Registered Growth accounts returned approximately 11% (or slightly higher) on average.

Meanwhile, MPA Cash accounts that are mandated Balanced returned approximately 9.40% on average, and Registered Balanced accounts returned approximately 9.35%. All returns are after fees and they are based on a sample of accounts that best represent the normal MPA account with limited inflows of new money during the year.

These results are summarized as follows:
Accounts over $250K:

	Q4 2025	2025 Return
MPA Growth (Non-Registered)	+1.99% to +3.10%	+9.56% to +12.00%
MPA Growth (Registered)	+2.09% to +2.25%	+10.86% to +11.31%
MPA Balanced (Non-Registered)	+2.19% to +2.96%	+9.37% to +9.59%
MPA Balanced (Registered)	+1.88% to +2.21%	+9.31% to +9.38%

[1] The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

The Themes for 2026

Now that we have turned the page into 2026, new challenges await: geopolitical tensions, lofty valuations, and an evolving macro backdrop. Of course if anyone, especially us, thinks that they know exactly what will happen, they are kidding themselves. We woke up on January 3rd to the arrest of the self-proclaimed President of Venezuela, Nicolas Maduro. No one expected this, but it will have far-reaching effects on Russia, China, Cuba, the oil market, and on global politics. This news is too fresh to predict outcomes at this time. With this in mind, here are some possible themes for the year.

1) The U.S. economy in 2025 continued to defy the odds by emerging even stronger after all of the policy shocks and turbulence. Despite the trade conflicts and global headwinds, the U.S. remains a leader in growth and innovation, and we think that the resilience witnessed by the consumer and industry will continue in 2026. This will be supported by another FED rate cut and tax relief, including April tax refunds to consumers under Trump's "One Big Beautiful Bill Act."

2) The U.S. Federal Reserve works behind the scenes to keep the economy stable, and in early 2026 it will have a new leader. That person will face a high-stakes mission of navigating policy uncertainty while balancing growth, inflation, and political pressure. With inflation still above target in the U.S., only one rate cut might be appropriate. Due to the upcoming mid-term elections, the Trump Administration would like lower rates to stoke the U.S. economy. If the new leader accedes to rate cuts, we might see another "bond revolt" as we did in the week after tariffs were announced last April 2nd. In that case, the rate cuts would only affect very short-term interest rates while long-term rates would rise, causing problems for the U.S. to service its rising budget deficits. (BMO Economics position is that there will be three rate cuts in the U.S., but we don't agree).

3) We expect volatility in 2026 due to unexpected plot twists. Despite dramatic headlines, market volatility has been surprisingly subdued recently – but that calm may not last. With historically elevated valuations and investor optimism on growth and return prospects, markets remain vulnerable to any disappointing economic or earnings-related news. Holding some excess money market funds in client accounts has not served us well in the past year, but it did reduce the risk in portfolios and we stand by this strategy as we enter 2026.

4) After four years of Price/Earnings (P/E) expansion, valuations are high and sit in the 98th percentile. Stocks rise for two reasons: either P/E expansion, earnings growth, or both. The catalyst will have to be earnings growth in 2026, and luckily most analysts are predicting growth. Our view is that we won't repeat the outsized double digit returns of the last three years but we might experience returns in 2026 in the 7% to 9% range. However, due to expected volatility, it won't seem easy and it won't seem fun during the year, but by year-end we believe we will experience these single-digit returns.

5) Due to our view that we will experience perhaps only one U.S. rate cut, and perhaps one in Canada, we believe that bonds will reward investors only with their interest return and not with any capital gain as was the case in 2025.

6) For the past few years, the secret to equity outperformance has been simple: invest only in AI and the "Magnificent Seven." This may sound like a broken record, for we have been saying it for years, but this scenario cannot continue forever. Those companies accounted for almost 40% of the S&P's market valuation in 2025 as well as approximately 40% of the return. The S&P 500 returned

approximately 17% in U.S. dollars in 2025. Excluding the seven stocks noted above, the remaining S&P 493 returned only about 10% in U.S. dollars.

While we believe that the AI revolution is in no danger of stalling, its leadership will broaden to the enablers, which include companies involved with data collection, cloud applications, and robotics, plus a new wave of beneficiaries in lower-profile sectors like Consumer Discretionary and Industrials.

7) We think that the two most overlooked sectors in 2025 – Consumer Discretionary and Health Care, are poised to rebound in 2026. Consumer Discretionary should get a boost not only from AI exposure, but because of tax cuts and tax refunds due early in the Second Quarter. Health Care is now the most attractively priced sector and could rally if regulatory fears prove overstated.

8) For many years, oil was the driver of the Energy story, but the data center boom has flipped the script. With electricity prices set to outpace inflation, Utilities may look like the obvious choice, but the heavy regulations they face might make Industrials – the makers of "picks and shovels" for the new energy era, a more reliable choice. With oil demand still sluggish and the adventures in Venezuela, we expect oil prices to hover around $55 a barrel over the next year.

9) The Asian markets delivered stellar performance in 2025, and a weakening U.S. dollar is generally beneficial to them. However, the tailwinds favoring those markets are expected to fade in 2026. Both the U.S. and Canada remain our top picks among developed markets, supported by stronger growth and earnings trends. We believe that the Canadian dollar will continue to appreciate against the U.S. dollar in 2026 due to a greater resolve by the Canadian Central Bank to hold the line on further interest rate cuts.

10) The volatility that we expect in 2026 will come from both "Unknown Unknowns" and "Known Unknowns". On January 3, 2026, the markets were confronted with an Unknown Unknown when Venezuela was attacked by the U.S. However, there are two major "Known Unknowns" that we will witness with certainty this year: The U.S. Supreme Court ruling on the validity of tariffs imposed by Trump under the International Emergency Powers Act (IEEPA), and the Mid-Term elections in the U.S. Trump used IEEPA as a basis to impose tariffs on Canada because of the claim that the Fentanyl Crisis in the U.S. was partially due to Canada. He used IEEPA as a basis for instituting tariffs on other countries as well. The outcome of this court challenge is uncertain at the time of writing, but it will certainly affect future U.S. tariff policy. The outcome of the Mid-Term elections is also unknown, but should the U.S. Congress flip to a Democrat majority from its current slim Republican majority, unknown volatility will occur in several sectors.

Predicted U.S. Market Returns in 2026

We have witnessed three years of double-digit earnings for the S&P 500 in the U.S. To witness a fourth year of outsized earnings, markets will need everything to be firing on all cylinders. Although we could end up with a surprisingly good year, some headwinds indicate to us that it won't be another "great" year. To witness yet another double-digit return year in the U.S., we need five major factors to fall into place:

1) The U.S. Federal Reserve would need to cut interest rates several times, (not just once), despite there being no recession in the U.S.

2) We would need to see Fiscal Acceleration (lowering taxation and increased government spending) by the U.S. and by other countries which will increase budget deficits. (The "Big Beautiful Bill" in the U.S. will almost surely ensure Fiscal Acceleration).
3) Capital spending in artificial intelligence by the large hyperscalers would have to continue unabated in 2026.
4) The world would need cheap oil prices. We don't think it is overly cynical of us to believe that this is the real reason that the Trump Administration invaded Venezuela.
5) We think that we would need to see an improvement in earnings growth for many of the 493 stocks in the S&P 500 that are not a part of the Magnificent Seven. In other words, in order to realize another double-digit return, the U.S. Index must finally broaden out to other sectors.

If all of the issues above need to occur in order to witness a double digit return in 2026, and if we allocated a 50% chance of each issue occurring, the chances are only 3.125% (same odds of flipping a coin five times and it comes up heads)! However, some of the issues above are more likely to have a better than 50% chance of occurring in our opinion. If we assign #1 a 50% probability, #2 a 100% probability, #3 a 75% probability, #4 an 80% probability and #5 a 50% probability, the odds are still only 15% of reaching a double-digit return again this year. This is why we think we will see a more modest return in 2026. We hope that we are wrong, but managing "risk" is just as important to us as managing "return". In fact, at this point, managing "risk" is probably more important than reaching for "return".

As for Canada?

The Canadian S&P/TSX Index entered 2025 undervalued compared to the U.S. market, but it made up a lot of ground during 2025. Our currency strengthened by +4.8% against the U.S. dollar, (starting the year at U.S. $0.701 and ending the year at U.S. $0.729), which was a headwind to any Canadian investor holding U.S. stocks. (Our portfolios contained approximately 66% U.S. equities, so of course we were all affected negatively). The Canadian market returns handily beat that of the U.S. market, but our country's excellent returns were skewed by the magnitude of the rally of Gold, Silver, and other precious metals.

For 2026, we see Canada potentially beating the U.S. market again, and we believe that the Canadian dollar will continue to rise against the U.S. dollar. The rise in precious metals as well as base metals, notably copper, may not be over. And not only does the Canadian market get pulled along with a rising U.S. market, the fiscal situations are different in the two countries. The U.S. budget deficits are rising due to tax decreases. The Canadian budget deficits are rising due to fiscal spending on increasing defence budgets and building Resource infrastructure. Tariffs and Trump's threats galvanized and awakened us to the need for greater reliance on our own entrepreneurship in the private sector to promote new trading relationships, breaking down interprovincial barriers, and reducing government waste and red tape. This all bodes well for the Canadian Industrial Sector, Materials, and for Canadian Financial institutions. These sectors make up a majority of our market.

Summary

Many investors have been asking if we think that the equity markets are in a bubble. Even more are asking if the Magnificent Seven stocks are in a bubble. Whether they are or are not in a bubble, it is a good sign that these questions are being asked. It indicates an anxiety, even a fear, that the markets are capable of falling dramatically. In a prolonged bull market such as the one we have been currently experiencing, it can make

us all feel brilliant, prodding us all to believe that risk has vanished and that there will be nothing but good times ahead. This self deception can cause us to take an excessive risk that we will regret if the market sours. It is the reason that we have been gradually reducing positions in the Magnificent Seven stocks over the past two years, and it is the reason why we have not introduced the Magnificent Seven stocks into the Tax-Free Savings Accounts. In retrospect, it has been to our detriment, as those stocks have continued soaring to a point that we believe is dangerous. As Benjamin Graham, (the father of Value Investing), stated:

"The essence of investment management is the management of risks, not the management of returns."

This is why it is encouraging that the question of bubbles is so prevalent. In the absence of a Black Swan event, markets rarely tumble when investors are anxious and "on guard".

Reflections on 2025 – What We Learned

Calling 2025 a roller coaster for the markets almost feels like an understatement. Over the course of the year, the S&P 500 swung more than 2,000 points from high to low—a 36% range based on where we started the year. Looking back, a few reminders stand out:

1. **Stay focused through the noise.** Even when surprises like new tariffs or geopolitical tensions, such as those in the Middle East, cause short-term volatility, markets have shown that cooler heads often prevail. When investors stay focused on underlying fundamentals, stability tends to return more quickly than we expect.

2. **Diversification matters**. Instead of chasing the latest winners, it is important to build a well-diversified portfolio. From our experience, pairing diversification with a long-term, goals-based approach can help soften the impact of sudden market swings, and keep emotions from driving decisions.

3. **Investment myths may not apply in the current market context**. You've probably heard the rule of thumb that an inverted yield curve signals an upcoming recession. The yield curve inverted in 2022 and stayed that way into last summer—yet we still haven't seen signs of a U.S. recession. Another example is the classic "sell in May and go way." In 2025, the S&P actually reversed its decline in early April and rallied through year-end.

As we say goodbye to 2025, we humbly approach 2026 with the lessons we learned last year and we hope that 2026 will be another good year.

Thank You!

As we step into 2026, we want to say how much we've appreciated your trust, your questions, and the conversations we've shared over the past year. Whether it was talking through market surprises, celebrating personal milestones, or simply checking in, these connections mean a lot to us. They remind us why we do what we do.

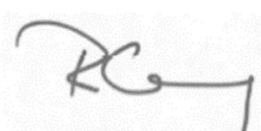
We're excited for the year ahead and look forward to continuing working with you—whether that means navigating another round of market surprises, celebrating personal wins, or simply being here when you need a second opinion or a sounding board.

From all of us on the team, we wish you a healthy, joyful, and prosperous 2026. We can't wait to see what this year brings and to walk through it together.

P.S. One last thing! As of January 1, 2026 you are able to contribute an additional $7,000 to your Tax-Free Savings Account. Please let us know if you wish to do this.

Warmest regards,

J.S. (Jim) Pipe B. Comm, MBA, CMA
Portfolio Manager, Senior Investment Advisor
(604) 443-1520



Ricky Cheung MBA
Portfolio Manager, Senior Investment Advisor
(604) 443-1606

Wendy Lok B. Comm, CIM, FMA
Associate Portfolio Manager &
Senior Investment Associate
(604) 443-1591

Crystal Au-Yeung B.A.
Senior Associate
(604) 443-1602

Sara Diaz Cranage
Associate
(778) 327-5227

The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. ("BMO NBI"). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO NBI or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO NBI -will buy from or sell to customers securities of issuers mentioned herein on a principal basis. BMO NBI, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO NBI or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp. Member-Canadian Investor Protection Fund.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member – Canadian Investor Protection Fund and is a Member of Canadian Investment Regulatory Organization. BMO Trust Company and Bank of Montreal are Members of CDIC.
"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.