RESEARCH CAPITAL CORPORATION

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2025: The Year In Review

January 14, 2026

Investment markets performed strongly in 2025, more so than many forecasters expected a year ago. Despite some significant bouts of volatility, **the trend was steadily upwards for stocks**, with most major North American indices hitting record highs late in December. Better-than-expected economic performance and solid corporate profits in the U.S., Europe, Japan, and Canada helped steer markets through considerable external noise. Interest rate cuts were another plus.

Many equity indices worldwide posted **double-digit gains**, with U.S. and Canadian benchmarks doing so for the third year in a row. The S&P 500 Index has now risen in six of the past seven years, but in 2025 the S&P/TSX Composite Index outperformed the Nasdaq and Dow Jones, powered by the performance of three key sectors: Capped Materials (up 100.61%), Capped Financials (up 35.31%), and Capped Energy (up 17.31%), which collectively account for over 60% of the S&P/TSX total market capitalization. Globally, the broad MSCI ACWI Index, which tracks large-cap stocks across developed and emerging markets, rose 16.60% in 2025.

Fixed income markets also gained. In the U.S., bonds benefited from U.S. Federal Reserve rate cuts and a resilient economy that boosted corporate profits. In Canada, fixed income returns were more muted but remained positive for the third year in a row, as measured by the FTSE Canada Universe Bond Index. In commodities, gold and silver notched historic highs by late December, copper advanced, but crude oil fell on the year.

The S&P/TSX Composite Index ended the year up 31.68%, the S&P 500 Index rose 17.43%, and the Nasdaq Index climbed 21.14%. Globally, the MSCI World Index returned 18.44%, while the MSCI EAFE Index rose 20.60%. In the UK and Europe, the FTSE 100 Index was up 25.78%, and Germany's DAX Index climbed 23.01%. In Asia, Japan's TOPIX index advanced 23.67%, while the MSCI China Index returned 30.47% for the year. In fixed income, the FTSE Canada Universe Bond Index was up 2.64% in 2025 and the Bloomberg Global Aggregate Index returned 3.09%. Gold gained 64.37% in 2025, but oil as measured by Brent crude prices fell 19.94%.

Economic Developments

During the first quarter of the year, Donald Trump returned to the White House on January 20th, Justin Trudeau resigned, and Mark Carney became Canada's 24th Prime Minister. The impact on investor sentiment of Trump's immediate and aggressive tone on trade and tariffs eventually erased a positive start to the year for stocks and by the end of March U.S. and Canadian indices posted losses while

European indices advanced. Canadian and U.S. bond yields fell, and gold climbed to new highs.

Canadian economic data released in **Q1** was mixed. GDP grew in January by 0.4%, month over month, the strongest pace in nearly a year, and one supportive of a view that the economy was gaining momentum thanks to five interest rate cuts by the Bank of Canada (BoC) between July 2024 and January 2025. Yet as the quarter unfolded, there were signs of increasing consumer and business caution regarding the potential fallout from a rapidly evolving outlook for U.S. trade policy.

That unease was suddenly amplified at the start of **Q2** as stocks fell sharply across the globe in reaction to the April 2 U.S. announcement of sweeping, and in some cases extraordinarily high, tariffs on imports from almost every country in the world. The S&P 500 Index and S&P/TSX Composite Index both slumped 10% in a week and volatility, as measured by the Vix index, soared. Bond yields jumped as fixed income markets also tumbled. Yet stock markets soon rebounded and regained most of the lost ground by early May as investors refocused on corporate earnings and the transformational potential of AI. European shares also benefited from a reallocation trend which saw investors reprioritize the benefits of diversification.

Geopolitical tensions flared briefly in June when Iran and Israel (with substantial U.S. military support) confronted each other in a 12-day war. Oil spiked but soon settled as the prospect of a major new war in the Middle East receded. In addition to resilient corporate earnings, a calmer tone regarding crucial U.S./China trade negotiations was noted. And despite tariff turbulence, U.S. inflation remained relatively steady near the Federal Reserve's 2% target.

Stocks, bonds and gold all rose in **Q3**, but data releases during the period were mixed and underlined the divergence between U.S. and Canadian economic performance, with Canada clearly weaker as targeted U.S. tariffs began to bite, particularly in steel, aluminum, autos and lumber. There were no breakthroughs in often contentious U.S./Canada tariff negotiations, but markets anticipated interest rate cuts, which the U.S. Federal Reserve (the Fed) and the BoC duly delivered in September, of 25 basis points each. It was the first rate cut by the Fed in 2025 but the third by the BoC. Inflation, while lower than two and three years prior, remained a key focus for central bankers but was relatively moderate in Q3, particularly in Canada. However, both the Fed and BoC highlighted that signs of softness in labour markets would be a growing priority for policy decisions going forward. As September and Q3 ended, markets faced uncertainty on a new front with the risk of a U.S. government shutdown on October 1, a development which would delay key economic data releases. Canada's unemployment rate of 7.1% in September was the highest since August 2021.

The Fed trimmed the federal funds rate by 25 bps again at the end of October to a range of 3.75-4.00%, but equities had a bumpy November (particularly the Nasdaq), before finishing 2025 strongly in December. Volatility flared on several occasions due to renewed U.S./China trade tensions, unexpected questions about the health of U.S. regional banks, and rising concerns about the enormous scale of AI capital expenditures by U.S. tech firms.

The BoC also cut in October, for the fourth and final time in the year, by 25 bps to 2.25%. Governor Tiff Macklem indicated the cut may be the last for a while despite a fragile economy. Macklem said U.S. tariffs and trade uncertainty had weakened the Canadian economy, added costs for many businesses and fed inflationary pressures. "The weakness we're seeing in the Canadian economy is more than a cyclical downturn," Macklem noted, adding that "It is also a structural transition." Data released in **Q4** was mixed. The manufacturing sector contracted in November, according to the S&P Global Canada Manufacturing Purchasing Managers' Index (PMI), which fell to 48.4 from 49.6 in October. A reading below 50 indicates contraction. The services economy also contracted in November, as S&P Global Canada Services PMI data dropped to 44.3 from 50.5 in October, its lowest level since June.

But Q3 GDP expanded by 2.6% (annualized), and Q3 operating profits at Canadian corporations rose 3.8% from the quarter before and 5.1% from Q3 2024. Much of the GDP growth came from government investment, particularly military spending, and a sharp drop in imports. Domestic activity was softer: household consumption fell and business investment weakened. Statistics Canada's final major data release of 2025 showed GDP contracting by 0.3% in October but an advance estimate indicated a small rebound in November. Inflation in 2025 was generally moderate with headline CPI hovering around 2.2% in November (year over year), according to Statistics Canada, though core inflation remained stickier, staying near 2.6% due to persistent price pressures, especially for rents and food.

Year-end labour data surprised to the upside, with a November gain of 54,000 jobs that helped push Canada's unemployment rate down to 6.5%, following a 0.2% decline in October. Job gains were largely in part-time work, while full-time positions showed little change. The rate was 6.6% in January and trended up through most of 2025, reaching 7.1% in September, the highest level since May 2016 (excluding 2020 and 2021 during the pandemic). And after a bruising year, Canadian exporters appeared to have adapted to new realities faster than expected, with firms finding new destinations for nearly $11-billion of the $18.5-billion loss in exports to the United States, with shipments to other parts of the world up 18.6% from late 2024. U.S. tariffs are weighing heavily on targeted sectors but more than 80% of products continue to cross the border duty-free under the Canada-United States-Mexico Agreement (CUSMA).

In the U.S., the six-week government shutdown that ended on November 12th delayed key data releases during Q4. In late December, the Commerce Department reported that Q3 GDP rose at a seasonally and inflation-adjusted 4.3% annual rate, well ahead of forecasts of 3.2%. Consumption by the top 10% of income earners and massive AI infrastructure investment generated 70% of the growth. Despite the strong GDP number, personal income remained flat in Q3, and the savings rate dropped to its lowest level since 2022.

The **solid Q3 GDP** report did not deter the Fed from making a final 25 bps rate cut in December, trimming the fed funds target range to 3.50%–3.75%. Fed Chair Powell flagged a gradual cooling in the labour market and, significantly, suggested official employment data likely overstates strength, noting that future revisions could possibly reveal negative job growth for much of 2025. "It's a complicated, unusual, and difficult situation, where the labour market is also under pressure, where job creation may actually be negative," Powell said. Aligning with Powell's view was a year-end report from research group The Conference Board, which indicated that consumer sentiment weakened for a fifth consecutive month in December and remained well below its 2025 peak in January.

Yet inflation moderated in November, with core U.S. CPI at 2.6% (year over year) according to the Bureau of Labor Statistics. Analysts noted however that, again, the government shutdown likely distorted data (including missing October data).

Inflation readings in early 2026 will help determine if there actually is a moderating trend. Corporate profits backstopped U.S. investors in 2025, rising in Q3 by 4.4% from Q2 to $3.402 trillion. Compared to the corresponding period in 2024, corporate profits surged ahead 10.5%.

What Can We Expect Next?

The mandatory 2026 CUSMA review scheduled for July 2026 is pivotal for the Canadian economy. During the joint review, the three countries must confirm whether they want to extend the trade deal by an additional 16 years. If the three agree, further joint reviews will occur every six years. However, U.S. tariffs applied in 2025 have already fundamentally altered trade relationships, and Donald Trump has mused that he may prefer separate bilateral agreements, a potential development which would effectively end CUSMA. The coming year should also provide more details about efforts by the federal government to attract substantial investment capital and by the private sector to secure new export markets. In the U.S., the economy could have some tailwinds in 2026 as personal and corporate tax breaks included in the One Big Beautiful Bill Act take hold. However, household inflationary pressures and job prospects remain top of mind for many U.S. consumers, and a wild card later in the year could be the U.S. mid-term elections on November 3. In response to consumer unease Trump has already rolled back various tariffs imposed during 2025 on imported smartphones, consumer electronics, bananas, coffee, beef, and furniture. And the huge AI data centre buildout will continue (and generate an economic multiplier effect), but under heightened investor scrutiny and sensitivity to the implications of the vast capital expenditures for future profitability and, critically, already stretched equity valuations.

2025 RRSP Deadline and 2026 TFSA Room

The RRSP contribution deadline for the 2025 tax year is Monday, March 2, 2026. Confirm your total available room well before then, and we can review your asset allocation targets. The RRSP contribution limit is rising to $33,810 in 2026, up from $32,490 in 2025. You can contribute a maximum of 18% of your earnings from the previous year, up to the annual contribution limit. The tax-free savings account limit for 2026 remains $7,000.

Thank you for your continued trust in me and my team to assist you in working toward your financial goals during 2025. We look forward to being of further service in 2026. Should you have any questions regarding your portfolio, please do not hesitate to contact our office.

Sincerely,

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