Eastport FINANCIAL

Designed Securities Ltd.

MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Fourth Quarter 2025

S&P/TSX Composite TR

Q4	YTD	1 year
6.3%	↑ 31.7%	↑ 31.7%

S&P 500 TR (US$)

Q4	YTD	1 year
2.7%	↑ 17.9%	↑ 17.9%

MSCI EAFE GR (C$)

Q4	YTD	1 year
↑ 3.4%	↑ 25.6%	↑ 25.6%

Canada Broad Bond Market TR*

Q4	YTD	1 year
↓ 0.4%	↑ 2.4%	↑ 2.4%

FOURTH QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 32,058.78 on December 23rd
- S&P 500 hits a new all-time high of 6,932.05 on December 24th
- Canadian dollar hit a 6-month high of $0.731 on December 23rd
- WTI Oil hit a 5-year low of $55.44 USD per barrel on December 17th
- Bank of Canada lowered the overnight rate by 0.25% to 2.25%

SUMMARY

The year saw significant political transitions with Donald Trump's return to the White House and Mark Carney becoming Canada's 24th Prime Minister. Trump's aggressive tariff policies created substantial market turbulence, particularly from February through April when the S&P 500 and S&P/TSX both slumped 19% and 13% respectively following sweeping tariff announcements.

However, markets rebounded quickly as investors refocused on corporate earnings. Canadian exporters demonstrated remarkable adaptability, redirecting nearly $11 billion of lost U.S. exports to other markets. The Federal Reserve cut rates three times during 2025, ending at 3.50%-3.75%, while the Bank of Canada cut four times to 2.25%, though Governor Macklem suggested cuts may pause despite economic fragility.

Investment markets performed strongly in 2025, exceeding many forecasts despite significant volatility. The S&P/TSX Composite Index led with a remarkable 31.68% gain, outperforming the S&P 500 up 12.35% in Canadian dollar terms. Internationally, the MSCI EAFE Index rose 25.60%, while the Canada Universe Bond Index returned 2.4%. Better-than-expected economic performance, solid corporate profits, and interest rate cuts helped steer markets through considerable external noise including trade tensions and policy uncertainty.

Economic data revealed divergence between the U.S. and Canada. U.S. Q3 GDP surged 4.3% annually, well ahead of forecasts, though personal income remained flat and savings rates dropped to 2022 lows. Canadian Q3 GDP expanded 2.6%, driven largely by government investment and military spending, though domestic activity weakened with falling household consumption and business investment. Labour markets showed mixed signals: Canada's unemployment reached 7.1% in September before improving to 6.5% in November, while Fed Chair Powell suggested U.S. employment data likely overstates strength, with future revisions possibly revealing negative job growth for much of 2025.

Inflation moderated during the year, with core U.S. CPI at 2.6% and Canadian headline CPI around 2.2% in November, though core Canadian inflation remained stickier near 2.6% due to persistent rent and food price pressures. U.S. tariffs on steel, aluminum, autos, and lumber particularly impacted Canada, though more than 80% of products continue crossing the border duty-free under CUSMA. In response to consumer concerns, Trump rolled back various tariffs on smartphones, consumer electronics, bananas, coffee, beef, and furniture. Corporate profits remained strong, with U.S. Q3 profits rising 4.4% from Q2 and 10.5% year-over-year to $3.402 trillion.

Looking ahead to 2026, the mandatory CUSMA review scheduled for July is pivotal, as Trump has suggested preferring bilateral agreements over the trilateral framework. The U.S. economy could benefit from tax breaks in the One Big Beautiful Bill Act, though household inflation and job prospects remain top concerns. The November 3rd U.S. mid-term elections represent a political wild card. For Canada, continued efforts to attract investment capital and secure new export markets will be critical. While valuations remain elevated, numerous opportunities exist to position portfolios for success. Inflation remains our top concern for 2026 with a US economy which could well overheat from excessive stimulus and a high demand for energy as data centers move from development to being turned on. We remain fully committed to stewarding our clients' capital through this formative period of economic transition.

STRATEGIC NOTES

Artificial Intelligence represents not a speculative bubble, but rather a fundamental shift in how we work and create value. The evidence lies in user behavior: those who integrate AI into their workflows would continue using it even at 10x the current cost, because the time savings and productivity gains are simply too substantial to abandon. This isn't the hallmark of hype-driven adoption—it's the signature of genuine utility that transforms how work gets done.

As with all revolutionary infrastructure buildouts throughout history such as the railway, automobile, more recently the dot.com era and numerous energy cycles, there is a risk of overbuilding as investors chase the opportunity and demand may not materialize as expected but the foundation of this AI infrastructure buildout rests on exceptionally solid ground.

The hyperscalers—Google, Amazon, Meta, Microsoft, Apple, and Nvidia—collectively hold approximately $600 billion in cash and generate hundreds of billions in free cash flow annually. These aren't overleveraged speculators; they're the most sophisticated capital allocators in the world deploying their own balance sheet strength. When these companies invest in AI infrastructure, they're simultaneously stimulating the global economy while building the backbone of the next technological era.

However, volatility will emerge from the secondary infrastructure layer. Companies like CoreWeave, Oracle, and OpenAI face different financing reality. Consider OpenAI's challenge: with reported revenues around $20 billion, how does it finance $1.4 Trillion (with a T) in infrastructure purchase commitments by 2030? These are exceptional companies creating massive value, but the gap between ambition and financing capacity will need to be bridged. As these deals get resized, restructured, or cancelled markets will experience periods of turbulence—not because the vision of AI value creation is flawed, but because the financing mechanics are complex and in some cases unrealistic.

The third layer—the proliferation of AI startups raising anywhere from a few million to hundreds of millions for various models, data warehouses, and applications—will produce many casualties. While venture capital will absorb most of these losses with minimal market impact, investors should approach this zone with caution. This is where permanent capital loss lurks, as countless "opportunities" compete for attention and funding. The market may barely notice individual failures, but collectively they represent significant capital deployed with highly variable returns and much risk.

Finally, the AI infrastructure buildout is already reshaping commodity markets and will drive inflationary pressures in 2026. Gold, silver, copper, and the rare elements essential for AI chips all appreciated significantly last year. As this infrastructure becomes operational, energy demand will surge next—a particular opportunity for resource-rich economies like Canada. But commodity-driven inflation means higher future interest rates, and markets will need to adjust to this new reality, bringing volatility in the process. AI represents the Fourth Industrial Revolution, addressing critical challenges like the aging population in developed economies and the productivity gains needed to offset demographic headwinds to GDP growth. The result will be innovation, margin expansion, and price appreciation across companies who use the opportunity to win. This transformation is fundamentally altering competitive landscapes across sectors, forcing companies to adapt or perish—creating exactly the kind of dynamic, volatile environment where active portfolio management can truly add value.