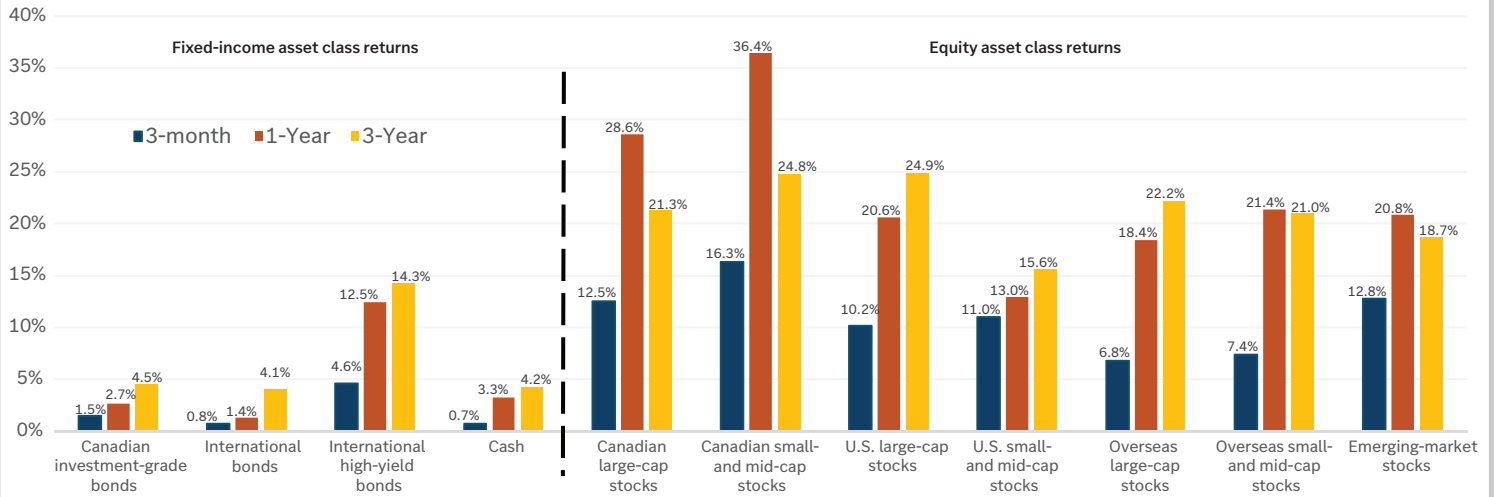


## Quarterly market outlook: Fourth quarter 2025

## Looking back at the third quarter

## Asset class performance



Source: Morningstar Direct, 9/30/2025. Total returns in CAD. Canada large-cap stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap stocks represented by the Russell 2500 Index. International bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield bonds represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. large-cap stocks represented by the S&P 500 Index. Emerging-market stocks represented by the MSCI EM Index. Overseas large-cap stocks represented by the MSCI EAFE Index. Canadian small- and mid-cap stocks represented by the S&P/TSX Completion Index. Overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the S&P Canada Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

A supportive economic backdrop drove gains across asset classes, boosting well-diversified portfolios. Stocks generally outperformed bonds, supported by improved policy clarity and ongoing gold- and tech-related tailwinds.

**Markets react to policy clarity with all-time highs** — Entering the second half of 2025, tax and tariff uncertainties clouded the outlook, but as the third quarter progressed, clarity emerged on several fronts:

- **Monetary policy:** The Bank of Canada and the Federal Reserve (Fed) reaffirmed their support of labour markets and economic growth, cutting interest rates after a lengthy pause.
- **Fiscal policy:** The Government of Canada reduced the lowest marginal personal income tax rate from 15% to 14% in July, impacting over 22 million Canadians. In the U.S., the One Big Beautiful Bill Act passed, offering a modest boost to the country's economic outlook.
- **Trade policy:** While no trade deal has been reached, talks between the U.S. and Canada continued while Canada works to build a resilient economy less reliant on their closest trading partner. The U.S., meanwhile, has reached trade agreements with some major partners, helping to stabilize global trade relations.

While uncertainty remains, these developments helped stock markets extend their rebound from April's lows. Multiple regional indexes achieved all-time highs, with economically sensitive stocks, such as small- and mid-cap and emerging-market stocks, leading the way.

**Gold and tech trends turbocharge markets** — With gold surging to all-time highs, the Canadian materials sector benefited from significant exposure to gold mining. Within large-caps, the materials sector climbed a staggering 38% last quarter. The growth prospects of artificial intelligence (AI) continued to boost markets, as well. Strategic investments and partnerships, research breakthroughs, and robust earnings fueled tech-heavy U.S. large-cap and emerging-market stocks, solidifying their spots among the quarter's best performers.

**Bonds hold their own amid diverging interest rates** — The Fed forecasted more cuts as possible, but uncertain. Markets, however, appeared more confident in further easing, which helped send yields lower in Canada and the U.S. Conversely, interest rates rose across many overseas developed markets, driven in part by political and fiscal uncertainties. Despite diverging interest rate, returns were solid across bond asset classes, with lower-quality bonds performing best.

## ► Action for investors

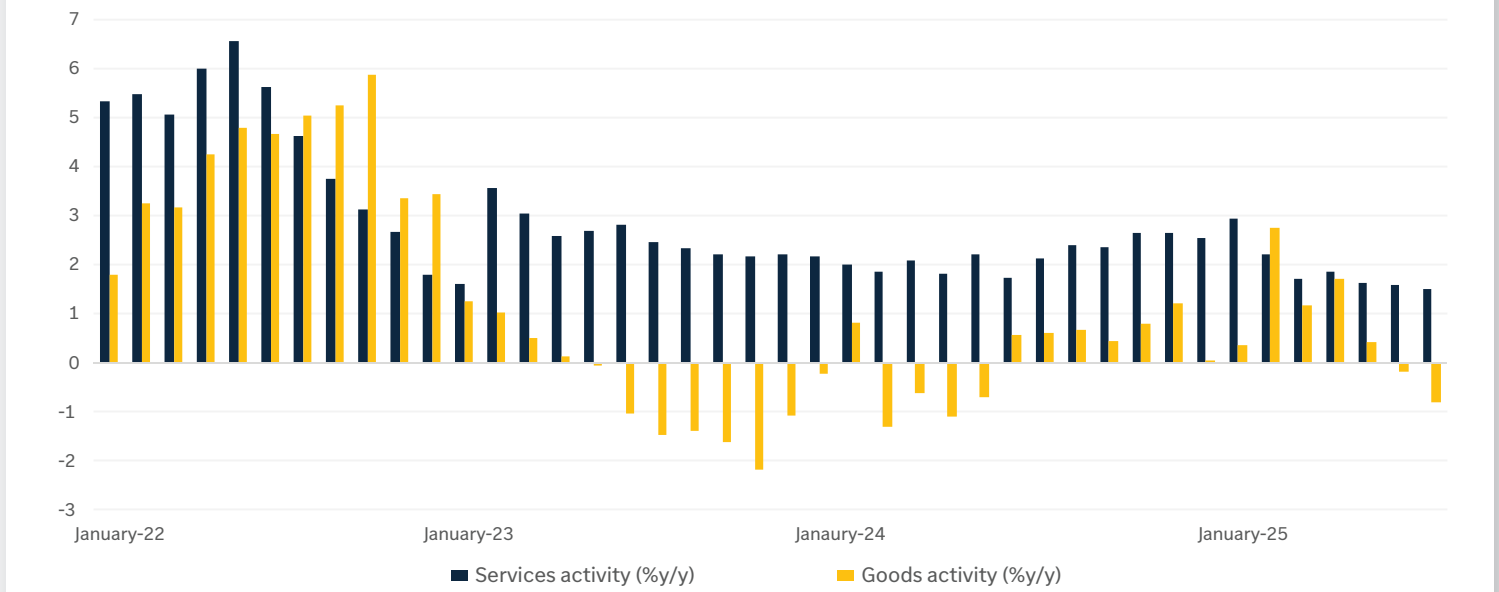
Though notable, the market's gains have been uneven, and periodic volatility should be expected. Stay well balanced and globally diversified to navigate the rest of 2025 according to your investment objectives.

Diversification does not ensure a profit or protect against loss in a declining market.

## Quarterly market outlook: Fourth quarter 2025

## Canadian outlook

## The export sensitive goods sector is likely in recession, but services activity is faring better



Source: Haver Analytics

Trade tensions are clearly hitting the Canadian economy hard, although there are signs of resilience in sectors less exposed to the U.S. This slowdown should persuade the Bank of Canada (BoC) to cut again, while the upcoming budget has the potential to lift short- and long-term growth.

**A major trade shock** – Around three quarters of Canadian exports typically head to the U.S., with this trade accounting for around 16% of Canadian GDP and more than 2.6 million jobs<sup>1</sup>. Therefore, it has been of little surprise to see this part of the economy struggle through this year's trade war, with employment in sectors with a significant reliance on exports falling sharply<sup>2</sup>. The good news is that there has been limited contagion to other parts of the economy up-to-now. Services growth has slowed, but remains solid<sup>3</sup>, while hiring outside of export sensitive sectors has been stable<sup>2</sup>. This resilience should provide some encouragement that Canada can avoid a recession, although we need to watch the data carefully for signs of further slowing.

**Inflation sticky for now** – Measures of Canadian inflation have accelerated this year, with the BoC's preferred gauges of underlying price growth having edged back above 3% in year-over-year terms. However, this reacceleration is likely to be short lived in our view, with inflation expected to move back into the BoC's

target range of between 1-3% over coming quarters. Helping this moderation should be a continuation of the easing in shelter inflation seen over recent months/quarters, the rollback of certain Canadian tariffs on U.S. imports and the slowdown in domestic growth this year.

#### Policy moving in a more helpful direction –

The BoC resumed its easing cycle in September, cutting rates by 25bps for the first time since March<sup>3</sup>. This reflected building concerns around rising unemployment, with these fears likely to spur another cut this year in our view, leaving interest rates at 2.25%. Otherwise, we look forward to more clarity around fiscal policy in the November budget, with Prime Minister Carney having flagged a focus on infrastructure investment, new home building and defense spending<sup>4</sup>. The devil will be in the details, but well targeted investment would support both short- and long-term growth in our view.

Diversification does not ensure a profit or protect against loss in a declining market. Rebalancing may result in a taxable event

<sup>1</sup>Organization for Economic Cooperation and Development

<sup>2</sup>The Bank of Canada

<sup>3</sup>Haver Analytics

<sup>4</sup>Bloomberg

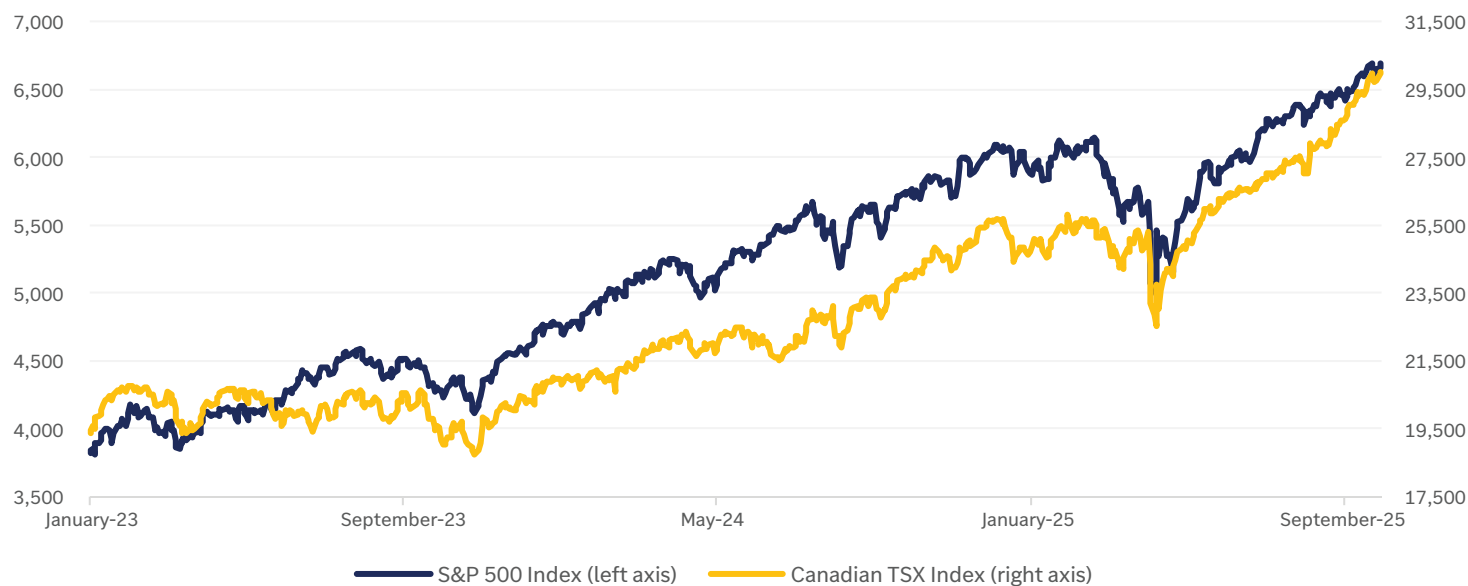
## ► Action for investors

While the economy has stuttered, we have seen Canadian equity markets hit new all-time highs this year, helped by a boost from gold prices for the local materials sector. This dynamic could have further to run, and we have removed our underweight to Canadian equities, although we continue to prefer an overweight allocation to U.S. large cap stocks in the near term given their exposure to the AI trade.

## Quarterly market outlook: Fourth quarter 2025

## Equity outlook

The Canadian TSX and S&amp;P 500 have both seen “v-shaped” recoveries since the April lows (Index level, USD)



Source: Bloomberg, as of 9/30/25

**Some bouts of volatility likely** — The Canadian and U.S. equity markets continued to rise in the third quarter of 2025, with the Canadian TSX up about 21% and the S&P 500 up nearly 14% for the year through Q3. However, keep in mind that markets don't move higher indefinitely, and one to three corrections are the norm in any given year. While we may see bouts of volatility ahead, we continue to favour equities over bonds, especially given the potential for ongoing economic growth in Canada and the U.S. in 2026, driven by central bank rate cuts, the U.S. tax bill providing some stimulus to businesses, and potentially ongoing secular growth in artificial intelligence (AI) sectors.

**Scope for valuation expansion outside technology** — Equity market returns are typically driven by two key factors: valuation expansion and earnings growth. According to Bloomberg, the overall S&P 500 price-to-earnings multiple (a commonly used valuation metric comparing market price to earnings per share) expanded to almost 23x forward earnings this year, near a 5-year high. This rise has also been driven by elevated valuations in technology and artificial intelligence (AI)

sectors. The Canadian TSX, which is more weighted towards value sectors, is trading at about 17x forward earnings, albeit also near 5-year highs. As the economies continue to expand in the year ahead, we continue to see modest scope for valuation expansion, mostly in Canadian and U.S. sectors with room to catch-up to the broader index.

**Earnings growth will do the heavy lifting** — With less potential for further valuation expansion, we believe earnings growth will be a critical driver of stock market returns over the next year. In Canada, earnings growth is expected to be about 13% this year, driven largely by the materials sector given the rise in gold mining companies. S&P 500 corporate earnings are expected to grow by about 11% this year, with technology and AI sectors driving much of the increase. However, as we look toward 2026, forecasts call for earnings growth for both indexes to be supported by a wider set of sectors including healthcare and industrials. We believe this broadening of earnings growth alongside materials and technology should also further broaden market leadership.

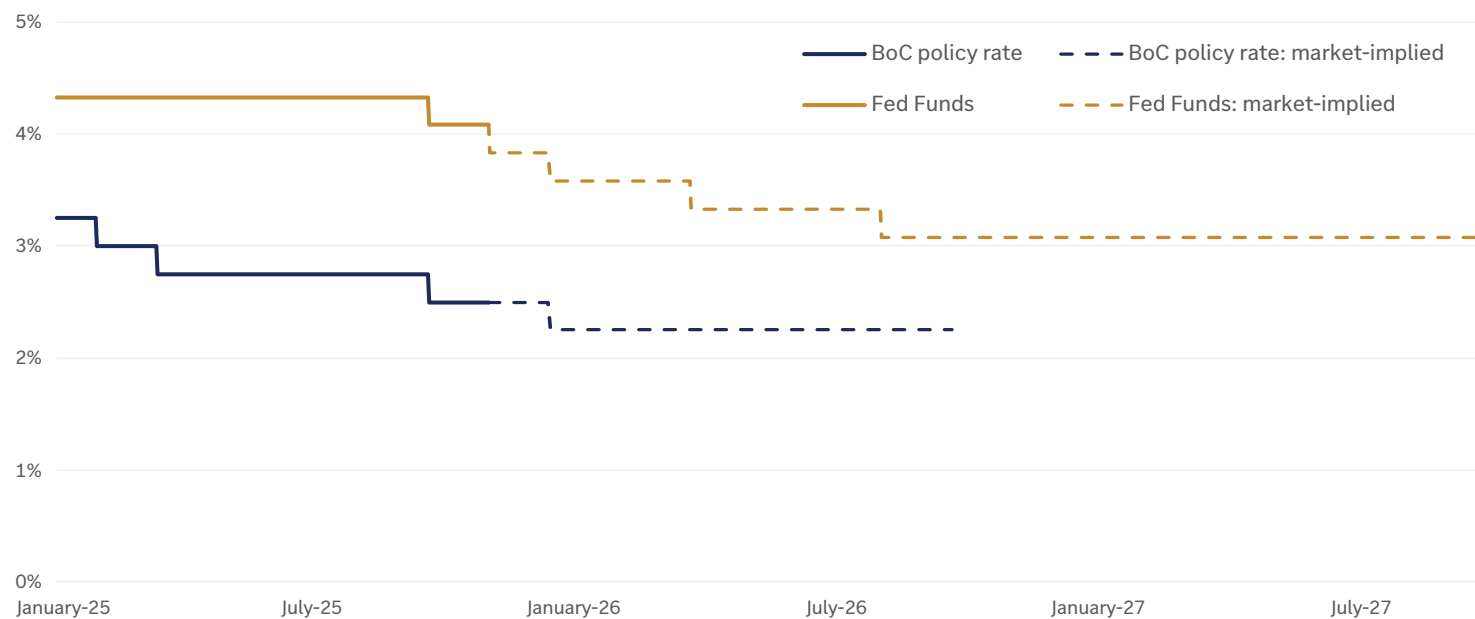
## ► Action for investors

We recommend overweight allocations to equities versus bonds, given the potential for economic reacceleration in 2026. Within equities, we favour U.S. large-cap and small- and mid-cap stocks, which should benefit from continued AI and technology exposure and a potential broadening of earnings and market leadership.

## Quarterly market outlook: Fourth quarter 2025

## Fixed-income outlook

## Bank of Canada likely approaches end of easing cycle, while Fed resumes



Source: Bloomberg, CME FedWatch.

The Bank of Canada (BoC) cut its policy rate in September – its third cut this year – as it likely approaches the end of this easing cycle. The Federal Reserve (Fed) resumed rate cuts for the first time this year to help support the softening U.S. labour market. As short-term bond yields have fallen alongside BoC’s policy rate, slightly extending duration offers an opportunity to lock in higher long-term yields. Credit spreads for international high-yield bonds have narrowed well below their historical average.

**Bank of Canada further along than Fed in easing cycle** – The BoC cut its policy rate to 2.5% in September, as widely expected, nearing the low end of the central bank’s own 2.25% - 3.25% estimate for neutral interest rates. Markets are pricing in expectations for BoC to cut rates one more time, shown in the chart above. The Fed also cut its target range for the fed funds rate to 4.0% – 4.25% in September and updated its quarterly economic projections. The fed funds forecast – known as the “dot plot” – opened the door to an additional rate cut this year compared with the prior release. Markets are reflecting expectations for the Fed to cut rates to the low-3% range next year. The Fed also raised its outlook for economic growth and inflation, while cutting its forecast for unemployment.

The cooling labour market should keep the Fed on track for at least one more rate cut this year and another one or two cuts next year, in our view.

**Maintaining slight overweight duration recommendation** – Short-term yields could fall further as the Bank of Canada likely cuts rates one more time, highlighting the reinvestment risk of short-term bonds. We recommend slightly extending duration – a common measure of interest-rate sensitivity related to maturity – to lock in higher yields with long-term bonds. The steepness of the yield curve – the difference between long- and short-term yields – is near its historical average, which, combined with another BoC rate cut, could help keep long-term yields contained to the upside.

**Canadian and international bond yields have fallen, while credit spreads have narrowed** – Due in part to central bank easing, bond yields have fallen, with average yields on Canadian investment-grade bonds and international bonds currently in the mid-3% range. Many international central banks are likely near the end of their rate-cutting cycles, which could limit the potential for bond price appreciation. Credit spreads for international high-yield bonds – the additional yield above high-quality government bonds to compensate for credit risk – have narrowed well below their historical average.

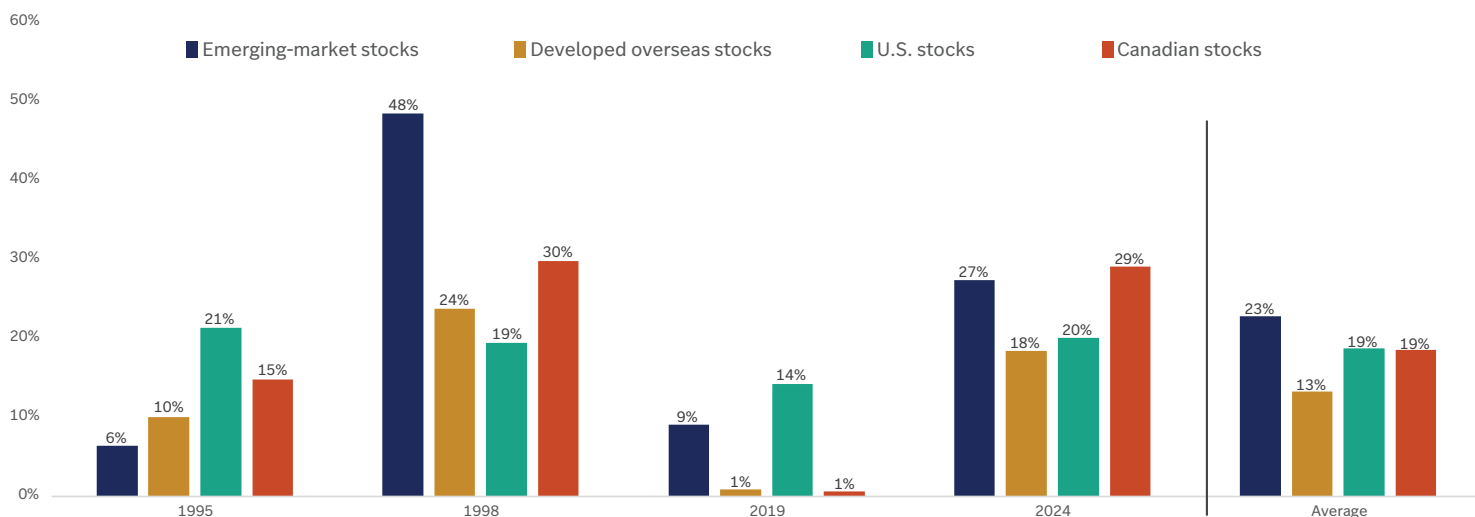
## ► Action for investors

We recommend an underweight position in Canadian investment-grade and international bonds, due in part to their lower yields, as well as international high-yield bonds, for which credit spreads are historically low. Consider a slightly extending duration within Canadian investment-grade bonds to lock in higher long-term yields.

Investing in bonds involves risk, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise the prices of bonds can decrease and investors can lose principal value if the investment is sold prior to maturity. Equity investing involves risks the value of your shares will fluctuate and you may lose principal. Past performance is not a guarantee of future results

## Quarterly market outlook: Fourth quarter 2025

## International outlook

**Emerging-market stocks tend to lead after non-recessionary Fed rate cuts**  
 12-month total returns after initial Fed rate cut in Canadian dollars


Source: Bloomberg. Emerging-market stocks represented by MSCI EM index, developed overseas stocks represented by MSCI EAFE, U.S. stocks by S&P 500 Total Return Index, Canadian stocks by S&P/TSX Composite Total Return Index. Past performance does not guarantee future results.

After a challenging start to the year marked by trade disruptions and heightened uncertainty, global economic activity is beginning to stabilize, and in many regions, accelerate. The Federal Reserve (Fed) renewed easing cycle, combined with a pickup in lending activity following 18 months of rate cuts by other major central banks, is improving the outlook for overseas equities<sup>1</sup>. While the U.S. remains at the forefront of artificial intelligence (AI) innovation, competitive momentum and investment opportunities are increasingly expanding to other regions.

**Global cyclical acceleration ahead, supported by lower rates** – Global manufacturing, which has been in a prolonged slump, appears to be turning a corner, as evidenced by recent PMI surveys, returning to expansion territory<sup>1</sup>. In the Eurozone, consumer spending remains resilient, and confidence is improving, bolstered by a series of rate cuts. We anticipate that increased demand for lending and looser credit conditions will help drive a cyclical rebound in developed markets. One area of continued softness is job growth, which has slowed across most economies. However, unemployment rates remain low by historical standards. The silver lining is that looser labour markets are likely to temper wage growth, contributing to more moderate inflation in the services sector.

**Emerging markets gain tailwind from Fed pivot** – Following a nine-month pause, the Federal Reserve restarted its rate-cutting cycle in September

shifting its focus from inflation to employment. Fed easing outside of recessionary periods has in the past supported equities and boosted investor appetite for risk, conditions that tend to favour emerging market (EM) stocks. In fact, EM stocks have historically outperformed their developed market counterparts in the 12 months following the initiation or resumption of Fed rate cuts<sup>1</sup>. This environment also provides EM central banks with greater flexibility to ease monetary policy further. Another potential catalyst for EM equities may be the renewed surge in China's tech sector. A basket of Chinese interest stocks that are benefitting from AI have risen 40% this year through September, yet still trade at discounted valuations relative to their U.S. peers<sup>1</sup>.

**U.S. dollar on the defensive as rate differentials narrow** – Other major central banks, including the Bank of Canada, have cut interest rates more aggressively than the Fed and may be approaching the end of their easing cycles. With the Fed now resuming rate cuts and possessing greater room to maneuver in returning policy to neutral, the interest rate differentials between the U.S. and other economies are likely to narrow. This shift could put downward pressure on the U.S. dollar relative to major currencies. While we do not anticipate a decline as sharp as in the first half of the year, even a modestly weaker dollar can benefit international equities, underscoring the importance of global diversification.

## ► Action for investors

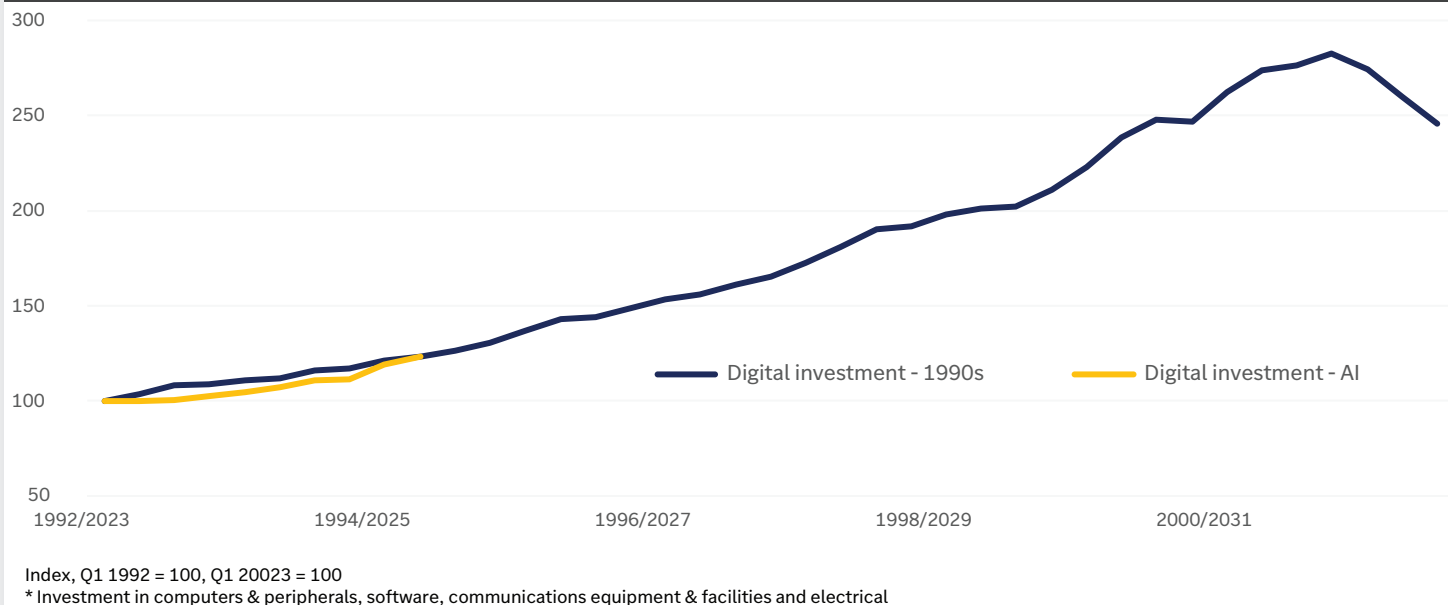
As the global expansion continues, we favour emerging-market stocks and more cyclical developed-market equities to complement U.S. stocks. If exposure to developed overseas stocks is too low relative to an appropriate strategic allocation, we recommend rebalancing.

<sup>1</sup>Bloomberg

## Quarterly market outlook: Fourth quarter 2025

## AI, the economy and markets

## US digital investment\* boom in the 90s suggests that AI spending surge has much further to run



Source: Haver analytics

There are early signs of artificial intelligence (AI) affecting economies and labour markets, from growing capital expenditures to shifting employment patterns. While these trends are likely to continue in coming years, the long-term impact of this technology remains unclear and while strong profitability among the leading AI names is reassuring, we must be mindful of lofty expectations.

**Signs of AI in the labour market** — We are in the early stages of understanding the extent to which AI will reshape economies, but there are early signals of this new technology affecting the labour market. A recent study by the St Louis Fed showed that, over the past few years, unemployment rates have increased more for occupations in which a higher share of tasks can be completed by AI. Similarly, analysis by the Wharton Budget lab found evidence that hiring in these occupations has been slower than for those with more limited automation potential. This would be consistent with the historical experience that technological revolutions can disrupt labour markets. However, on a brighter note, these technologies have over longer time horizons helped create new industries, redefined job roles and boosted economic growth.

**The AI race is accelerating** — Companies developing and benefiting from artificial intelligence continue to show strong sales and earnings growth, reinforcing AI's role as a key

driver of market performance. Meanwhile major tech firms are doubling down on their investments: Amazon, Google, Microsoft, and Meta alone are projected to spend nearly \$400 billion on capital expenditures next year. This surge in spending is reflected in U.S. economic data, where investment in equipment and intellectual property is contributing significantly to GDP, growing at its fastest pace since the internet boom of the late 1990s. While the long-term payoff of these investments remains to be seen, the prevailing sentiment is clear: the risk of falling behind in innovation outweighs the cost of investing in AI.

**On bubble watch: Mindful of lofty expectations** — With AI adoption still in its early stages, we believe demand for AI infrastructure will remain strong in the year ahead. However, the internet infrastructure boom of the late 1990s serves as a cautionary tale—exuberance around transformative technologies can lead to overbuilding and speculative bubbles. While valuations today are elevated relative to historical norms, they remain below the extremes seen during the tech bubble. A key distinction is that today's leading tech firms are highly profitable, with mature business models and diversified revenue streams. Still, lofty expectations can become a headwind for mega-cap tech as growth inevitably moderates, competition intensifies, and capital spending needs rise.

Diversification does not ensure a profit or protect against loss in a declining market. Rebalancing may result in a taxable event. Understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates and investors can lose some or all of their principal

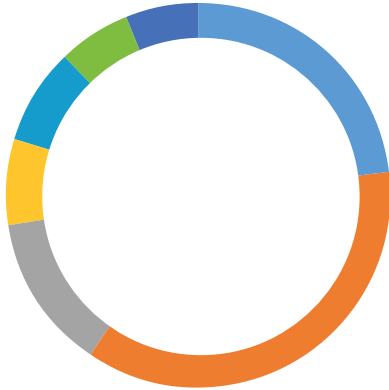
## ► Action for investors

We recommend balancing growth-oriented investments with value-style exposure. This allows participation in the rapid deployment of AI while helping mitigate portfolio concentration risks. Stocks and sectors beyond tech that are trading at lower valuations may also benefit from a more favourable interest rate environment ahead.

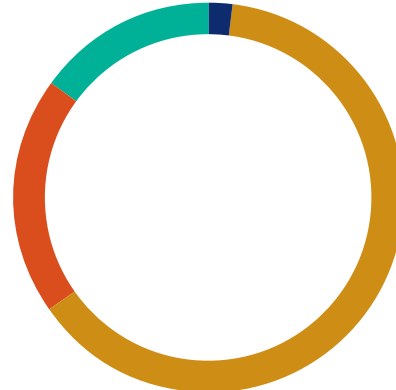
## Quarterly market outlook: Fourth quarter 2025

**Strategic asset allocation guidance**

Our strategic asset allocation represents our view of balanced diversification for the fixed-income and equity portions of a well-diversified portfolio based on our outlook for the economy and markets over the next 30 years. The exact weightings (neutral weights) to each asset class will depend on the broad allocation to equity and fixed-income investments that most closely aligns to your comfort with risk, time horizon and financial goals.

**Equity diversification**

- Canadian large-cap stocks
- U.S. large-cap stocks
- Developed overseas large-cap stocks
- Canadian small- and mid-cap stocks
- U.S. small- and mid-cap stocks
- Developed overseas small- and mid-cap stocks
- Emerging-market stocks

**Fixed-income diversification**

- Cash
- Canadian investment-grade bonds
- International bonds
- International high-yield bonds

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large company stocks. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events. Diversification does not guarantee a profit or protect against loss in declining markets

Quarterly market outlook: Fourth quarter 2025

# Opportunistic portfolio guidance

Our opportunistic portfolio guidance represents our timely investment advice based on our global outlook. We expect this guidance to enhance your portfolio's return potential, relative to our long-term strategic portfolio guidance, without taking on unintentional risk.

		Underweight	Neutral	Overweight
	Equity	●	●	●
	Fixed income	●	●	●
Equity	Canadian large-cap stocks	●	●	●
	U.S. large-cap stocks	●	●	●
	Developed overseas large-cap stocks	●	●	●
	Canadian small- and mid-cap stocks	●	●	●
	U.S. small- and mid-cap stocks	●	●	●
	Developed overseas small- and mid-cap stocks	●	●	●
	Emerging-market stocks	●	●	●
Fixed income	Canadian investment-grade bonds	●	●	●
	International bonds	●	●	●
	International high-yield bonds	●	●	●
	Cash	●	●	●
Canadian equity sector guidance		Underweight	Neutral	Overweight
Communication services		●	●	●
Consumer discretionary		●	●	●
Consumer staples		●	●	●
Energy		●	●	●
Financial services		●	●	●
Health care		●	●	●
Industrials		●	●	●
Materials		●	●	●
Real estate		●	●	●
Technology		●	●	●
Utilities		●	●	●
U.S. equity sector guidance		Underweight	Neutral	Overweight
Communication services		●	●	●
Consumer discretionary		●	●	●
Consumer staples		●	●	●
Energy		●	●	●
Financial services		●	●	●
Health care		●	●	●
Industrials		●	●	●
Materials		●	●	●
Real estate		●	●	●
Technology		●	●	●
Utilities		●	●	●

## Quarterly market outlook: Fourth quarter 2025

## Investment performance benchmarks

It's natural to compare your portfolio's performance to market performance benchmarks, but it's important to put this information in the right context and understand the mix of investments you own. Talk with your financial advisor about any next steps for your portfolio to help you stay on track toward your long-term goals.

As of September 30, 2025

Asset class performance				
	3-month	1-Year	3-Year	5-Year
Emerging Market Stocks	12.8%	20.8%	18.7%	7.9%
Overseas Small- and Mid-cap Stocks	7.4%	21.4%	21.0%	9.6%
U.S. Small- and Mid-cap Stocks	11.0%	13.0%	15.6%	12.5%
Canadian Small- and Mid-cap Stocks	16.3%	36.4%	24.8%	17.6%
Overseas Large-cap Stocks	6.8%	18.4%	22.2%	12.1%
U.S. Large-cap Stocks	10.2%	20.6%	24.9%	16.9%
Canadian Large-cap Stocks	12.5%	28.6%	21.3%	16.7%
Int'l Bonds	0.8%	1.4%	4.1%	-0.3%
Int'l High Yield Bonds	4.6%	12.5%	14.3%	6.2%
Canadian Investment Grade Bonds	1.5%	2.7%	4.5%	-0.2%
Cash	0.7%	3.3%	4.2%	2.7%
Canadian equity sector performance				
	3-month	1-Year	3-Year	5-Year
Technology	13.2%	46.2%	46.5%	11.3%
Consumer Discretionary	3.7%	19.0%	16.8%	14.6%
Energy	12.6%	24.8%	18.9%	28.0%
Materials	37.8%	70.8%	32.4%	17.0%
Industrials	-1.4%	4.1%	11.3%	10.2%
Financials	10.6%	30.6%	23.3%	21.2%
Real Estate	7.6%	-0.6%	10.3%	8.2%
Health Care	5.5%	-4.6%	4.2%	-12.6%
Communication Services	7.7%	-8.8%	-3.2%	1.5%
Consumer Staples	1.6%	9.6%	15.2%	12.4%
Utilities	6.9%	15.7%	7.4%	7.1%

Source: Morningstar Direct. 3- and 5-year returns annualized. Equity sectors of the S&P/TSX Composite. Total returns in CAD. Canada large-cap stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap stocks represented by the Russell 2500 Index. International bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield bonds represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. large-cap stocks represented by the S&P 500 Index. Emerging-market stocks represented by the MSCI EM Index. Developed overseas large-cap stocks represented by the MSCI EAFE Index. Canadian small- and mid-cap stocks represented by the S&P/TSX Completion Index. Developed overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the S&P Canada Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

This content is provided as general information only and should not be interpreted as specific investment advice. Investors should make investment decisions based on their unique investment objectives and financial situation.