



January 2026 Market Update

We live in interesting times.

One year ago, we expected significant volatility in all investment markets. Despite the expected volatility, we remained optimistic that both the equity and bond markets would be positive for 2025. Both of these occurred. Both the equity and bond markets saw far greater than usual volatility. In early April, the markets experienced a very sharp correction as a result of the tariff – the world announcements from the U.S.

As is almost always the case, those investors who panicked and sold during this correction lost money that does not get recovered. Those who remained calm and remained invested (or bought during this period) came through the correction unscathed.

In 2025 we aimed for positive investment returns and were rewarded well above expectations. The TSX gained 28.2% in 2025 (the biggest contributors were gold, and the banks). The S & P 500 was up 16.4% and the Dow Jones up 13%.

The added strength in the Canadian markets came from a couple of sources. Gold was up sharply over concern about potential weakness in the U.S. dollar. Interest rates also declined at a greater pace than in the U.S. The decline in rates in Canada were not all for the right reasons. A slow economy in Canada was the main contributor to the rate cuts. As a result of lower rates, the Canadian banks were very strong, as were many dividend paying companies.

Despite comments from the U.S. that Canada has nothing that they need, companies that provide these goods and services (oil, natural gas, pipelines, etc.) mostly performed well. An increased focus on these sectors brought about a recognition that Canada's goods and services are needed, if not by the U.S. by other global economies.

Another, and more concerning, side of the market strength in 2025 is heavy risk taking. An increased emphasis on AI spending, SPACs, highly levered ETFs, and crypto show that speculation was rampant in 2025. The levels of speculative hype has even reached some discussion amongst high risk taking money managers to try to make sports betting/event betting its own asset class (like equities, bonds, commodities). It is in times like this where we start to see the Bull market genius. An investor who believes that whatever they invest in will only go up in value. This investor feels smarter than everyone else. This extreme over confidence leads to investing only in these speculative investments. Sometimes, borrowing more to buy more. There is no diversification and no balance in their investment portfolios. As long as this speculation continues to see higher prices, the investor believes that the market is validating their perceived skill.

This investment "strategy" rarely ends well. Though bull and bear cycles can last longer than is justified, eventually valuations and profitability will again matter. Speculative ideas will at some point either prove their economic benefit to society or come crashing down. Always keeping the above in mind, our investing strategy will maintain our focus on boring equities, boring fixed income investments, dividends, and quality. Valuations do matter.

As we look into 2026, we maintain the same optimism as last year. Some of the speculative market excesses that developed last year continue to this year. Geo-political risks and uncertainties are at the highest level in decades. Strength and power are quickly becoming the only hard currency. Diplomacy and international law are secondary. The one with the biggest stick gets to set the rules.

Canada does not have a big stick. It does, however, own many of the 'things' that are cherished by those carrying the big sticks. These 'things' – oil, natural gas, potash, pipelines, minerals, etc. do give Canada a seat at the table.

For the last 40+ years, Canada like the speculative investor, placed all our bets on the U.S. This bet is no longer paying off. Like that investor, Canada must quickly diversify and re-balance our portfolio. We are confident that Canada will improve its portfolio through global diversification. This will not be easy. It will be expensive.

Every Canadian, everyone's holding political office, federally, provincially or locally will need to recognize the change in focus required and our new objectives. Hard work, and some sacrifice will be necessary.

With recent events in Venezuela, the short term impact on Canada appears very minimal. In the longer term, however, Canada will need to work and build new infrastructure and new opportunities even faster.

The actions in Venezuela are mostly around their oil reserves. Currently, Venezuela is less than 1% of global oil supply. The oil that has been shipped out of the country has gone almost exclusively to China, Cuba, and some South American countries. A concern for Canada is that this oil will now go to the U.S. gulf coast for refining. Venezuelan oil is a heavy crude similar to the Canadian oil sands. Currently, of all the oil Canada exports to the U.S. only about 10% goes to the U.S. gulf coast. Some goes to western U.S. refineries and most goes to U.S. Midwest refineries.

The near term impact in Canadian oil production is minimal. Venezuela's oil infrastructure is in such rot and disrepair, that their oil production is declining monthly. Several estimates show for Venezuela to increase their oil production to pre-Chavez levels, it would cost somewhere between \$150 - \$200 billion. So far no U.S. oil companies have indicated a willingness to take these levels of financial risks. Even if these investments are made it would take 5-20 years to show significant oil production increases.

The break-even cost for Canadian oil sands oil is estimated to be about \$30 U.S./ barrel. Venezuela is at about \$80. This gives Canada some time to diversify our oil portfolio. Work and Build faster.

What to expect from politics in 2026? No one has that answer. Change happens fast and political decisions are happening even faster. Canada's economy should continue to muddle along at a slow growth pace. Currently it appears that the Bank of Canada interest rate cuts have hit a bottom. Rates should remain at current levels through 2026 unless economic growth is about to pick up to a higher than expected pace.

The U.S. may see one or two more interest rate cuts this year. Some in the U.S. suggest that interest rates can come down faster and greater than planned as they argue that inflation is gone. Besides being a false argument, inflation does exist and inflation is running at a higher pace in the U.S. This is a reason why the U.S. interest rates have not come down more. There is always going to be a need for

inflation. Inflation is a necessary ingredient for there to be economic growth, and to improve the standard of living.

A major political and economic topic in 2026 will be the Canada – U.S. – Mexico free trade agreement. The current free trade agreement expires in 2036, but each of the countries must advise by July 1, 2026 whether they wish to extend the free trade deal, or allow it to expire in 2036. There is also an opportunity for any of the three countries to give 6 months notice and end the agreement sooner.

Though, highly unlikely this 6 months notice is given (by the U.S.), events of the past few months make it difficult to forecast the probabilities of any event occurring. The U.S. midterm elections are less than 10 months away and hopefully will provide more rational decision making. Do expect the possibility that the U.S. advises that they do not want the free trade agreement extended in 2036. Political posturing at its best.

For our investment portfolios, nothing changes. We will always maintain a focus on boring equities, boring fixed income investments, dividends and quality. Expect more volatility, but stay focused on your personal goals and objectives.

Additional reminders and additional notes:

- **Important Tax Information:**

For those who this may apply, please note that the realized gains and losses reports will be mailed out between mid to end February. T5 forms will be available at the end of February, and T3 forms by mid March. The T5s, T3s and account statement breakdowns can be found through your Wood Gundy online portal. Please contact Zoe for assistance accessing your online accounts.

- **Contributions To Registered Accounts - FHSA, TFSA, RRSP:**

As the new year begins, we encourage everyone to review their registered account contributions.

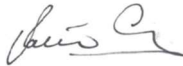
- TFSA contribution limit for 2026 is \$7,000. Please note that this amount is only applicable if you have fully utilized your available contribution room in 2025.
- RRSP contribution deadline for the 2025 tax year is March 2, 2026.

As always, remain optimistic, yet cautious.

Best Regards,
CIBC Wood Gundy



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