

RJL PCS: INSIGHTS & STRATEGIES

DECEMBER 8, 2025 | 12:44 PM EST

RJL Investment Strategy (Canada) | RJLInvestment.StrategyCanada@raymondjames.ca
Neil Linsdell, CFA, Head of Investment Strategy | 438.843.0150 | Neil.Linsdell@raymondjames.ca
Eve Zhou, CFA, Senior Investment Strategy Analyst | 647.577.8766 | eve.zhou@raymondjames.ca
Taha Aamir, Investment Strategy Associate | 647.837.2259 | Taha.Aamir@RaymondJames.ca

December 2025 Insights & Strategies: Our 2026 Outlook is for a positive year, despite USMCA renegotiation uncertainty

Macro Highlights for November

- The U.S. government shutdown has impacted the availability of official data, but our U.S. Economics team expects real GDP growth of 2.7% q/q (annualized) in 3Q25, slowing to 0.2% q/q (annualized) in 4Q25. Overall annual growth is expected to improve marginally from 1.8% in 2025 to 2.2% in 2026.
- Canadian real GDP rose at a 2.6% annualized pace in 3Q25, stronger than expected, although the underlying details point to a still fragile domestic backdrop, with weak spending from both consumers and businesses. Early estimates for October output suggest a weak start to 4Q25, leading into our expectation of full year growth of 1.2% in 2026.
- The unemployment rate in Canada dropped to a 16-month low in November, to 6.5%, from 6.9% in October and 7.1% in September, as 53.6k jobs were created in the last month. Gains were predominantly in part-time jobs (63k) and significantly improved the youth unemployment rate, which declined to 12.8% from 14.1%, while employment growth for core-age (25-54 yrs) workers was relatively unchanged. Although we are missing official data from the U.S., the expectation is that the unemployment rate has likely increased further from the 4.4% September figure.

Financial Markets in November

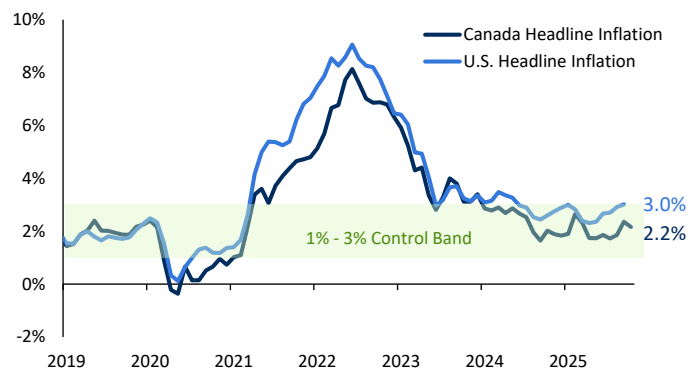
- In November, the TSX Composite gained 3.7% in price and 3.9% in total return, pushing its year-to-date performance to 26.9% and 30.0%, respectively. Materials, Consumer Staples, and Consumer Discretionary were the key contributors to performance, and the federal budget provided more hope of increased resource development in the country.
- The S&P 500 had a more difficult month, with a 0.1% price return and 0.2% total return, for year-to-date gains of 16.4% and 17.8%, respectively (in local currency). The tech-heavy index was pressured by concerns over high valuation multiples against the sustainability of A.I. spending and return of investment as investors also worried that the FOMC might stop easing interest rates.
- In Canada, the materials sector was a major contributor to TSX performance with a sharp rebound in November, supported by higher gold prices, a surge in silver, and gains in copper. The sector is closely aligned with several key initiatives and programs outlined in Budget 2025.

Upcoming

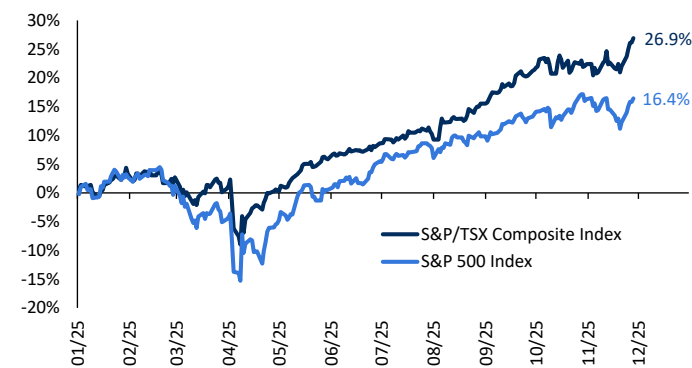
- Both the BoC and FOMC will update their policy interest rates on December 10. We expect the BoC to hold steady at 2.25%, the low end of its neutral range. While the BoC is indicating that it is comfortable at this level, we expect that a challenging 1H26, will prompt one or two more cuts next year. In the U.S., there is currently a 90%+ probability of the FOMC cutting by 0.25% to 3.75%, with expectations for further easing into 2026.
- All eyes will be on President Trump's pick to chair the Federal Reserve as Jerome Powell's term ends in May 2026. While the appointee will certainly be someone in favour of lower interest rates, the balance will be to nominate someone with enough credibility to satisfy financial markets. President Trump has most recently suggested that he has already made his decision and will announce his pick in early 2026. Speculation currently favours his previous (first term) National Economic Council Director Kevin Hassett.
- The most impactful event for Canada in 2026 will be the renegotiation of the USMCA, which we expected to be most active around mid-year. While we ultimately think the agreement is too important for both countries to be canceled outright, we do expect a lot of scrutiny on Canada's supply management system, and broad tightening of rules of origin that will focus on blocking out goods from other countries, most notably China. While we expect a generally positive outcome that will lead to a sigh of relief and give businesses more confidence to invest in Canada in the latter half of the year, we should expect volatility, uncertainty and anxiety to permeate the negotiation period, with at least one threat from President Trump to completely cancel the deal.

Please read domestic and foreign disclosure/risk information beginning on page 21

RAYMOND JAMES LTD. | 100 YONGE STREET, SUITE 1400, TORONTO, ON M5C 2W1

Chart 1 - Canada and U.S. Headline Inflation

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance

Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025. Price return in local currency.

Executive Summary

We are taking this month's update to focus on our 2026 Outlook, where we identify seven overarching themes spanning both the economy and financial markets. These themes provide the strategic framework and analytical foundation that will guide our more detailed analysis in the year ahead.

Canadian Economy: New Engines Required

Canada enters 2026 facing the lingering drag of U.S. trade uncertainty, which, alongside weak productivity, a soft labour market, and lagging business investment, continues to restrain economic momentum. Post-pandemic, population growth was a key driver of Canada's economic expansion. With that contribution now expected to slow significantly, a sustainable improvement will depend on developing new engines of growth. Stronger business investment is essential to lift potential output through higher productivity, after several years of stagnation. While A.I. is expected to be a tool that will gain broader utility towards achieving this goal over the years ahead, uncertainty over the future of the U.S. trade relationship will likely constrain significant business investment through at least the first half of 2026. To offset this, the federal government, including with its budget that was released November 4, is pushing for more resource development, heightened business investment, and greater trade diversification to help strengthen export growth and improve net trade at a time when uncertainty around Canada's trading relationship with the U.S. remains elevated.

International Trade: USMCA Up for Renewal, Canada Ready to Reposition

As the 2026 USMCA joint review approaches, we remain relatively optimistic that negotiations will ultimately deliver greater stability and clarity for Canada's trade environment and therefore business confidence. Leading up to that review however, we expect heightened anxiety and threats that have become standard negotiation tactics of this U.S. President. Rather than producing significant new gains, a favourable outcome for Canada would likely focus on limiting damage by preserving market access and tightening rules of origin needed to maintain tariff-exempt status for the majority of Canadian goods. We also expect Canada to accelerate efforts to diversify its trade relationships, as Budget 2025 outlines a renewed push to deepen engagement in Indo-Pacific and European markets, and pursue a long-term goal of doubling non-U.S. exports over the next decade. These initiatives aim to broaden Canada's external demand base and reduce over-reliance on the U.S., but they will likely be slow to come to fruition.

Monetary Policy: When Neutral Isn't Neutral Enough

The Bank of Canada has signaled comfort operating at the lower end of its 2.25–3.25% neutral range, but lingering trade uncertainty and soft domestic conditions suggest that the current stance may not be sufficiently supportive in the months ahead. Weak hiring intentions and delayed investment plans are likely to persist through the first half of 2026, while inflation hovers near the 2% target and core pressures continue to ease. In this environment, our base case is for one more rate cut in early 2026, bringing the policy rate to 2.0%. However, if downside risks materialize, such as a sustained deterioration in trade negotiations or spillover effects from tariff-related disruptions into sectors not directly affected, an additional cut may be warranted.

Fiscal Policy: Markets Celebrate, the Economy Waits

Budget 2025 is highly investment-heavy, meaning Canadian equities may benefit well before the broader economy. Markets are forward-looking and can typically be repriced through multiple expansion more quickly in sectors tied to infrastructure, energy, and critical minerals, even as the real economic impact rolls out more slowly. Fiscal stimulus, productivity-linked tax incentives, and improved clarity on future investment, support equity valuations now, while the underlying economy will strengthen only after projects are approved, capital is deployed, and trade conditions stabilize. The middle-class tax cut directly improves household finances, although its size suggests only modest support to consumer spending.

Canadian Equities: Hard Assets Turning Up, Fiscal Spending Turning On

Canada's 2025 budget sets the stage for a broad hard-asset up-cycle, with fiscal programs channeled into materials, energy, and industrials. These sectors may see multiple expansion ahead of earnings improvements as investment accelerates. Critical minerals, energy exports, nuclear and clean power, data centre demand, and major infrastructure initiatives all act as structural tailwinds. Industrials benefit from tariff-response funds, tax reductions, and defence procurement reform, while banks gain from improved loan activity. Together, these sectors support our 2026 TSX Composite target of 34,000 and EPS forecast of \$1,890, although follow-through of federal promises will be important.

A.I. Trend: Early Days, Tougher Grades

A.I. adoption continues to broaden, but most users are still using it in limited ways, and many real-world applications are only beginning to scale, signs that the A.I. cycle remains in its early stages. Recent pullbacks reflect investors' growing emphasis on capital efficiency, not diminishing belief in A.I.'s long-term potential. Lessons from the dot-com era highlight the importance of cash generation, disciplined CAPEX, and resilient balance sheets, and today's market is beginning to apply those filters. As spending plans face greater scrutiny, we expect more selective leadership, healthier consolidation, and a more durable A.I. uptrend, rather than a speculative bubble just yet.

International Equities: The Rally Fades, the Diversification Stays

International equities, markets outside the U.S. and Canada, may see a moderation in performance after a strong 2025. Europe's strong 2025 rally was driven by looser monetary and fiscal policy and a rebound from years of under-ownership, but with earnings momentum still weak and much of the gain fueled by multiple expansion, sustaining outperformance may be challenging. Limited exposure to high-growth tech sectors also remains a structural headwind. Japan offers stronger fundamentals but faces currency risk from a potentially stronger yen, given its significant overseas revenue exposure. We hold a more constructive view on emerging markets, supported by monetary easing and rising CAPEX in 2026. Even with more modest return prospects, maintaining international exposure remains valuable for diversification and reducing portfolio volatility.

Tariffs

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. However, there remain two important considerations that could impact 2026. The first is a Supreme Court ruling that could declare some or all IEEPA-based tariffs as illegal. The second is the USMCA renegotiation that could affect the tariff-exempt status of the majority of Canadian exports to the U.S.

Tariffs collected by the U.S. government represented approximately US\$31.4 billion in October and US\$205 billion YTD. Overall, the average effective tariff rate is estimated to be ~11.2% as of August up from 9.5% in July. As announced tariffs come into effect, that rate is expected to settle into the 15-20% range (currently 16.8% according to the Yale Budget Lab). Canada is faring relatively better than most countries, with an expected rate of ~5% based on the vast majority of goods continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, we include brief updates on key tariff-related items.

IEEPA as a basis of tariffs under threat

The International Emergency Economic Power Act (IEEPA) was used as the basis of President Trump's initial fentanyl-justified tariffs against Canada, Mexico, and China, as well as the broad Liberation Day / 'reciprocal' tariffs and baseline tariffs that affected almost every country in the world. Early in 2026, we are expecting a ruling from the U.S. Supreme Court as to the legality of using IEEPA, which could strike down some or all of these tariffs. If that occurs, there could be a question as to the reimbursement of some or all of the tariffs collected so far. Any kind of ruling against IEEPA-based tariffs could create additional uncertainty for a period of time, as the U.S. administration would undoubtedly seek other mechanisms in order to replace that revenue and maintain similar pressure on various countries and industries. One potentially short-term

tactic could be to use Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address “large and serious” trade deficits.

Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China, or the automotive industry, steel, and aluminum tariffs, would be unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

De minimis exemption

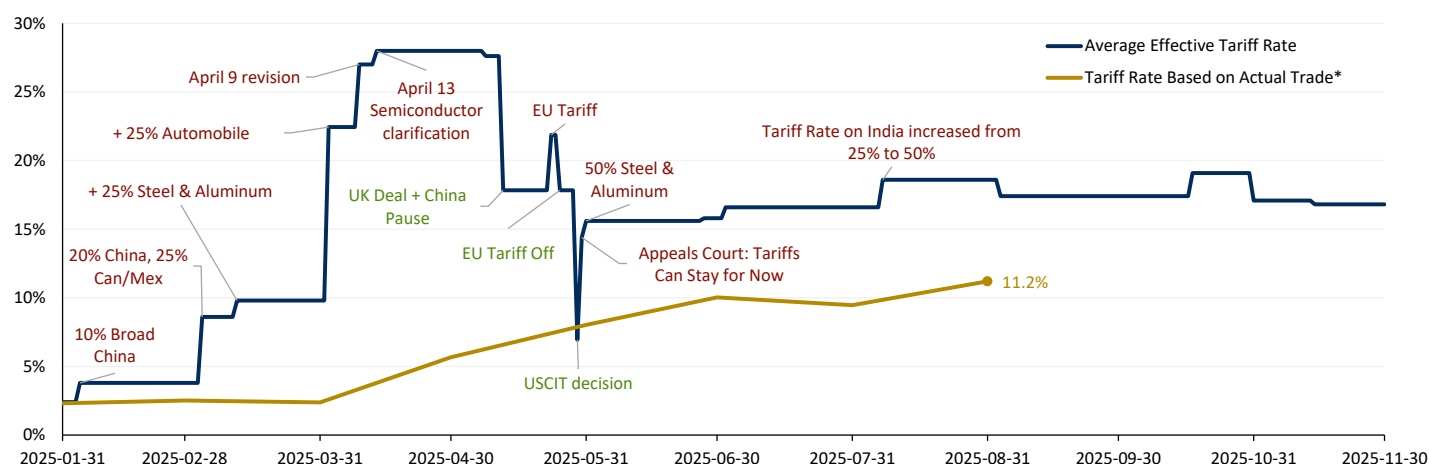
Wrapped up in all the tariff announcements this year was the elimination of the ‘de minimis’ exemption. Previously, shipments by mail that were valued under US\$800 were exempt from duties. Now, Americans using e-commerce sites, many of which were primarily sourcing from China, such as Temu and Shein, are going to have to cover taxes, which as in the case of shipments from China, is currently 34%. Packages received from all other countries have been taxed at the country-specific IEEPA rates since August 29. In 2022, 80% of all U.S. bound e-commerce shipments were covered by the ‘de minimis’ exemption, with the vast majority coming from China, and last year, U.S. Customs and Border Protection (CBP) processed 1.36 billion ‘de minimis’ exempt packages.

Table 1 - Section 232 Tariffs Summary, as of December 5, 2025

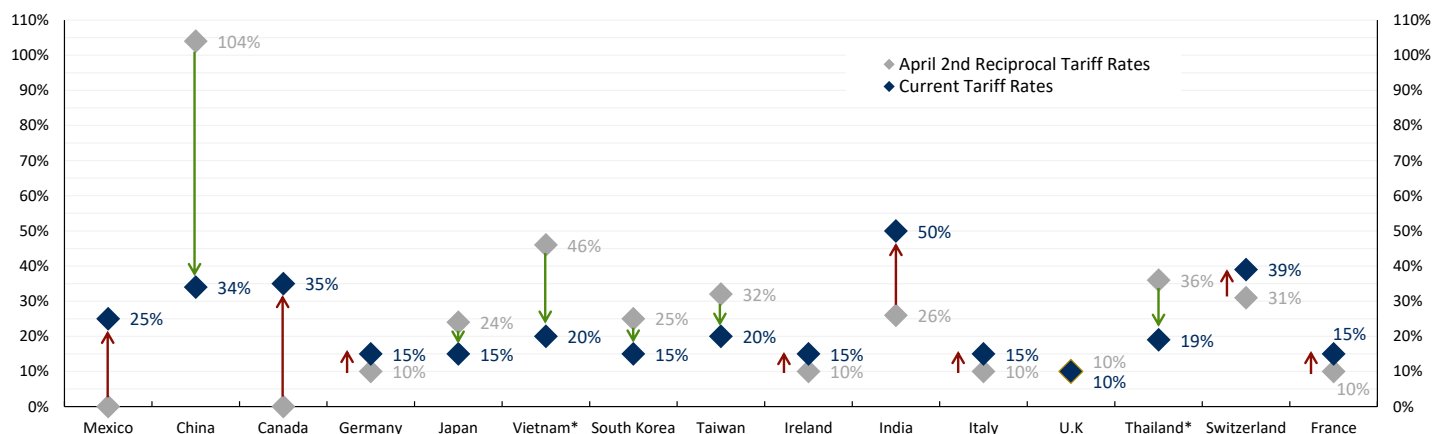
Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Pharmaceuticals	Effective October 1	100%
Softwood timber and lumber	Effective October 14	10%
Wooden furniture	Effective October 14	25% (will increase to 30% on Jan 1, 2026)
Kitchen cabinets and vanities	Effective October 14	25% (will increase to 50% on Jan 1, 2026)
Medium/heavy duty trucks	Effective November 1	25%
Semiconductors and chip making equipment	Investigation initiated April 1	Threatened 100%
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind turbines	Investigation initiated August 13	-
Robotics and industrial machinery	Investigation initiated September 2	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2	-

Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate



Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates - As of December 5, 2025

Source: U.S. Census Bureau, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Canadian Macro

Canada's economic outlook for 2026 points to a softer start, with labour market concerns and ongoing uncertainty around Canada–U.S. trade relations weighing on near-term growth. However, the upcoming USMCA renegotiation offers hope for greater clarity and a potentially favourable outcome for Canada. As fiscal measures from Budget 2025 begin to take effect and trade policy uncertainty eases, we expect economic momentum to strengthen modestly in the second half of 2026, ending the year with moderate growth of 1.2%.

GDP growth — slow but signs of stabilization are emerging

Key Takeaways: We expect GDP growth to remain weak through the first half of 2026, as trade-related uncertainty continues to weigh on the economy. Domestic demand is likely to stay soft early in the year, given the weakness in certain parts of the labour market and slower population growth. As trade clarity improves and fiscal initiatives begin to materialize, we expect activity to strengthen into the second half of the year. Overall, growth should improve modestly on a full-year basis, although structural challenges, particularly low productivity and weak business investment, remain key constraints.

Real GDP rose at a 2.6% annualized pace in 3Q25, stronger than expected, although the underlying details point to a still-fragile domestic backdrop (Chart 5). Much of the quarterly gain came from a rebound in net trade, driven primarily by a pullback in imports rather than a recovery in exports, consistent with firms drawing down previously stockpiled inventories. Meanwhile, domestic demand softened, with consumer spending edging lower and business investment declining again. Early estimates for October output suggest a weak start to 4Q25; however, these flash readings have been prone to notable revisions lately. Against this backdrop, the outlook for 2026 points to a muted first half, followed by a gradual pickup later in the year as policy support strengthens and trade uncertainty begins to ease.

Household spending is set to remain subdued early in 2026. Consumption has been volatile throughout this year, partially due to tariff front-running. As an example, motor vehicle and parts spending dropped significantly in 3Q25 after being front-loaded earlier in the year amid tariff-related concerns. Going forward, slower population growth, moderating wage gains, and a softer labour market, particularly for youth and new entrants, will act as headwinds to discretionary spending. Confidence remains fragile, and while layoffs have not risen significantly, slow hiring and elevated unemployment tend to temper household willingness to spend. As the year progresses, consumption should improve once confidence is restored, easing inflation supports real incomes, and lower interest rates support business activity.

Business investment remains the weakest component of the outlook. 3Q25 data showed another decline in non-residential investment, particularly in machinery and equipment, and intellectual property, which aligns with persistent weakness in the Bank of Canada's survey data. Investment intentions remain muted as businesses continue to delay their spending plans in response to the ongoing uncertainty (Chart 6). While early 2026 will likely reflect the current hesitancy, greater clarity on Canada–U.S. trade relations, combined with federal incentives promoting business investment and industrial development, should support a gradual improvement in capital spending later in the year. However, any substantial strengthening will take time as Canada has faced prolonged weakness in business investment for many years now.

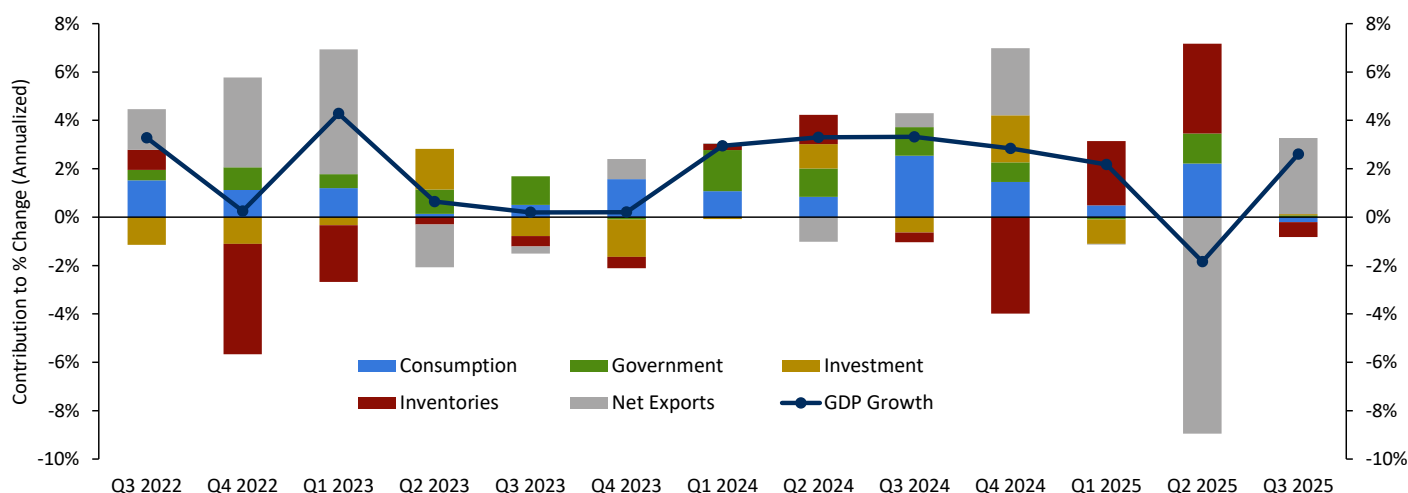
Fiscal policy is expected to provide a supportive backdrop for growth in 2026. Increased federal capital spending, "nation-building" initiatives, and targeted support for sectors affected by tariffs should contribute positively, although the pace will depend on how quickly these measures

transition from planning to execution. While Budget 2025 did not offer as significant of a near-term boost to spending as expected, policies aimed at accelerating and prioritizing major projects are likely to begin lending support to economic activity as we transition through 2026.

External trade is expected to remain a soft spot in 2026, as tariff uncertainty and the pending USMCA renegotiation continue to weigh on export activity and business confidence. While the majority of Canadian goods still enter the U.S. duty-free under the existing agreement, the recent increase in USMCA compliance rate also reflects a decline in non-compliant export volumes, as a larger share of exports is now classified as compliant partly because non-compliant categories have contracted. While Canada has begun exploring opportunities to diversify its export markets, these efforts will take time to materialize and are unlikely to offset the near-term drag from softer U.S. demand, as new export orders remain in contraction (Chart 7). As a result, net trade is expected to make little contribution to growth in the first half of 2026. A recovery is possible in the second half of the year, contingent on Canada achieving a reasonably favourable outcome in the USMCA renegotiation and on greater clarity emerging around the broader trade relationship with the U.S.

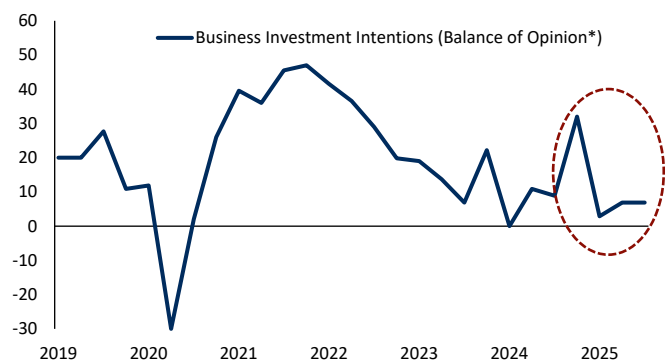
Overall, Canada's GDP outlook for 2026 is one of slow normalization. The first half of the year will likely reflect ongoing drag from trade-sensitive industries, weak business investment, and cautious consumers. By the second half, lower interest rates, fiscal initiatives, and improved visibility on trade relations should support a gradual firming in growth. Nonetheless, structural challenges, including low productivity, prolonged business underinvestment, and slowing population growth, will continue to cap the pace of expansion.

Chart 5 - Volatile Trade Flows Turn 3Q25 GDP Into a Positive Surprise



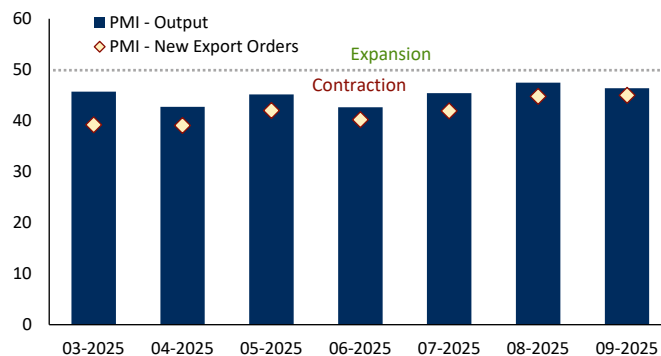
Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025.

Chart 6 - Business Investment Intentions Remain Muted



Source: Business Outlook Survey - 3Q25, Raymond James Ltd.; Data as of September 30, 2025.

Chart 7 - Trade Uncertainty Continues to Weigh on Manufacturing



Source: Capital Economics, Raymond James Ltd.; Data as of September 30, 2025.

Inflation — staying anchored near the target

Key Takeaways: *Headline inflation is expected to hover around the 2% target through 2026, supported by weak labour market conditions, easing wage growth, and softening consumer demand. Temporary base effects from last year's GST holiday may briefly lift the year-over-year rate early in the year, but these should fade quickly. Core inflation is also likely to remain contained within the target band (1-3%), as underlying pressures continue to stabilise across a broad set of indicators.*

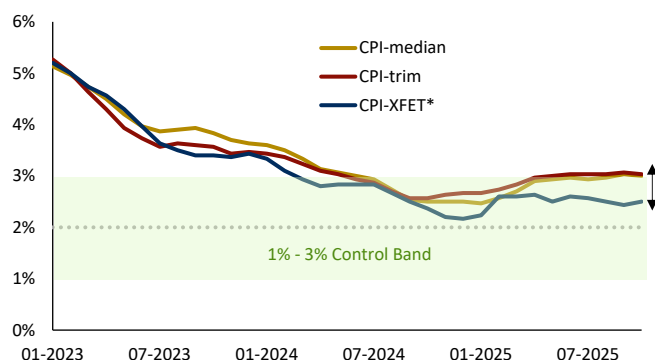
As we approach the end of the year, headline inflation remains close to the Bank of Canada's target of 2%. The latest October CPI report showed headline inflation easing to 2.2%, down from 2.4% in September, with monthly price gains slowing as energy prices fell and several discretionary categories softened. CPI excluding food and energy rose 0.3% m/m, while the Bank's preferred core measures, CPI-trim and CPI-median, increased by 0.18% on average, which is close to the target-consistent rate of 0.17%. This narrowing reinforces the view that underlying inflation pressures are continuing to cool.

Looking into 2026, several structural forces should help keep inflation anchored. A softer labour market, characterized by weaker hiring and easing wage growth, limits the risk of sustained demand-driven price pressures. As households face slower income growth and weaker confidence in the labour market, broad-based demand-driven inflation becomes less likely, and these dynamics are expected to persist in the coming months. Notably, elevated shelter inflation, which has put consistent upward pressure on core measures, is also expected to moderate in the near term. While recent data from October showed shelter prices rising sharply on a monthly basis (mainly due to higher rent and certain utilities), these pressures appear temporary. With population growth slowing and new limits on temporary residents reducing near-term housing demand, these trends would put downward pressure on shelter inflation.

While the Bank's traditionally preferred measures (CPI-trim and CPI-median) have remained elevated in recent months, the Governing Council has placed greater emphasis on alternative indicators such as CPI-XFET (excluding food, energy, and indirect taxes), which has generally held steady at lower levels (Chart 8). Importantly, forward-looking signals from the CFIB Business Survey show that average price plans over the next 12 months are on a downward trend. Historically, these price plans have been one of the reliable leading indicators of the Bank's preferred core inflation measures, suggesting that underlying inflation pressures could continue to ease gradually (Chart 9). We expect these measures to maintain their improving trajectory through 2026.

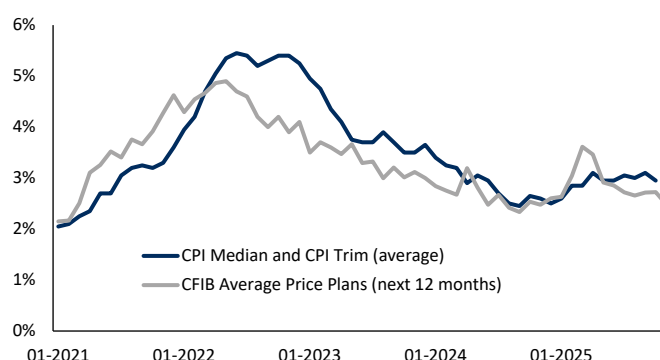
Overall, the economic backdrop supports a base-case outlook in which headline inflation remains near the 2% level throughout 2026, with core measures staying comfortably within the Bank of Canada's 1–3% target range.

Chart 8 - Core Inflation Measures Show Mixed Underlying Pressures (3-month moving average)

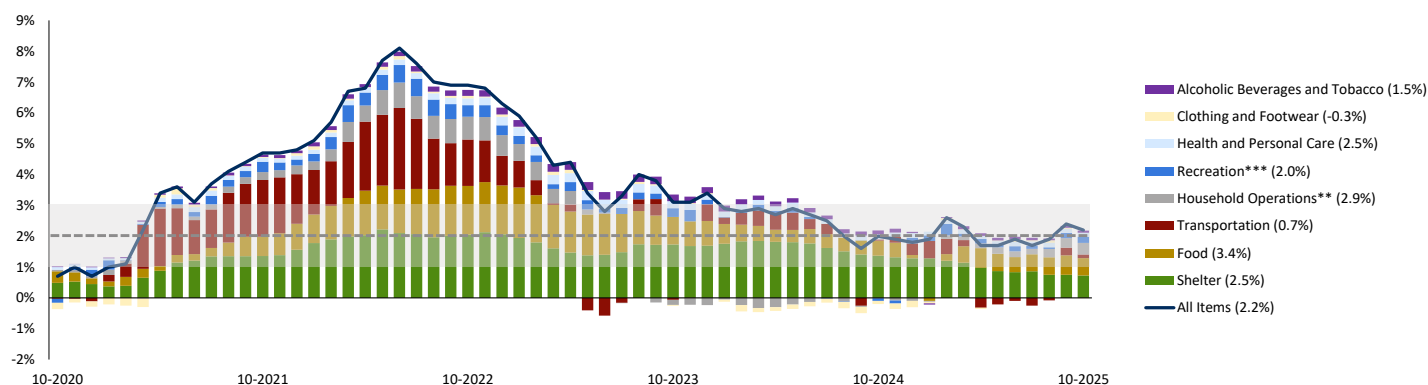


Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of October 31, 2025. *CPI excluding food, energy and the effect of changes in indirect taxes.

Chart 9 - Easing Price Pressures Signal Softer Inflation Ahead



Source: Statistics Canada, CFIB, Raymond James Ltd.; Data as of November 30, 2025.

Chart 10 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)

Source: Statistics Canada, Raymond James Ltd.; Data as of October 31, 2025. *Assumptions for both scenarios are in "Possible GDP impacts of tariffs in Canada" section; **Household operations, furnishing and equipment; ***Recreation, education and reading.

Labour market — weak but expected to stabilize

Key Takeaways: *The labour market is expected to remain soft through early 2026, as businesses continue to postpone hiring and investment plans. Wage growth is likely to stay modest, reflecting excess labour supply and easing inflationary pressures. As the year progresses and population growth slows, labour force expansion will decelerate, reducing the break-even job creation rate and helping prevent a significant rise in unemployment. At the same time, as business confidence gradually improves and fiscal measures support investment, we expect the unemployment rate to remain elevated in early 2026 but gradually trend lower over the course of the year.*

After a period of weakness, recent Labour Force Survey data suggest the labour market may have moved past its softest point, although the recovery remains uneven. Employment rose by 66.6k in October and 53.6k in November, following a strong gain in September, bringing the three-month moving average to 60.2k (Chart 11). This is well above the estimated break-even pace of roughly 10.8k jobs per month, a threshold that has declined as labour force growth slows, highlighted by a 26k drop in eligible workers in November amid moderating population growth (Chart 12). While earlier gains in October were concentrated in manufacturing, wholesale and retail trade, and transportation and warehousing, sectors that had been most affected by tariff disruptions, the November details were slightly less encouraging. Manufacturing employment edged down, transportation and warehousing posted only a modest gain, and much of the month's job growth came from a surge in part-time positions, with full-time employment moderately declining. These patterns highlight that heavily trade-exposed sectors remain fragile, although they have partially rebounded from their lows following the implementation of tariffs (Chart 13).

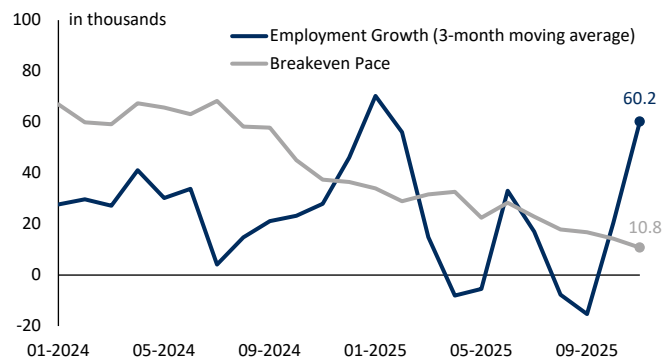
Despite recent aggregate improvements, near-term hiring intentions remain subdued. Survey data indicates limited appetite for new hiring as firms await greater clarity on U.S. trade policy and its implications for the Canadian economy. Conditions are weakest among youth and new entrants, who continue to face elevated unemployment and fewer entry-level opportunities. However, hiring intentions tend to be quite responsive to shifts in the broader business environment, suggesting that any uptick in activity could quickly translate into improved hiring intentions.

On the demand side, we expect hiring to remain relatively slow in the early part of the year, with gradual improvement as conditions stabilize. Greater clarity on trade policy, fiscal measures to encourage business investment, infrastructure development, and targeted support for affected industries should help lift labour demand. Encouragingly, the layoff rate has remained stable, indicating that employers are opting for hiring pauses rather than broad workforce reductions. While there have been recent reports of layoffs in the steel industry, these appear limited to sectors directly affected by tariffs, and overall job cuts have been minimal.

On the supply side, a key factor shaping the 2026 outlook is the deceleration in population growth, driven by lower immigration targets. With labour supply expanding more slowly, the labour market will require fewer monthly job gains to maintain a stable unemployment rate. This dynamic has already begun to show in the data, as the unemployment rate declined from 7.1% in September to 6.9% in October, followed by another drop to 6.5% in November (Chart 14), supported not only by job gains but also by slowing labour force growth and an actual decline in November. The significant drop in incoming students will also help alleviate some pressure in the youth labour market, where competition for entry-level roles has been particularly intense. Given these trends, we do not anticipate a material increase in unemployment in early 2026, even if hiring remains subdued.

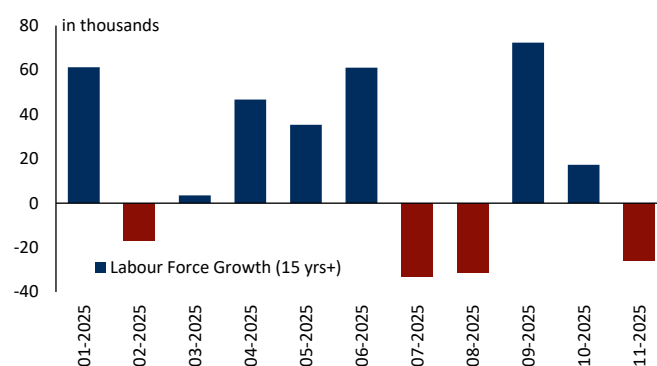
Overall, these dynamics support our view that the unemployment rate may have already peaked. While it may remain elevated through early 2026, slower labour force growth and improving demand conditions should allow it to trend lower as the year progresses. Wage growth is expected to remain slow, as businesses absorb the existing excess supply of labour.

Chart 11 - Break-Even Job Growth Trending Lower as Population Growth Slows



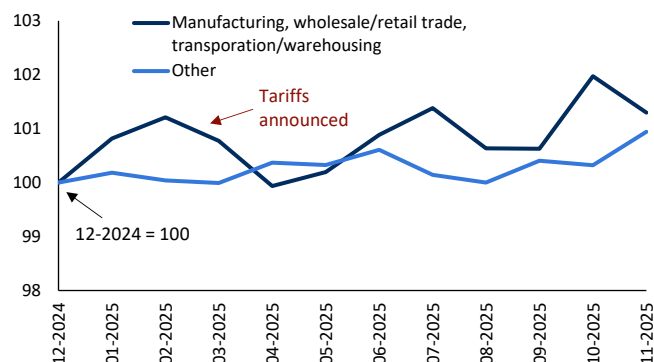
Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Chart 12 - Slowing Labour Force Growth



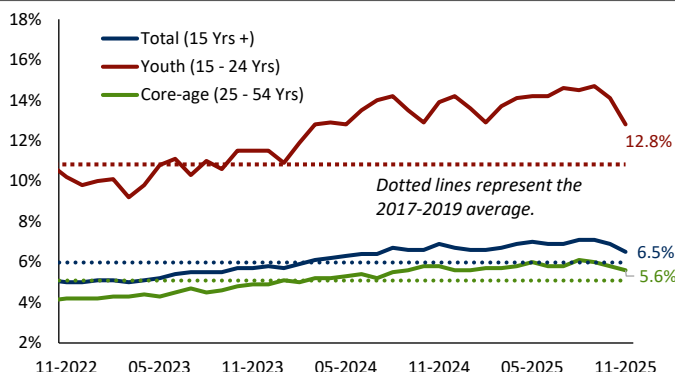
Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Chart 13 - Recent Employment Gains Signal Partial Recovery in Trade-sensitive Sectors



Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Chart 14 - Unemployment on a Downward Trend



Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Interest rates — further easing expected

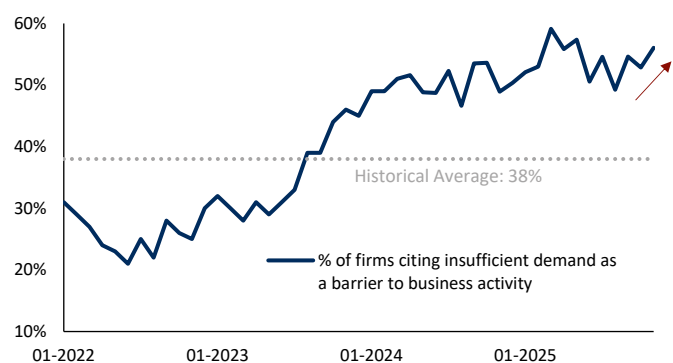
Key Takeaways: We expect the Bank of Canada to end 2025 with its policy rate unchanged at 2.25%, the bottom of its estimated neutral range (2.25-3.25%). With GDP growth expected to remain below potential and labour market conditions still soft, we anticipate one more rate cut in early 2026, bringing the policy rate to 2.0%. However, if downside risks materialize, such as a sustained deterioration in trade or spillover effects from tariff-related disruptions into sectors not directly affected, it may warrant an additional rate cut.

With inflation near the 2% target and core pressures easing, the Bank of Canada has signaled comfort operating at the lower end of its neutral range, which it views as consistent with maintaining inflation within the target band without imposing excessive drag on economic activity. Nonetheless, the macroeconomic backdrop points to the need for mildly accommodative policy. As discussed previously, economic growth is expected to remain below potential early in the year, reflecting subdued consumer spending and business investment, a soft labour market, and ongoing weakness in trade-exposed sectors. The recent CFIB Business Survey reinforces this view. In November, 56% of surveyed businesses cited insufficient demand as a major barrier to activity, well above the historical average of 38%, and this has remained the leading concern for several months (Chart 15). These dynamics suggest the economy will continue to operate with excess capacity in the near term, supporting the case for one more rate cut in 2026 (Chart 16).

That said, further downside risks remain. Prolonged uncertainty surrounding trade negotiations, or broader spillovers from tariff-related pressures into sectors previously insulated could weigh on business confidence and hiring plans. If these downside risks materialize, continued weakness

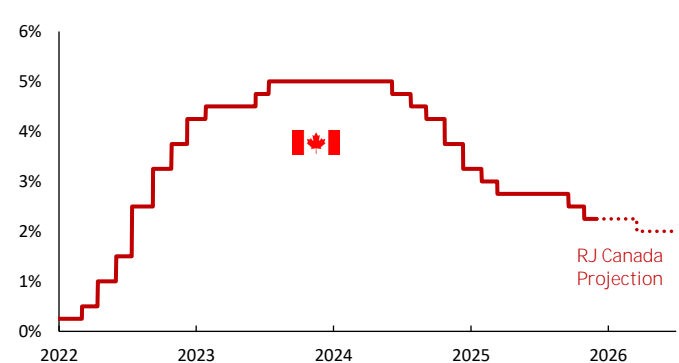
in domestic demand or renewed strain in the labour market could warrant another cut in 2026, bringing the policy rate to 1.75%, particularly with inflation expected to stay anchored near the 2% target.

Chart 15 - Excess Capacity Remains High



Source: CFIB, Raymond James Ltd.; Data as of November 30, 2025.

Chart 16 - Further Easing Expected in 2026



Source: FactSet, Raymond James Ltd.; Data as of November 30, 2025

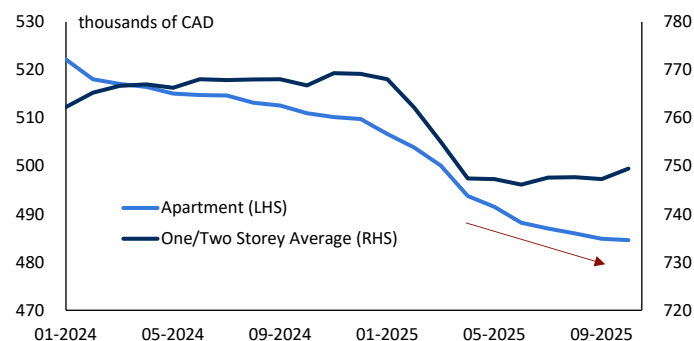
Housing market — gradual recovery amid soft rental conditions

Key Takeaways: *The housing market is expected to see a modest rebound in 2026, supported by lower interest rates, stabilizing prices, and government-led homebuilding initiatives. Ownership demand should strengthen as affordability improves, while rental conditions are likely to remain soft amid slowing population growth, which has also contributed to easing rents.*

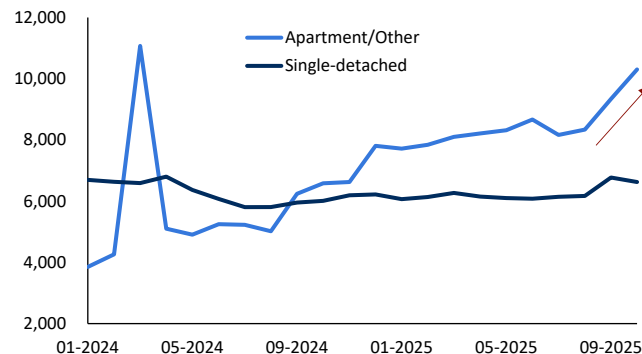
As Canada enters 2026, the housing market continues its recovery. Recent CREA data show a modest improvement, with national home sales rising 0.9% m/m in October and the MLS Home Price Index (HPI) up 0.2% m/m, narrowing the annual decline to 3%, although prices for apartment units have continued on a downward trend (Chart 17). Lower borrowing costs following rate cuts in 2025, along with more easing expected early in 2026, should further support ownership demand. CREA projects national home sales to rebound 7.7% y/y in 2026 to 509,479 units, the highest level since 2021, while the national average home price is expected to rise 3.2%. Survey results from RE/MAX also point to renewed activity from first-time buyers and move-up purchasers who delayed decisions during the higher-rate environment since the end of the pandemic. Government initiatives, including accelerated permitting and homebuilding projects, should provide additional support on the supply side, though these measures will take time to translate into completions.

On the rental side, conditions are expected to remain soft through much of 2026. The sharp deceleration in population growth, primarily driven by lower immigration targets and a substantial reduction in incoming international students, has reduced near-term demand for rental accommodation, particularly in major urban centres where newcomers historically represented a large share of renters. Recent data from Rentals.ca indicate that average asking rents have now fallen year-over-year for 13 consecutive months as of October. The prolonged period of price declines reflects both softer demand and an increasing supply of rental units. Purpose-built rental and multi-family construction remains elevated due to strong project pipelines, and CMHC data shows a continued buildup of completed and unabsorbed apartments in recent months, adding further near-term supply pressure (Chart 18). Given these dynamics, we anticipate rents will remain subdued and gradually stabilize later in the year.

Overall, the housing market is poised for a year of measured normalization. Ownership activity is likely to firm gradually as financing conditions improve and buyer-interest returns, while the rental segment continues to adjust to evolving demographic trends.

Chart 17 - MLS HPI Benchmark Price

Source: CREA, Raymond James Ltd.; Data as of October 31, 2025.

Chart 18 - Completed and Unabsorbed Units

Source: CMHC, Raymond James Ltd.; Data as of October 31, 2025.

U.S. Macro

The U.S. economy heads into year-end showing signs of slowing momentum as tariff-related disruptions weigh on overall economic activity. While consumer spending, parts of the services sector, and business investment have remained resilient for much of the year, broader indicators point to a more uneven expansion ahead, especially as the labour market weakens and consumer spending cools. The federal shutdown has further limited the availability of official data, leaving a heavier reliance on survey-based measures that suggest growth has downshifted but not stalled.

U.S. economic growth expected to continue, but at a slower pace

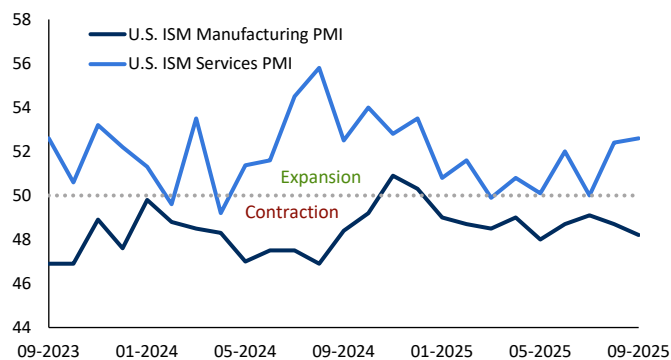
The assessment of U.S. economic activity remains constrained by the absence of official 3Q25 GDP data due to the federal shutdown. In the meantime, alternative indicators and surveys help gauge underlying conditions, and they point to a slower pace of growth heading into year-end.

Manufacturing activity continues to show signs of contraction. The ISM Manufacturing PMI declined to 48.2 in November, marking a third straight month below the 50 threshold that separates expansion from contraction (Chart 19). New orders remained weak at 47.4, while new export orders fell to 46.2 and have been in contraction since March, highlighting the pressure from tariff-related distortions. By contrast, the services sector has held up better. The ISM Services PMI has stabilized near 52 during the last two months, indicating moderate expansion, although slower than earlier in the year.

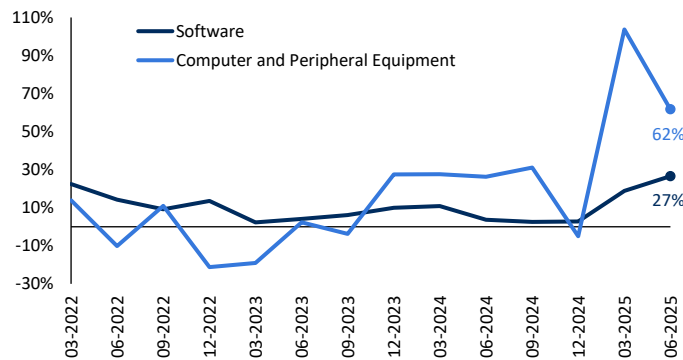
Consumer indicators point to a cautious backdrop. The University of Michigan's sentiment index still remains near historical lows, reflecting concerns over tariff uncertainty and a weakening labour market. This caution is evident in consumer spending data as well. Control group retail sales fell 0.1% in September, the first decline since April, which, given its nominal nature, suggests real consumption softened late in the third quarter. Since control group sales feed into PCE, this likely signals a softer PCE contribution to GDP in upcoming readings.

Despite softer consumer trends, business investment remains a key area of resilience. Spending on software, computing equipment, and AI-related infrastructure continues at elevated levels (Chart 20). This is consistent with strong contributions from gross private domestic investment to the recent GDP readings. In 2Q25, private investment in software surged 27% q/q (annualized), while spending on computers and peripheral equipment jumped nearly 62% q/q (annualized), contributing 0.6pp and 0.4pp, respectively, to overall GDP growth. We expect this trend to continue, helping partially offset weakness in other GDP components going forward.

Broadly, these indicators point to a U.S. economy that is expanding, but at a slower and more uneven pace than earlier in the year. Manufacturing is contracting, consumer momentum has softened, and survey data point to rising caution among households and firms. The services sector and technology-related investment continue to provide a buffer, but the overall profile suggests more subdued growth through year-end. Our U.S. Economics team expects real GDP growth of 2.7% q/q (annualized) in 3Q25 and 0.2% q/q (annualized) in 4Q25. For the full year, the team forecasts growth of 1.8% in 2025, followed by 2.2% in 2026, consistent with a low-but-positive trajectory for the U.S. economy.

Chart 19 - Manufacturing PMI Remains in Contraction Territory

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Chart 20 - Strong Momentum in AI-driven Investment (q/q annualized)

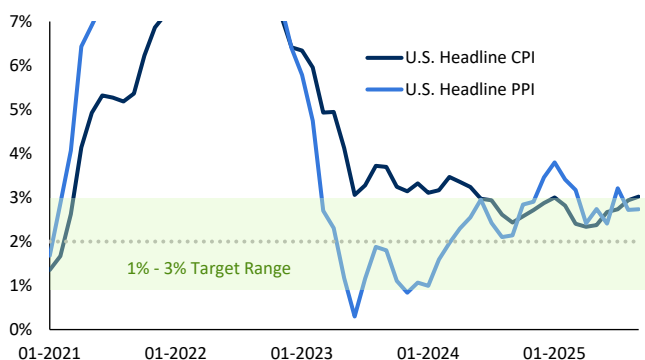
Source: FactSet, Raymond James Ltd.; Data as of June 30, 2025.

U.S. inflation elevated but stable, amid limited new data

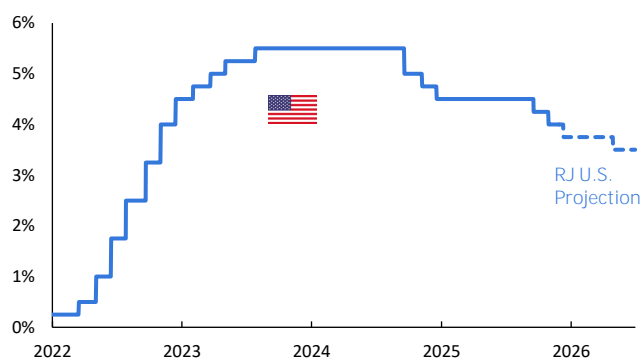
As we discussed in last month's report, the most recent U.S. inflation data point available is for September, which was released despite the government shutdown due to Social Security indexing requirements. Headline CPI rose 0.3% m/m, lifting the annual rate to 3.0%, while core CPI eased slightly to 3.0% from 3.1% in August. The headline gain was driven primarily by higher gasoline prices, although underlying price pressures were more mixed. Categories exposed to tariffs, such as apparel and new vehicles, showed only modest increases, and shelter inflation softened to 0.2% m/m, helping to stabilize core inflation. Overall, the September data pointed to inflation that remains elevated in some areas but showed signs of underlying stabilization, with tariff-related pass-through continuing to appear gradual.

More recent producer price data provide some additional insight into the inflation backdrop in the absence of fresh CPI releases (Chart 21). The September Producer Price Index (PPI) report showed a 0.1% increase in core producer prices, slightly below expectations, while the headline index rose 0.3%. Goods-sector prices recorded a larger 0.9% monthly gain, although much of this was driven by food and energy, with core goods up only 0.2%. This suggests that any tariff-related pricing pressures at the factory-gate level remain limited for now and are feeding through only slowly.

Going forward, we expect inflation to firm as tariff impacts begin to take hold, with a peak likely in the first half of 2026. Once these adjustments pass through, inflation should gradually ease, although it is expected to remain above the Fed's 2% target through next year. This outlook is contingent on the current tariff framework remaining in place. Any meaningful alteration in the tariff schedule could change the trajectory of inflation and may lead to a different near-term profile than currently anticipated.

Chart 21 - Price Pressures Remain Elevated

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Chart 22 - Further Rate-Easing Expected

Source: FactSet, Raymond James Ltd.; Data as of November 30, 2025.

Fed to continue with rate cuts

The Federal Reserve heads into its December meeting with limited official data and a growing divergence of views among policymakers. The October FOMC minutes revealed that "many" participants preferred to leave rates unchanged for the remainder of the year, while only "several" supported another cut. Ordinarily, the employment and inflation releases would help resolve this division, but the government shutdown has

disrupted the data flow, making officials rely more heavily on earlier trends and alternative measures.

Recent indicators, however, have largely tilted in favour of additional easing. The Fed's October decision to lower the target range to 3.75-4.00% was accompanied by a cautious tone, but since then, the incoming information has pointed to a more fragile economic environment. Labour market momentum continues to cool, with unemployment drifting higher, downwardly revised payrolls, and slow hiring. Consumer spending has also softened, and survey-based data point to a slower pace of economic growth heading into year-end.

Several regional Fed presidents have warned about the risk of easing too quickly while inflation remains above target. However, with limited fresh data available, the committee is expected to place greater weight on the momentum in survey measures and labour market slack. These indicators suggest the balance of risks has shifted away from inflation persistence and toward weaker growth and employment. As a result, we expect the Fed to deliver another 25bp cut at the December meeting, ending the year at a 3.50-3.75% target range (Chart 22).

U.S. labour market shows signs of cooling

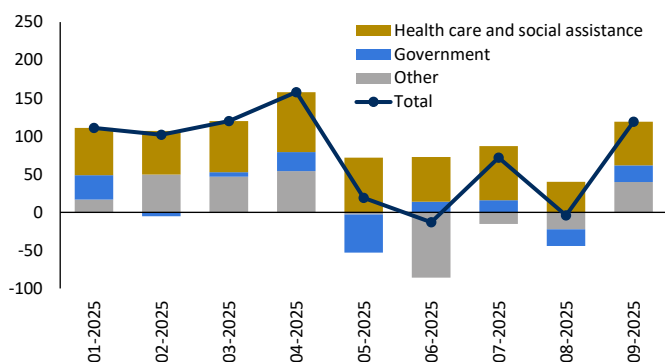
The delayed September employment report painted a mixed picture of the U.S. labour market. Non-farm payrolls increased by 119k, stronger than expected, but this gain came with sizeable downward revisions to previous months, including a swing in August from a reported increase of 22k to a loss of 4k jobs. The unemployment rate edged up to 4.4% from 4.3% in August, continuing the gradual upward drift seen over recent months. Sector-level data highlight tariff-related pressures. Transportation and warehousing shed over 25k jobs, reflecting weaker freight activity amid persistent trade uncertainty, while manufacturing lost 6k, marking its fifth straight monthly decline. Professional and business services also contracted, losing nearly 20k positions. These declines stood in contrast to health care and leisure and hospitality sectors, which not only accounted for most of November's job gains but have consistently carried overall employment growth in recent months (Chart 23).

Despite the headline gain in September, the broader landscape suggests that the labour market is losing momentum. A steady rise in unemployment, downward revisions to previously reported data, and an increase in announced job cuts, highlighted by the latest Challenger report showing year-to-date layoff announcements surpassing 1 million as of October, the highest level since the Global Financial Crisis, all point to a more fragile underlying trend.

ADP's latest data reinforces this narrative. Private-sector employment declined by 32k in November, a sharp downside surprise compared to expectations for a 40k increase (Chart 24). The weakness was concentrated among small businesses, which tend to be more sensitive to shifts in demand and the drag from tariffs and trade uncertainty. ADP's commentary noted that hiring has become increasingly "choppy", reflecting cautious consumer behaviour and a more uncertain macroeconomic backdrop.

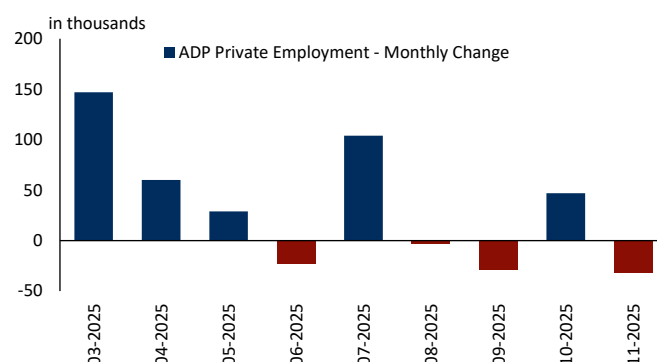
At the same time, labour supply dynamics are shifting. A combination of deportations, slower population growth, and changes in immigration policy has reduced the pace at which the labour force is expanding. As a result, the number of jobs required to keep the unemployment rate stable (the breakeven pace) has fallen from earlier estimates of near 100k per month to an estimated range of 30–60k. Importantly, these supply-side constraints may keep labour tight especially in select industries such as construction, hospitality, engineering, and medicine, even as broader labour market conditions cool.

Chart 23 - Employment Gains Remain Concentrated



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of September 30, 2025.

Chart 24 - Private Sector Employment Declines in November



Source: ADP Research, Raymond James Ltd.; Data as of November 30, 2025.

Financial Markets

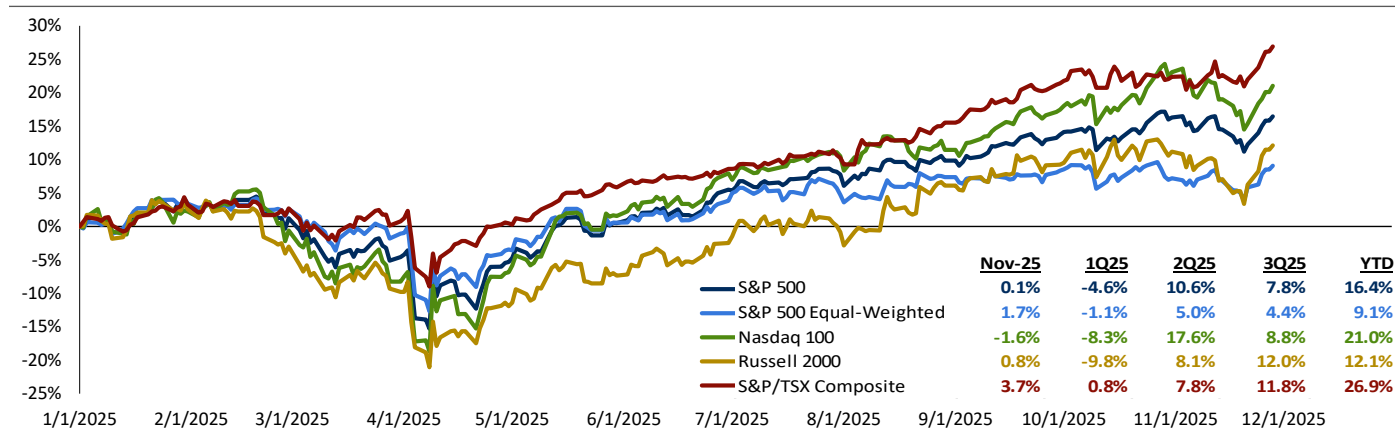
As we moved into the holiday season, equity market volatility picked up in November, driven primarily by two key sources of uncertainty: the Federal Reserve's rate path, specifically whether rate cuts will continue in December and extend into 2026, and questions around the hyperscalers' ability to monetize their massive A.I.-related capital expenditures and achieve adequate returns. Against this backdrop, the more resource-oriented S&P/TSX Composite Index posted an impressive gain of 3.7% in price and 3.9% in total return, bringing its year-to-date gains to 26.9% and 30.0%, respectively. In contrast, the tech-heavy S&P 500, the benchmark for large-cap U.S. equities, faced pullbacks during the month and barely ended positive, with a 0.1% price return and 0.2% total return. Its year-to-date performance remained largely unchanged at 16.4% on a price basis and 17.8% on a total-return basis (in local currency).

Within the TSX Composite, Materials, Consumer Staples, Consumer Discretionary, and Financials delivered strong returns in November. Supported by the rebound in gold prices and 73.3% year-over-year earnings growth in 3Q25, the Materials sector fully recovered its October losses and reached a new all-time high. Both Consumer Staples and Consumer Discretionary benefited from resilient consumer spending in the U.S. and Canada, with each sector posting more than 5% upside 3Q25 earnings surprises. In contrast, Information Technology was the notable laggard, weighed down by renewed concerns about a potential A.I. bubble. Despite a 10.8% rebound from November 19 to month-end, the sector only partially recouped the 17.2% drawdown from its October 28 all-time high. Real Estate and Industrials also continued to underperform during the month.

Within the S&P 500, as we noted in our previous report, it is common for earlier laggards to outperform prior leaders in the final two months of the year—and that pattern is now emerging. Health Care, Materials, and Consumer Staples, all earlier laggards, delivered solid returns in November, driven largely by multiple expansion rather than earnings growth. This suggests a shift in sentiment and rotation of capital from profit-taking in A.I.-intensive sectors into these defensive or under-owned areas. Communication Services also posted strong gains, largely led by Alphabet, supported by excitement around its Gemini 3 model and TPU innovations. Alphabet was the only clear outperformer among the Magnificent Seven during this pullback, Apple rose moderately, while the remaining names delivered negative returns in November. Unsurprisingly, Information Technology, Consumer Discretionary, and Industrials were the laggards for the month. However, all three sectors recorded positive EPS revisions, with particularly strong earnings in Information Technology, indicating that the weakness stemmed from P/E multiple contraction rather than deteriorating fundamentals.

Amid renewed concerns about a potential A.I. bubble, the tech-heavy NASDAQ 100 and the cap-weighted S&P 500 both underperformed the equal-weighted S&P 500. The Russell 2000, the U.S. small-cap index, experienced an intra-month drawdown of more than 7%, but rebounded sharply after November 20. This volatility was driven largely by shifting expectations for a December rate cut, and the subsequent rebound was almost entirely the result of multiple expansion.

Chart 25 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025. Price return in local currency.

U.S. Equity Markets

A.I. Market Leadership Pauses Amid Growing Focus on Capital Efficiency

Despite the recent pullbacks in many mega-cap tech names, we remain constructive on the A.I. theme and unchanged in our view that we are still in the early stages of this cycle. We expect the uptrend to resume after periods of correction, although with ongoing volatility.

At a high level, investors are increasingly worried about a potential A.I. bubble and are responding cautiously to massive hyperscaler CAPEX plans, particularly where they involve high-profile collaborations among key A.I. players. In our view, this is not necessarily a bad sign, it points to a more stable and sustainable foundation for a long-term uptrend, rather than a euphoric melt-up. As we highlighted in our last report, when discussing the 3Q25 earnings reactions of the Magnificent Seven, the market is rewarding disciplined execution and clear visibility into returns, rather than simply reacting to A.I.-related announcements. Recent corrections are helping to flush out low-quality or non-profitable stories, while true leaders remain more resilient. It is also worth noting that the dot-com era (around 2000) is still within the direct experience of many analysts and investors, which naturally leads to greater caution today. By contrast, during the dot-com boom itself, the last major tech-related mania was the radio and aviation revolution of the late 1920s, far removed in time, meaning investors then had far fewer recent reference points for how a technology bubble forms and unwinds.

Importantly, we do not think the key debate today is whether A.I. can improve efficiency, be applied at scale, or generate profits, 2025 has provided growing evidence on all three fronts. Instead, the focus is shifting to how much investment is truly required to capture these opportunities, and whether certain spending plans may prove larger than necessary relative to eventual monetization. This helps explain why Alphabet has outperformed in November while other A.I.-intensive names have struggled, even though many have also reported strong earnings and large CAPEX plans. It appears to reflect the market's perception that its progress with Gemini 3, combined with its broad ecosystem, may offer a more direct path to applying and monetizing A.I. capabilities. Meanwhile, some other A.I.-intensive names have lagged, not due to doubts about A.I. itself, but because investors are reassessing capital efficiency, timing of returns, and whether certain investments carry higher execution risk. A similar pattern emerged earlier in February 2025, when DeepSeek attracted attention for achieving competitive performance with far lower resources than many other LLMs. U.S. mega-cap tech stocks sold off broadly as investors were re-examining whether the current level of spending in A.I. development is warranted.

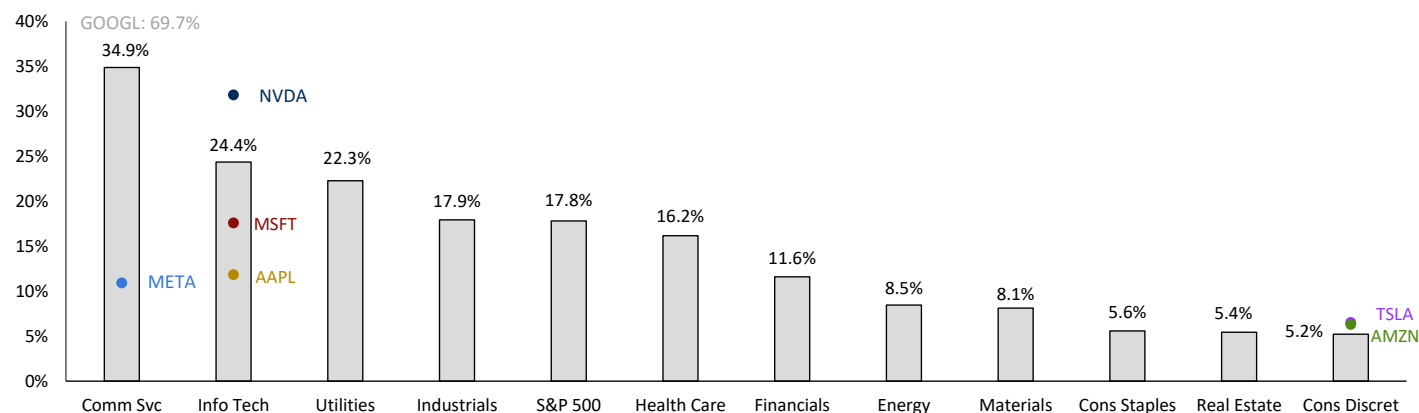
We expect this sentiment to pressure companies to be more disciplined with their A.I.-related CAPEX, which should help prevent valuations from re-inflating too quickly and, ultimately, support a longer-lasting A.I. cycle rather than a short-lived bubble.

Early Softness in Consumer Spending, but Policy Tailwinds Should Offer Support in 2026

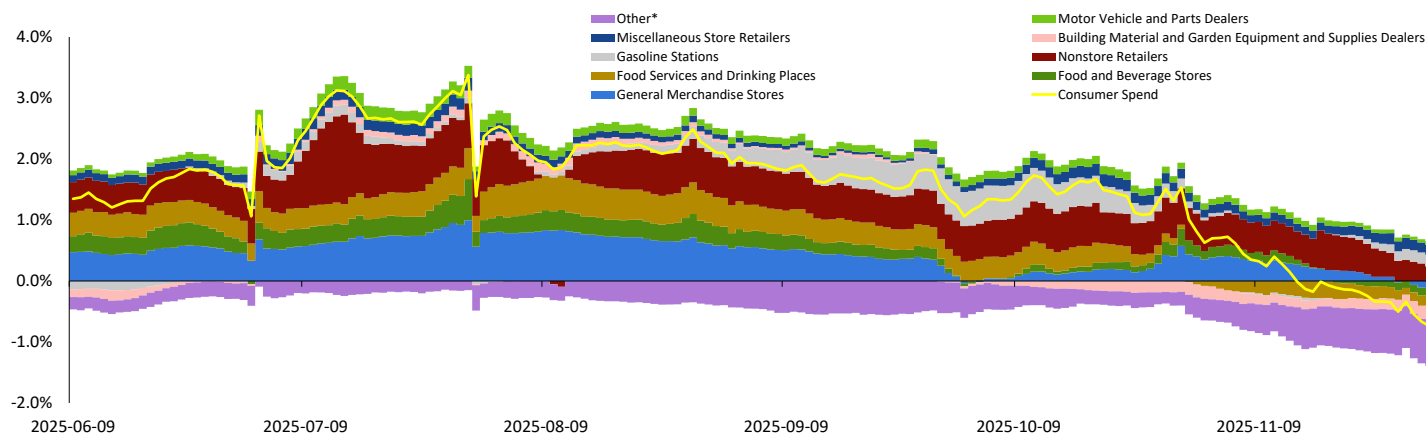
Consumer spending shows early signs of softening heading into the holiday season. Bloomberg Second Measure, which uses card-transaction data and is highly correlated with BEA retail sales, but available with only a seven-day lag (versus two months for the official series), points to a modest cooling in November (Chart 27). We do not view this as a sustained downturn just yet, as expected Fed rate cuts, the One Big Beautiful Bill (OBBB) program, and potential fiscal support could help steady spending into 1H26.

Only a few categories, mainly non-store and miscellaneous retailers, are posting positive year-over-year growth in contribution, while most others are contracting, especially food services, furniture, personal care, and electronics. This suggests near-term downside risk to retail sales and aligns with National Retail Federation (NRF) survey results showing consumers plan to spend US\$890, down from US\$902 in 2024. Consumers are also more price sensitive, with 63% delaying purchases until Thanksgiving weekend, a trend surprisingly strongest among Gen X and Boomers.

The consumer backdrop remains K-shaped, with higher-income households driving most of the resilience. This concentration heightens sensitivity to equity-market volatility heading into 2026. Overall, these developments point to some pressure on consumer spending, but not a deterioration. U.S. consumers have repeatedly proven more resilient than expected, and the combination of fiscal support in early 2026 and Fed rate cuts should help stabilize demand. Market behaviour reflects this cautious tone. Since August, Consumer Staples and Consumer Discretionary (excluding Amazon and Tesla) have underperformed the S&P 500, excluding the Magnificent Seven and Information Technology, moving into a consolidation phase as investors reassess the durability of earnings (Chart 28). The recent stabilization suggests a potential turning point to watch as we move into 2026.

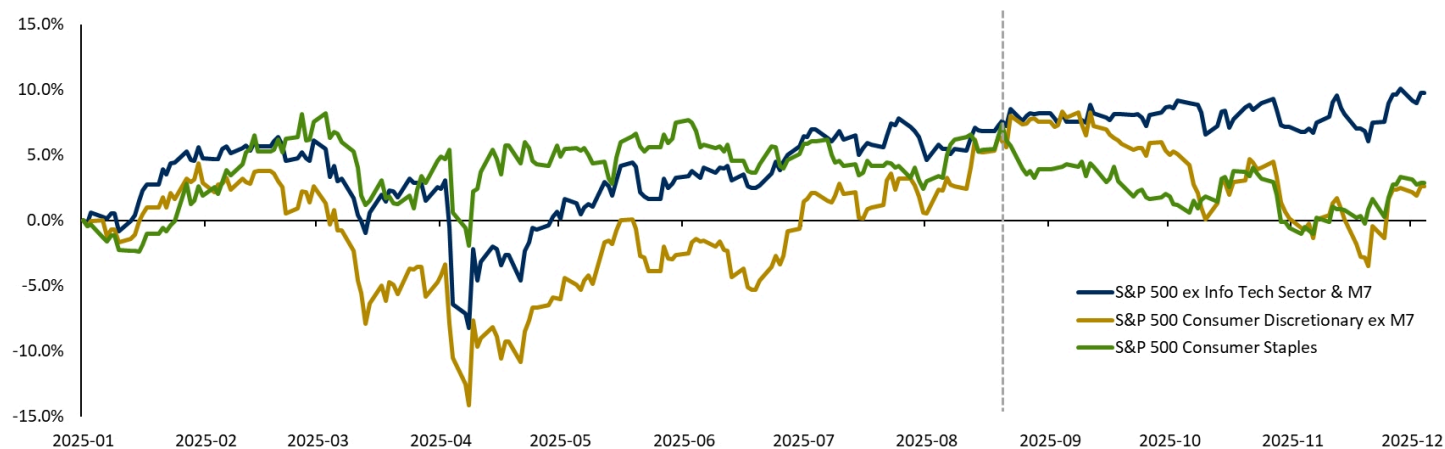
Chart 26 - S&P 500 Sector and “Magnificent Seven” Year-to-Date Total Returns

Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025.

Chart 27 - Contributions of Bloomberg Second Measure U.S. Consumer Spend

Source: Bloomberg, Raymond James Ltd.; Data as of December 1, 2025. Trailing 28-day year-over-year change.

*Other includes Health and Personal Care Stores, Sporting Goods, Hobby, Musical Instrument, and Book Stores, Clothing and Clothing Accessories Stores, Accommodation, Furniture and Home Furnishings Stores, Air Transportation, Electronics and Appliance Stores, Water Transportation.

Chart 28 - Relative Weakness in Consumer Sectors vs. S&P 500 Since August

Source: Bloomberg, Raymond James Ltd.; Data as of December 3, 2025.

Canadian Equity Markets

The S&P/TSX Composite Index is poised to deliver its strongest calendar-year performance since 2009, supported by a 3.9% total return in November. Market breadth has also improved notably, with the number of companies trading above their 50-day moving average rising from 110 in October to 150 in November. We expect this momentum to carry into 2026, and are establishing a year-end 2026 target of 34,000 for the S&P/TSX Composite, based on projected EPS of \$1,890 and an implied 18.0x price-to-earnings multiple. Broadly, we see several catalysts underpinning further upside in Canadian equities: the potential for additional policy rate reductions, a constructive renewal of the USMCA, and the rollout of new federal stimulus initiatives.

Hard Assets Turning Up, Fiscal Spending Turning On

We expect Canadian equities to benefit ahead of the broader economy, given the investment-heavy nature of Budget 2025. While it will take time for these programs to flow through to actual economic activity and improve earnings, relevant sectors may experience multiple expansion well before the underlying fundamentals materialize. Notably, the new federal programs are concentrated in materials, energy and industrials, sectors linked to hard assets and capital-intensive investment. The creation of the Major Projects Office (MPO) should accelerate approval timelines, reduce uncertainty, and support increased investment across these industries.

At the sector level, Materials should be a primary beneficiary of Canada's Critical Minerals Strategy, attracting public and private capital to secure a strategic role in the global A.I. supply chain. Minerals and metals will also play a key role in the Budget's trade-diversification strategy, aiming to double non-U.S. exports within a decade. For example, deeper Canada/EU collaboration on critical minerals creates new strategic opportunities for Canadian mining companies.

Energy is well positioned to benefit from new pipeline capacity and expanding export opportunities. Energy exports are a key pillar of Canada's trade-diversification strategy, with growing demand in Europe and the Indo-Pacific regions. Notably, since the Trans Mountain Expansion (TMX) entered service in May 2024, the TSX Energy sector has outperformed even as WTI prices have softened. The narrower discount between WTI and Western Canadian Select (WCS) has improved realized pricing for Canadian producers. By opening access to new international buyers, particularly across the Pacific, TMX reduces Canada's reliance on the U.S. market and helps explain, in part, why Canadian energy equities have held up better than their U.S. counterparts. In addition, the government's plans for new nuclear projects are likely to increase attention on uranium, providing an additional tailwind for the Energy sector.

In Industrials, firms stand to benefit from the Strategic Response Fund and related trade-adaptation policies designed to support industries affected by tariffs, particularly autos, steel, aluminum, machinery, and manufacturing. Manufacturing and processing also receive the largest reductions in marginal effective tax rates (METRs). Defence spending is set to rise meaningfully, and procurement reform will allow faster purchase of Canadian-made equipment rather than relying on U.S. suppliers. Engineering and construction companies should also benefit from the expected surge in infrastructure development.

Beyond these sectors, Financials, especially the major banks, should benefit from stronger loan-book activity and better market conditions for investment banking. We also expect the A.I. trend to remain a multi-year growth driver as we discussed in the U.S. equity section, which should support the outperformance of A.I.-advantaged companies that account for more than 75% of the TSX Information Technology sector. Last but not least, we maintain a constructive long-term view on gold. Collectively, the sectors highlighted above account for just under 90% of the TSX Composite, both by market capitalization and earnings, supporting our view of EPS growth of approximately 14.7% to \$1,890 in 2026 and our 34,000 index target. That said, this outlook and target rests on the effective execution of federal programs and stimulus efforts, with government spending expected to be a primary engine of growth in 2026.

Top 3 Sectors (November 2025):

- **Materials:** The sector rebounded sharply in November, not only fully recovering from the prior month's decline but also reaching a new all-time high on the final trading day of the month. While the rally was again supported by higher gold prices, strong 3Q25 earnings growth of 73%, a surge in silver prices, and gains in copper also contributed. The sector is closely aligned with several key initiatives and programs outlined in Budget 2025, and we maintain a constructive long-term outlook for Materials.
- **Consumer Staples:** The sector posted broad-based gains in November, with food retailers performing particularly well. Even so, year-to-date performance still significantly lags the TSX Composite excluding gold miners. Historically, it is common for earlier laggards to outperform prior leaders, and the recent strength suggests a rotation of capital, partly driven by profit-taking in Information Technology and renewed interest

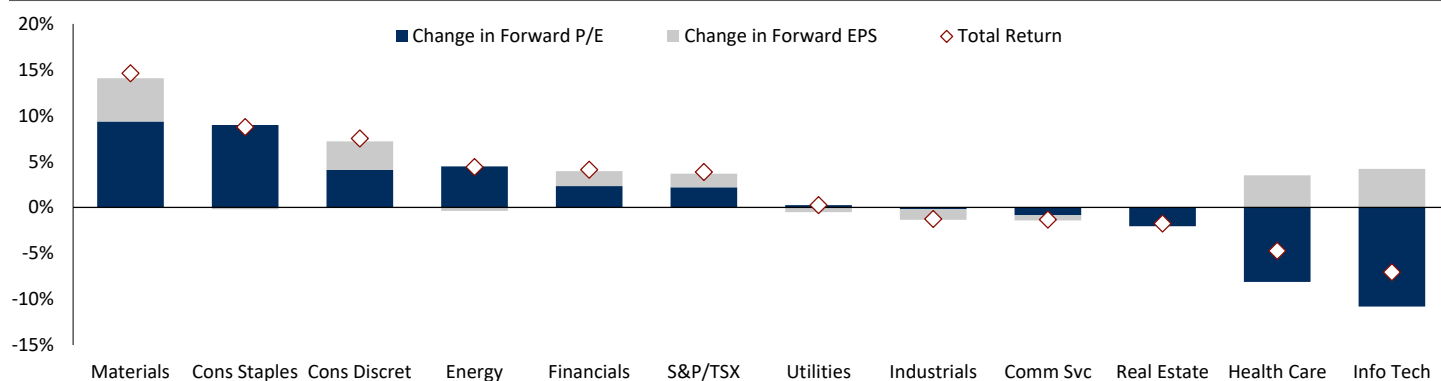
in more defensive or under-owned sectors. The earnings growth so far in 3Q25 has been strong at 9.2% with a 5.4% positive earnings surprise. A potential increase in at-home dining amid softer consumer spending could offer a modest tailwind for the group.

- **Consumer Discretionary:** The sector posted broad-based gains, supported in part by its larger weights in dollar stores and fast-food chains, which add a layer of defensiveness to this otherwise cyclical group, particularly helpful in today's K-shaped consumer environment. Earnings performance has been solid, with 3Q25 earnings growth of 8.9% and a 5.5% positive surprise. That said, we remain cautious in the near term, as several of the sector's stronger performers have meaningful U.S. revenue exposure, and we are seeing early signs of softening U.S. consumer spending that could weigh on upcoming results.

Bottom 3 Sectors (November 2025):

- **Info Tech:** The sector saw a broad-based decline in November, as growing investor concern over a potential A.I. bubble unwound more than half of October's strong gains. We view this pullback as both temporary and healthy, helping to establish a more sustainable foundation for the longer-term A.I. uptrend. Importantly, the weakness was driven entirely by multiple contraction, while forward EPS estimates continued to rise. We believe there is further upside for the A.I. leaders within the sector, although returns are likely to come with higher volatility.
- **Real Estate:** The sector extended its downward trend in November, with residential REITs, office REITs, and real estate services leading the declines, while retail and healthcare REITs held up relatively well. Slower population growth and cooling demand in both home purchases and rentals continue to weigh on residential REITs, where confidence has remained weak for more than two years. Sector earnings growth remains modest at 3.6%. Given the heightened macro uncertainty and the sector's limited exposure to high-growth areas such as data centre REITs, it may be difficult for Real Estate to outperform in the near term.
- **Communication Services:** The sector remains highly concentrated, with the three largest companies accounting for nearly 90% of its weight. November's underperformance was driven largely by weakness in one of these major players. Earnings growth of 1.0% appears subdued. While data centre investment could serve as a future growth catalyst, the sector continues to face macro headwinds related to slower immigration and demographic trends heading into 2026. Competitive pressures are also intensifying, particularly as Budget 2025 highlighted the need to increase competition in the telecom industry to lower costs for Canadians, which may place additional pressure on revenue growth.

Chart 29 - S&P/TSX Composite Sector November 2025 Total Return Breakdown

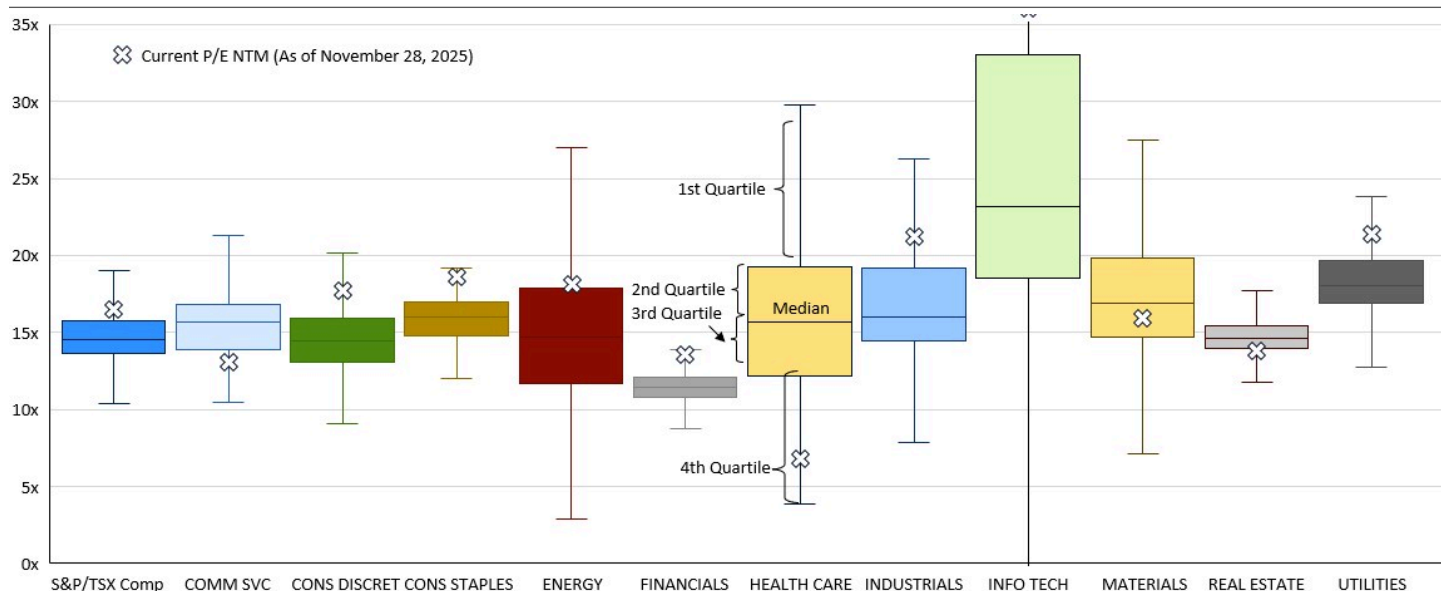


Source: Bloomberg, Raymond James Ltd.; Data as of November 28, 2025.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Consumer Discretionary	3.3%	28.9%	9.2%	7.5%	18.0	14.5
Materials	17.3%	95.3%	8.9%	14.6%	16.0	16.9
Consumer Staples	3.4%	13.6%	7.4%	8.8%	18.7	16.0
Financials	32.5%	29.6%	5.8%	4.1%	13.3	11.4
Information Technology	10.1%	26.6%	5.8%	-7.1%	39.4	23.2
S&P/TSX Composite	--	30.0%	4.9%	3.9%	16.8	14.6
Utilities	3.5%	22.7%	4.4%	0.2%	21.6	18.1
Energy	15.5%	21.2%	3.5%	4.4%	18.1	14.7
Health Care	0.3%	-1.6%	-0.6%	-4.7%	6.9	15.7
Communication Services	2.0%	11.7%	-1.1%	-1.3%	13.0	15.7
Industrials	10.7%	2.6%	-1.9%	-1.3%	21.4	16.0
Real Estate	1.5%	4.7%	-5.7%	-1.8%	13.9	14.6

Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 30 - S&P/TSX Composite Sector Current vs. Historical P/E NTM

Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025. Historical P/E: 1/1/2000 – 11/28/2025. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	Nov (in LCL)	Nov (in USD)	Nov (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	0.3	0.3	-0.2	5.7	5.7	7.3	20.4	20.4	16.7	20.2	16.0	4.1
EAFE (DM ex U.S. & Canada)*	0.7	0.7	0.2	4.1	4.1	5.7	28.0	28.0	24.0	15.3	13.6	1.7
EM (Emerging Markets)*	-2.0	-2.0	-2.5	8.7	8.7	10.4	30.0	30.0	26.0	13.4	11.8	1.6
Selected Developed Markets												
Nikkei 225 (Japan)	-4.1	-5.3	-5.8	18.4	11.4	13.2	28.3	29.2	25.2	20.2	16.8	3.3
Euro STOXX 50 (Europe)	0.3	0.7	0.1	6.3	5.0	6.6	19.4	29.8	25.8	16.2	13.3	2.9
FTSE 100 (U.K.)	0.4	0.9	0.4	6.4	3.8	5.4	23.0	25.8	22.0	13.0	12.4	0.6
CAC 40 (France)	0.1	0.6	0.1	5.8	4.9	6.5	13.7	27.4	23.5	16.4	13.5	2.8
DAX (Germany)	-0.5	0.0	-0.5	-0.3	-1.1	0.4	19.7	34.2	30.1	15.0	12.7	2.3
Hang Seng (Hong Kong)	-0.1	-0.3	-0.8	3.8	4.0	5.6	33.3	33.0	28.9	11.8	11.8	0.0
Selected Emerging Markets												
CSI 300 (China)	-2.4	-1.8	-2.1	1.1	1.9	3.7	18.1	21.8	18.3	15.9	13.8	2.1
Nifty 50 (India)	2.0	1.3	1.0	7.5	6.1	8.0	12.3	7.6	4.5	23.9	18.5	5.5

Source: FactSet, Raymond James Ltd; Total returns, data as of November 28, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 11/28/2025. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

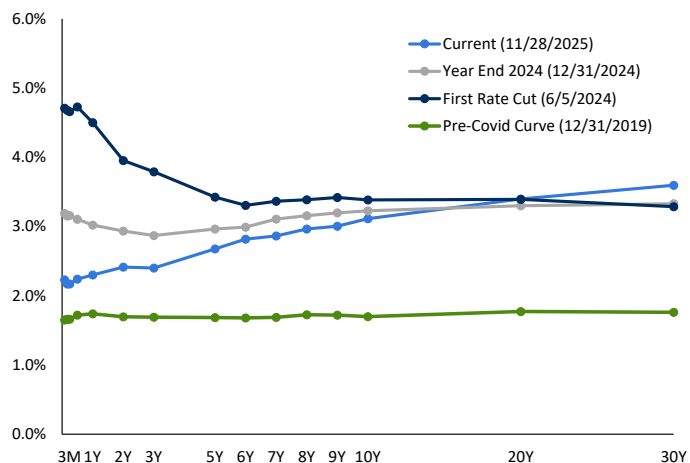
Fixed Income & Treasury Yields

Despite periods of volatility, U.S. Treasury yields have continued to normalize year-to-date. The 10-year yield briefly dipped below 4.0% in November before rebounding on renewed expectations of a potential Bank of Japan rate hike as early as this December. Looking ahead to 2026, we see both headwinds and tailwinds for U.S. Treasuries. On the headwind side, the substantial debt issuance required by major A.I. giants is likely

to push borrowing costs higher for both private and public sectors, and the broader A.I. build-out could lift expectations for U.S. economic growth, keeping long-term yields elevated. On the tailwind side, softer wage gains, a cooling labour market, and slowing consumer spending should place downward pressure on yields. Overall, we continue to prefer short- to intermediate-term U.S. Treasuries, while acknowledging that long-term yields could drift higher in 2026.

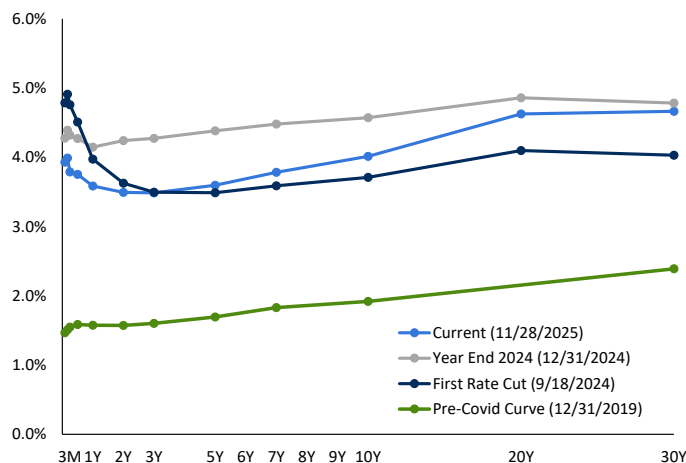
In Canada, the yield curve showed little movement in November, having already normalized significantly earlier in the year. We believe it now largely reflects the current economic environment and outlook. With Budget 2025 set to reduce near-term operating expenditures while ramping up investment that could enhance long-term productivity, we anticipate modestly lower front-end yields in 2026. Movements at the long end of the curve will depend on the pace and effectiveness of fiscal program implementation.

Chart 31 - Canada Government Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025.

Chart 32 - U.S. Treasury Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of November 28, 2025.

IMPORTANT INVESTOR DISCLOSURES

Complete disclosures for companies covered by Raymond James can be viewed at: Disclosures <https://raymondjames.bluematrix.com/sellside/Disclosures.action>

This newsletter is prepared by the Private Client Services team (PCS) of Raymond James Ltd. (RJL) for distribution to RJL's retail clients. It is not a product of the Research Department of RJL.

All opinions and recommendations reflect the judgement of the author at this date and are subject to change. The author's recommendations may be based on technical analysis and may or may not take into account information in fundamental research reports published by RJL or its affiliates. Information is from sources believed to be reliable, but accuracy cannot be guaranteed. It is for informational purposes only. It is not meant to provide legal or tax advice; as each situation is different, individuals should seek advice based on their circumstances. Nor is it an offer to sell or the solicitation of an offer to buy any securities. It is intended for distribution only in those jurisdictions where RJL is registered. RJL, its officers, directors, agents, employees and families may, from time to time, hold long or short positions in the securities mentioned herein and may engage in transactions contrary to the conclusions in this newsletter. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this newsletter. Securities offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Financial planning and insurance offered through Raymond James Financial Planning Ltd., not a Member-Canadian Investor Protection Fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs relating to investing in these stocks will affect overall performance.

Securities mentioned in this publication may entail higher risk. Clients should contact their Financial Advisor to determine if the securities are compatible with their risk tolerance and investment objectives.

Information regarding High, Medium, and Low-risk securities is available from your Financial Advisor.

RJL is a member of the Canadian Investor Protection Fund. © 2025 Raymond James Ltd.