2025 In review

Last year our predictions for 2025 were;

1) Cash will perform better than Long Term Government Bonds
2) Inflation and interest rates will bottom in the first half of 2025.
3) Equities will outperform Mid- and Long-term government bonds.
4) Value will outperform growth stocks.
5) Crude prices (WTI) will again average over $65 in 2025.

Cash will perform better than Long-Term Canadian Government Bonds did hold true with the GOC long bond posting a negative return annual return while cash equivalents posted a gain of 2.8%. There were similar returns for these asset categories in the US markets where short-term equivalents outperformed the 30 Year US Treasury Bond.

Inflation and interest rates will bottom in the first half of 2025. The low point for inflation, both in Canada and the U.S, was in April. 2025. Since then, prices have moved upward though slower than many expected. Long duration bonds posted modest losses in the latter half of the year supporting our prediction that interest rates moved up marginally. Due to the U.S. government shut down in October inflation data was not released but November numbers were unexpectedly less than September.

Equities will outperform Mid- and Long-term Government Bonds. The S&P/TSX Composite in 2025 headed for one of its *best annual gains in* over *15 years*, up ~29%. The major U.S. indices also outperformed posting gains of 20.4% (Nasdaq Comp), 17.9% (SP500) and 14.9% (Dow Jones Industrial Average). These returns were significantly better than returns in the long and mid term government bond indices.

Value will outperform Growth stocks. Within Canadian markets, resource- and value-oriented sectors (energy, materials, and financials) were far more influential in the performance of the SP/TSX index than the high growth technology stocks. Amongst Canada's largest technology companies (Shopify, Constellation Brands and CGI) only Shopify stock prices posted a positive gain in 2025. Canadian banks posted strong price gains in 2025 with Royal, Bank of Montreal and CIBC averaging just under 40% average return (not including dividends). However, according to RBC's Value index, it trailed the RBC Growth index by only 1.6% in 2025 so while our prediction fell short, Value stocks did outperform in the last quarter which may bode well for 2026. Regardless, value investor's patience was richly rewarded last year.

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Crude prices (WTI) will again average over $65 in 2025. WTI averaged below $60 US where it remains. The recent U.S. intervention in Venezuela has interesting repercussions for the crude market but as well as geo-politics. Venezuela has among the largest heavy crude reserves in the world (larger than Canada's) and their largest customer for their crude oil is China; the U.S. is second. Venezuela's energy infrastructure has suffered from decades of neglect and it will take considerable time and substantial investment before it can be considered, measured by more conventional standards, fully operational. According to public sources, several major American energy companies whose assets were expropriated years ago were not consulted prior to the intervention. While many of his contemporaries did not comment publicly, Exxon's chief executive Darren Woods comments were noteworthy. He stated that after having Exxon's assets seized twice by the Venezuelan government, the country's oil industry is "uninvestable." Crude prices, the week following the intervention, moved modestly higher.

While our prediction of WTI prices was our sole blemish, the SP/TSX Energy sub index posted a gain of approximately 19% in 2025.

As we look to 2026, the elephant in the room is the U.S. mid term election in 10 months. Recent elections have shown a significant decline in Republican support among voters. Further clouding the picture are the Epstein documents, President Trump's foreign policy (currently Venezuela, Greenland, Russia/Ukraine, Isreal and most recently Iran) and his unpredictability in setting tariffs on his major trading partners. The legitimacy of his imposition of these tariffs is being argued in the Supreme Court. The outcomes of these various issues could lead to significant volatility in the capital markets.

No matter what President Trump faces, his ability to weather every political storm is formidable. However, his hold on Congress may be slipping. When the Republican's took office, the 119th Congress had the narrowest majority in one hundred years. With Marjorie Taylor Green's departure it is contracting and the run- off elections in New Jersey and Texas that may narrow the majority further to the point where the Speaker of the House will require 100% support and participation to pass a bill. If U.S. mid term elections proceed without contention and voters swing the Congress and Senate back to democratic control, then politics rather than policy may take precedent for the remainder of Trump's term. If Republican's retain control, then the ability to predict the President's policy will be no less clear than it is presently.

With all this in mind, our predictions for 2026 are as follows.

1.Equities will remain volatile and will outperform mid to long term fixed government bonds.
2.Value investing will provide the best option to deal with volatile markets.
3.Energy and Metals & Mining sub index will outperform the SP/TSX Composite index in 2026.
4.The SPTSX index will outperform the SP500 on a nominal basis.
5.The Canadian Dollar will continue to improve against the USD.

Wishing you all a happy, healthy, and prosperous 2026.