

# MARKET UPDATE

December 31, 2025

This past weekend, the United States decided to invade Venezuela. Geopolitical comments are noted below as part of the risks that investors will need to deal with in 2026.

## Equities

Contrary to public opinion, 2025 was a year for investors to further diversify their investments. Unlike 2023 and 2024, the U.S. stock markets and technology stocks didn't lead the way with the highest

performance. The U.S. tech sector (Nasdaq) ranked fourth in the table below with a 21% simple return, while the S&P 500 Index was only sixth best, up 17%.

The MSCI Emerging Market Index contains the BRIC countries (Brazil, Russia, India and China) and eastern Europe, the Middle East, Mexico, South America and southeast Asia. It led the way with a 30% simple return as it remained the cheapest index on a valuation basis (16.1 Price/Earnings multiple) with the opportunity for investors to enjoy a currency tailwind.

### Simple Equity Price Returns, Price / Earnings Ratios and Dividend Yield in Native Currency for 2025

STOCK INDEX	2025 RETURN	P/E RATIO	DIVIDEND YIELD
MSCI Emerging Market Index (MXEF)	30.28%	16.1	2.34%
S&P/TSX Composite Index (Canada)	28.41%	19.6	2.28%
Nikkei Index (Japan)	26.18%	22.6	1.55%
Nasdaq Composite (Technology)	20.76%	36.7	0.59%
MSCI Global Index (World)	20.23%	22.7	1.57%
S&P 500 Index (United States)	16.86%	25.5	1.14%
EuroStoxx 600 Index (Europe)	16.66%	16.5	3.01%
Russell 2000 Index (US Small-Cap)	11.59%	35.9	1.30%

Data Courtesy of Bloomberg L.P.

The total return (stock price + currency increase) of non-U.S. indexes fared better than an investment in U.S. stocks, whose currency declined against a basket of international currencies.

As we head into 2026, value lies in favour of European and Emerging Market indexes as they have a lower P/E multiple and offer higher dividend yields.

In a *Reuters* article penned by Helen Jewell on December 22, 2025, she wrote, "In

emerging markets, earnings may be supported by a weaker dollar, lower global interest rates and a flow of money and investment as global supply chains realign to adapt to trade tensions and geopolitical friction.”

“European stocks may benefit from a pickup in economic activity. Loan growth is already rising, and the region’s composite purchasing managers’ index (PMI) is well above 50, signaling economic expansion.”

“This cyclical expansion could be turbocharged in 2026 by German fiscal stimulus and broader European defense spending. All this should support cyclical European companies, such as makers of trucks and mining equipment, particularly if the euro/dollar exchange rate stabilizes next year.”

“In Japan, a combination of healthy inflation and corporate transformation – with many companies seeking to streamline and focus on their core businesses – could continue to drive higher profitability and shareholder returns in 2026.”

The second-best market was Canada’s S&P/TSX Composite Index (up 28%), thanks to a significant rally in metals and mining stocks – the Materials sub-index on the S&P/TSX Composite was up 98%.

In Canada, the S&P/TSX Composite Index could continue its winning streak on the back of higher commodity prices caused by greater demand and a drop in the U.S. dollar (commodity prices are denominated in U.S. dollars – any U.S. dollar weakness sends commodity prices higher).

In the chart below, we can see how each sub-index in the S&P/TSX Composite fared in 2025 as financials and materials stocks, which made up 51% of the index, enjoyed huge returns.

While the positive returns seem appealing, it’s important to note the 20-year returns of these sub-indexes. Most are cyclical in nature so remember to be diversified across other sectors if things turn against resources. The Materials and Energy sub-

### S&P/TSX Composite Sub-Index Returns

	TICKER	SECTOR WEIGHTING (%)	2025 SIMPLE RETURN	20-YEAR SIMPLE RETURN	P/E RATIO	DIVIDEND YIELD	COMPANY TYPES
<b>Financials</b>	STFINL	33%	31%	6%	14.7	2.80%	Banks, Insurance
<b>Materials</b>	STMATR	18%	98%	7%	28.1	0.88%	Gold, Silver miners
<b>Energy</b>	STENRS	15%	14%	1%	18.0	4.21%	Oil & Gas producers
<b>Industrials</b>	STINDU	11%	2%	9%	25.0	1.15%	Air Canada, CN Rail, WSP Global
<b>Information Technology</b>	STINFT	10%	23%	10%	57.5	0.14%	Shopify, Celestica, Constellation Software
<b>Utilities</b>	STUTIL	3%	15%	3%	23.9	3.92%	Utilities & Pipelines
<b>Consumer Discretionary</b>	STCOND	3%	28%	7%	20.7	1.77%	Dollarama, Canadian Tire, Restaurant Brands
<b>Consumer Staples</b>	STCONS	3%	11%	10%	21.2	1.35%	George Weston, Saputo, Loblaw, Metro
<b>Communications</b>	STTELS	2%	4%	2%	12.8	6.57%	Telecoms
<b>Real Estate</b>	STRLST	1%	1%	3%	10.0	3.96%	First Service, REITs
<b>Healthcare</b>	STHLTH	0%	(2%)	(8%)	8.0	2.23%	Chartwell, Bausch Health, Curaleaf Holdings
<b>S&amp;P/TSX Composite Index Returns</b>		<b>100%</b>	<b>28%</b>	<b>5%</b>	<b>19.6</b>	<b>2.28%</b>	

Data Courtesy of Bloomberg L.P.

indexes are high-risk investments and will ebb and flow based on the forces of supply and demand.

In Liberty Tax-Free Savings Accounts (TFSA), we now own 3 commodity-based companies in our 20-stock holdings – Franco-Nevada (gold), Cameco (uranium) and Nutrien (fertilizer). We anticipate further weakness in the U.S. dollar and growing global demand for commodities but we won't over-invest in these sectors just because of the short-term performance nature of these stocks.

### Bonds

BOND TYPE	TICKER	2025 TOTAL RETURN
Canadian Short-Term Bond Index	ZCS	4.36%
Canadian Mid-Term Bond Index	ZCM	4.91%
Canadian Long-Term Bond Index	ZLC	2.29%
Canadian Real Return Bond Index	ZRR	0.03%
Canadian Laddered Preferred Share Index	ZPR	18.45%

Data Courtesy of Bloomberg L.P.

Canadian bond returns in 2025 were satisfactory because of the four interest rate cuts by the Bank of Canada (BOC). Now that the BOC has noted that it may be finished cutting rates, bond returns may be more muted, which is why Liberty has focused its bond purchases outside the country. We can get a higher yield and a better total return if foreign currencies continue to outperform both the Canadian and U.S. dollar currencies.

In a *Bloomberg* article on November 30, 2025, by Srinivasan Sivabalan, he wrote that, "Since late 2024, average local-currency debt yields have been below U.S. Treasury rates, with the discount widening to a record this past August. China, Thailand, Malaysia and Lithuania are among countries that borrow at lower rates at home than the U.S. can."

As a result, James Athey, a portfolio manager at Marlborough Investment Management said that "If I want fiscal conservatism and policy orthodoxy, I go to the emerging-market world currently, not developed markets." He has increased his emerging-debt allocations, buying Mexican peso debt, in addition to Chilean local bonds and South African dollar-denominated securities.

### Currencies

U.S. Dollar Performance vs. a basket of International Currencies in 2025		
CURRENCY	TICKER	2025 CURRENCY CHANGE
Swedish Krona	SEK	20%
Mexican Peso	MXN	16%
Swiss Franc	CHF	14%
Euro	EUR	13%
Danish Krone	DKK	13%
Brazilian Real	BRL	12%
Australian Dollar	AUD	8%
British Pound	GBP	7%
Canadian Dollar	CAD	5%
New Zealand Dollar	NZD	3%
Japanese Yen	JPY	0%
Average Change		7%
<b>Black = USD weaker</b>		
<b>Red = USD stronger</b>		

Data Courtesy of Bloomberg L.P.

The table shows that the Swedish Krona rose 20% last year versus the U.S. dollar. Overall, a basket of international currencies jumped 7% against the U.S. dollar.

In a *Reuters* article dated December 22, 2025, by Saqib Iqbal Ahmed, he noted that, "A dismal year for the U.S. dollar is ending with signs of stabilization, but many investors believe the currency's decline will resume next year as global growth picks up and the Fed eases further."

“The U.S. dollar slumped seven per cent this year against a basket of international currencies, putting it on pace for its worst showing in eight years, driven by expectations of Federal Reserve rate cuts, shrinking interest rate differentials with other major currencies, and as concerns about U.S. fiscal deficits and political uncertainty swirled.”

The dollar typically falls when the Fed cuts rates as lower U.S. interest rates make dollar-denominated assets less attractive to investors, reducing demand for the currency. A weaker dollar boosts U.S. multinational earnings by increasing the value of overseas revenues when converted back to dollars, even as it enhances the attractiveness of international markets by providing an FX boost beyond the underlying asset performance.

“I think what’s different is that the rest of the world is just going to grow more next year,” said Anujeet Sareen, portfolio manager at Brandywine Global. Germany’s fiscal stimulus, China’s policy support, and improved growth trajectories in the euro zone are expected to reduce the U.S. growth premium that has supported the dollar in recent years,” he said.

### **Expectations for 2026?**

I don’t make predictions because those who do are usually wrong about 88% of the time. What I can discuss, however, are the issues that could impact the markets in 2026, both good and bad.

### **The potential positives**

For the U.S. economy, underlying economics could spur further growth – third quarter GDP growth was an unexpectedly robust 4.3%.

Some areas that are favourable for the U.S. markets are:

- Consumers will have more money. Treasury Secretary Scott Bessent said he expects Americans to receive up to \$150 billion in tax refunds early next year because of the budget law the President signed last summer.

- Businesses will have more money. Corporations can deduct 100% of equipment purchases in the year they spend the money. The new provision is expected to increase capital spending and growth next year and beyond. Corporate taxes are also 5% lower than in 2025.
- Interest rates should be lower. The new Federal Reserve chair who takes over in May will almost certainly cut rates. It’s also likely that the Fed will increase its purchases of Treasury debt, further easing credit concerns.
- Energy costs should be cheaper. The CBO predicts the tax provisions that encourage more production of oil and gas will also have a positive impact on GDP next year.
- Trillions of dollars of AI investment spending earmarked over the next five years hinge on a belief that a grand technological transformation of the entire U.S. - and likely global - economy is underway.
- AI could begin to generate, evaluate and improve new concepts of its own - accelerating and driving scientific breakthroughs in materials, medicines and tech.

### **The Potential Negatives**

- Geopolitical events – China could enter Taiwan as early as February 17 (Chinese New Year) and play a game of chicken with the U.S. military. It reminds me of three superpowers playing a game of *Risk*, whereby China takes over Asia, Russia commands Europe and the United States controls the Western Hemisphere.

In a Globe & Mail editorial dated January 4, 2026, the panel noted that, “The motivation is simple, and ancient: empire. Saturday marked the formal debut of an imperial America, led by a president who recognizes no law, save that of the jungle. Already, Mr. Trump is turning his attention elsewhere, saying

in an interview Saturday that “something’s going to have to be done with Mexico.”

“In fairness, Mr. Trump did make his intentions crystal clear, with the publication in November of an updated National Security Strategy. It was nothing less than a blueprint for not just traditional U.S. dominance of the Western Hemisphere, but for overt control. (The NSS was decidedly not, as some unwisely asserted, posturing for Mr. Trump’s MAGA base.)”

“In it, the United States asserts a “Trump Corollary” to the Monroe Doctrine of the 1820s, which declared the Americas off-limits to further European colonization. Mr. Trump’s addendum is to assert that the United States will ensure that governments in the Western Hemisphere “cooperate with us” – meaning obedience and subservience – including “continued access to key strategic locations.”

- In a December 26, 2025, *Bloomberg* article by Allison Schrager, she noted that, “Beyond 2026, there are reasons to be worried: All this stimulus may result in a sugar high, and America relearned during the pandemic how dangerous that can be.”
- “Rebate checks, a tax cut and lower interest rates risk could bring back high inflation, which would hit US households hard and could further entrench inflation by destabilizing expectations. It could take years for the Fed to rebuild its credibility and ability to influence the inflation rate. There is also the matter of the growing national debt, which this law will contribute to. This should increase longer-term interest rates, which could weigh down consumer spending eventually.”
- The U.S. sits at the global economic frontier but all major innovations of the last 150 years – including steam, electricity

and the digital revolution – were not enough for it to break out of its 2-per-cent growth trend. Doing so is a tall order.

- In an article penned by Mike Dolan of Reuters, he noted that, “Doubters are reasonably skeptical about faith alone and are wary the returns will not justify that blistering spend - given lofty end-usage estimates, already sky-high valuations, creeping leverage and the inevitable minefield of winners and losers.”
- A panel of economic luminaries said the long-run risk posed by mounting federal debt represented a paramount problem facing the US economy. Those risks include the scenario in which the size of the debt prompts the central bank to keep rates low to minimize debt servicing costs, rather than contain inflation — a concept known as fiscal dominance.

“The preconditions for fiscal dominance are clearly strengthening,” former Treasury Secretary and Federal Reserve Chair Janet Yellen said January 4th during a panel discussion at the American Economic Association’s annual meeting in Philadelphia.

The Congressional Budget Office has projected the federal deficit this year will be \$1.9 trillion, bringing total debt to about 100% of gross domestic product. That’s seen rising to about 118% of GDP in the next decade.

- A blow-up of alternative assets, notably private debt. The private credit industry faces fresh scrutiny from top global regulators over some of the ratings being assigned to debt in the \$1.7 trillion market.

The Financial Stability Board, which monitors global risks, has high-level concerns about the potential for ‘ratings shopping’ in private markets, where firms seek investment grades

on transactions from multiple providers and opt for the most favorable one, one of the people familiar with the supervisor's work said.

The default rate across 1,200 US private debt borrowers tracked by Fitch Ratings increased to 5.7% in November from 5.2% in October on a trailing 12-month basis, according to a report released on December 19, 2025.

- Concerns in private equity markets. Some firms are selling the companies it owned from one set of investment funds to another set of funds that it also managed called "continuation vehicles." Continuation funds are meant as a temporary fix for a severe problem. The risk, investors say, is that the insular nature of these sales — where the private equity firm is both the buyer and seller — is leading to questionable valuations and unrealistic projections, leaving investors vulnerable to painful surprises.

#### **What should be done about it?**

Every year, the markets and economies face potential areas of high volatility. The only real response is to stay invested and be diversified across asset classes

(stocks / bonds / preferred shares), by industry, country and size of company. Diversification means we won't make 30% in a year but we also shouldn't lose 30% in a year.

Our focus continues on owning stocks that follow the trends noted in the Q3 newsletter (available on the website) that are happening now and are expected to continue.

For stocks, we have 10% to 20% invested in technology names, with added exposure to infrastructure, financials, utilities and serial acquirers. They are located not just in North America but around the world. Based on valuations, as stated above, we favour emerging markets, Europe and Japan.

For bonds, our focus is on total returns and as stated above, we want to take the opportunity that if the U.S. dollar falls, our total bond return can enjoy a tailwind from stronger non-U.S. currencies.

For preferred shares, we continue to sell when they exceed their \$25 par value. If the stock market corrects and the preferred shares fall significantly, we'll re-visit our investment strategy.

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If you have any questions, let us know.

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