January 2026

The Quarterly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots of metrics, a section on behavioral investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

"Time is your friend; impulse is your enemy."

— John Bogle

The Numbers:

Index:	**2025 YTD**
S&P/TSX:	28.2%
NASDAQ:	20.2%
Dow Jones:	13.0%
S&P 500:	16.4%
Russell 2000:	11.3%

Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	2.1%	3.6%
5-Year Bond:	3.0%	3.7%
10-Year Bond:	3.4%	4.2%
30-Year Bond:	3.9%	4.8%

Economic Data:

- Global equities continue their melt up
- Oil continues to slide. Natural gas was volatile
- Gold and various metals much higher
- CAD strengthened against USD by 5% in 2025.
- BOC consistent at 2.5% and Fed cut rates by 25bps to 3.75%.
- Materials led all Canadian sectors while Health Care tailed the pack.
- Markets are on easy street. Volatility low.

Valuation Measures: S&P 500 Index

	Latest	**1-year ago**
P/E: Price-to-Earnings	29	28
P/B: Price-to-Book	5.5	5.1
P/S: Price-to-Sales	3.4	2.7
Yield: Dividend Yield	1.1%	1.2%

2025 Year-to-Date by Sector:

S&P/TSX Composite	28.2%
NASDAQ	20.2%
Dow Jones Industrials	13.0%
S&P 500	16.4%
Russell 2000 (Small Caps)	11.3%
MSCI ACWI ex-USA	32.4%
Crude Oil Spot (WTI)	-20.0%
Gold Bullion ($US/Troy Oz)	64.3%
SOX Semiconductor Index	42.2%
VIX Volatility Index	-13.4%
Bitcoin	-6.3%

Source: Canaccord Genuity Capital Markets & Guru Focus

Foreign Exchange:

As of Jan 14, 2026 11:00 AM EST	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3980	$ 3,577	$ (26)	-0.7%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4339	$ 3,487	$ (116)	-3.3%
Raymond James	1.4025	$ 3,565	$ (38)	-1.1%
Royal Bank	1.4187	$ 3,524	$ (78)	-2.2%
Scotia	1.4243	$ 3,510	$ (92)	-2.6%
TD	1.4277	$ 3,502	$(101)	-2.9%
Canadian Snowbird	1.3852	$ 3,610	$ 7	0.2%
Spot Rate	1.3878	$ 3,603	$ -	0.0%

2025 Market Recap:

Tantrums & Reversals

2025 turned out to be another strong year for financial markets, though it certainly did not feel that way in April. Markets were briefly rattled dropping between 10-15%, following the announcement of sweeping trade tariffs. The short-lived 'tariff tantrum' felt genuinely destabilizing in the moment. Equity markets sold off, volatility spiked, and familiar concerns around inflation, supply chains, and global growth quickly resurfaced. At one point, the VIX pushed into the 50s, which was a clear jump in investor anxiety.

In hindsight, what stands out most is how quickly those fears faded. As the year progressed, markets recovered and uncertainty receded. By year end, the tariff episode had little lasting impact on economic growth or investment returns. Volatility collapsed just as quickly as it appeared, with the VIX finishing the year closer to the low teens. Investors were left looking back on a year that delivered strong results, even though it felt uncomfortable along the way. As is often the case, risk feels highest when outcomes are least clear.

What also made 2025 interesting was that two very different narratives that continued to play out. On one side, investors crowded into the artificial intelligence trade, pushing a relatively small group of technology stocks sharply higher and driving a disproportionate share of equity market returns. On the other, a quieter but persistent flow of capital moved toward real assets, particularly precious metals, as protection against policy uncertainty, political risk, currency weakness, and inflation concerns. If you did not own the dominant themes, it was easy to feel left behind.

2025 reinforced a simple point. Active investing means trusting your compass and not chasing every passing wave. We navigated the year well and were pleased with the outcome for our clients.

Equities

2025 was a banner year for Canadian equities. The S&P/TSX Composite rose roughly 28%, marking its best annual return since 2009, and Canadian small cap stocks soared more than 50%. Canada's market structure proved advantageous in a year when global investors increasingly focused on inflation protection and real asset exposure.

Equity markets delivered excellent results. In the United States, the S&P 500 rose approximately 16%, the Dow Jones Industrial Average gained 13%, and the Nasdaq Composite advanced roughly 20%. But as was the case in several recent years, returns were not evenly distributed. More than 60% of S&P 500 returns were driven by the Magnificent Seven…. yes…Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla contributed more to the index's advance than the remaining 493 stocks combined.

Precious Metals

Precious metals were among the standout performers of 2025 and played an important role in portfolios focused on preserving purchasing power. Gold rose more than 64% over the year, marking its strongest annual gain in more than four decades. But silver was the undisputed champion of the year, surging a whopping 142%, its largest increase since the late nineteen seventies. This was due to its dual role as a safe haven asset and a critical industrial component for AI data centers and solar infrastructure.

What made the move in precious metals notable was not just the magnitude of the gains, but the source of demand. Buying was driven primarily by non-Western central banks and international investors seeking diversification away from US financial assets and currencies. This was not a speculative retail phenomenon, but a deliberate shift by institutional buyers responding to concerns around fiscal discipline, currency stability, and geopolitical risk.

Source: Bloomberg

Fixed Income

2025 remained a challenging year for traditional fixed income. Broad universe bonds, meaning the aggregate bond market, gained roughly 2.6%. Returns were uneven. Emerging market debt was a bright spot at roughly 13% to 19%, and US high yield delivered about 7.5% to 8%, while long bonds continued to struggle, declining roughly 0.8%. In Canada, the Bank of Canada cut rates through the year, bringing the overnight rate to 2.25% by year end. In the United States, the Federal Reserve held rates at restrictive levels for most of the year, with the policy rate capped around 3.75%, before cutting by 25 basis points late in 2025.

Bonds also failed to provide consistent protection during periods of equity volatility, as both stocks and bonds were influenced by the same inflation and liquidity forces.

The takeaway is straightforward. Traditional fixed income on its own was not a sufficient diversification tool in

2025. Building resilient portfolios required a more flexible approach that extended beyond conventional bond exposure and incorporated alternatives and real assets.

US Policy Under Pressure

The economic landscape of 2025 reinforced a familiar reality for Canadian investors. Geography still matters, and developments in the United States continued to influence capital markets, currency movements, and purchasing power north of the border. From the spring tariff tantrum and the so-called Liberation Day rhetoric, to shifting priorities in Washington, it became increasingly clear that policy decisions and political messaging were as influential as the economic data itself.

After beginning the year in a restrictive stance, the Federal Reserve reversed course. Balance sheet reduction came to an end with assets still totaling approximately $6.5 trillion. To ensure smooth functioning in funding markets, the Fed resumed Treasury Bill purchases at a pace of roughly $40 billion per month. While the language avoided familiar labels, the practical outcome was clear. Liquidity was reintroduced to limit interest rate volatility.

This policy shift occurred against a mixed economic backdrop. Consumer prices remained near 3%, above the Fed's stated target, while labor market conditions softened. The unemployment rate rose from 4.1% in January to 4.6% by November. The message in the data was straightforward. Policy makers were willing to tolerate higher inflation in order to avoid deeper stress in employment and financial markets.

By late 2025, the most watched economic indicator wasn't the Fed's dot plot, but the decibel level of communication between the White House and the Fed. While the Federal Reserve maintains its 'formal independence' with the weak conviction, President Trump made it impossible to ignore.

That tension escalated into something more serious on January 11, 2026, when reports surfaced of a criminal investigation involving Chair Jerome Powell tied to the renovation of the Fed's Washington headquarters. The project has been criticized for a roughly $700 million cost overrun, and the stated focus of the inquiry relates to the handling and disclosure of those costs. Regardless of the legal validity, the market's interpretation of the Fed's future autonomy is what matters most.

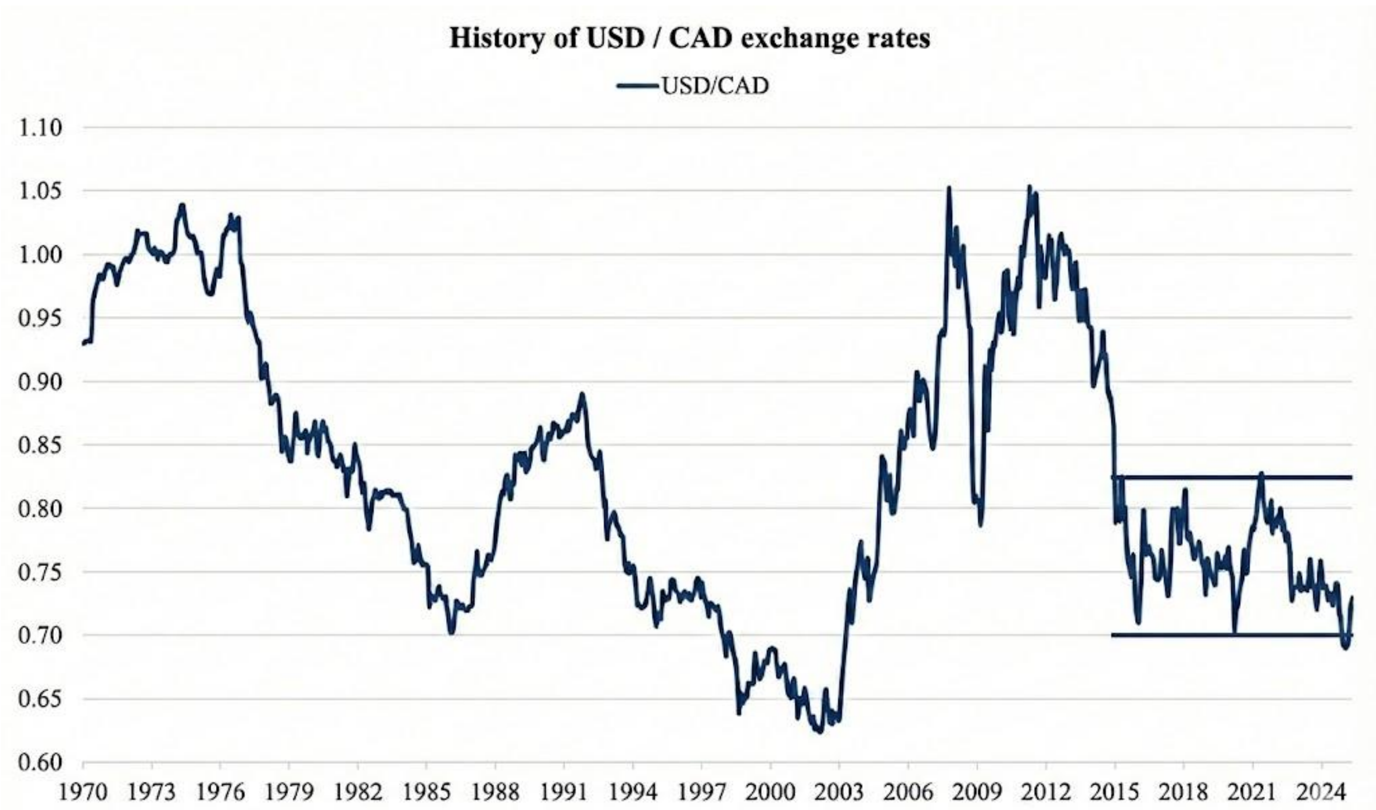
The result is an additional layer of uncertainty at a time when investors were already focused on liquidity and rate expectations. When markets begin to question the boundary between politics and monetary policy, volatility can arrive quickly, and policy signals become less reliable.

A Stronger Loonie

For Canadian investors, 2025 was a year where currency gave with one hand and took with the other. The Canadian dollar clawed back much of the ground it lost in 2024 against the US dollar, and that move meaningfully changed the final results for diversified portfolios.

What stood out most was the loonie's resilience despite a clear policy divergence. The Bank of Canada ended the year at 2.25% while the Federal Reserve remained materially higher, yet the Canadian dollar refused to buckle. One explanation is that currency markets began to price a growing premium into the US dollar as political and legal uncertainty started to hover around the Federal Reserve and broader US policy direction.

Looking back over the long history of the exchange rate, the loonie has experienced wide swings at times, but it has traded in a surprisingly narrow range since 2016. Even through the inflation surge of the early 2020s, the currency remained relatively anchored. By the close of 2025, the Canadian dollar pushed toward the top of that recent range, finishing at roughly 73 US cents. That represented a gain of nearly 5% versus the prior year end.



Source: Bank of Canada

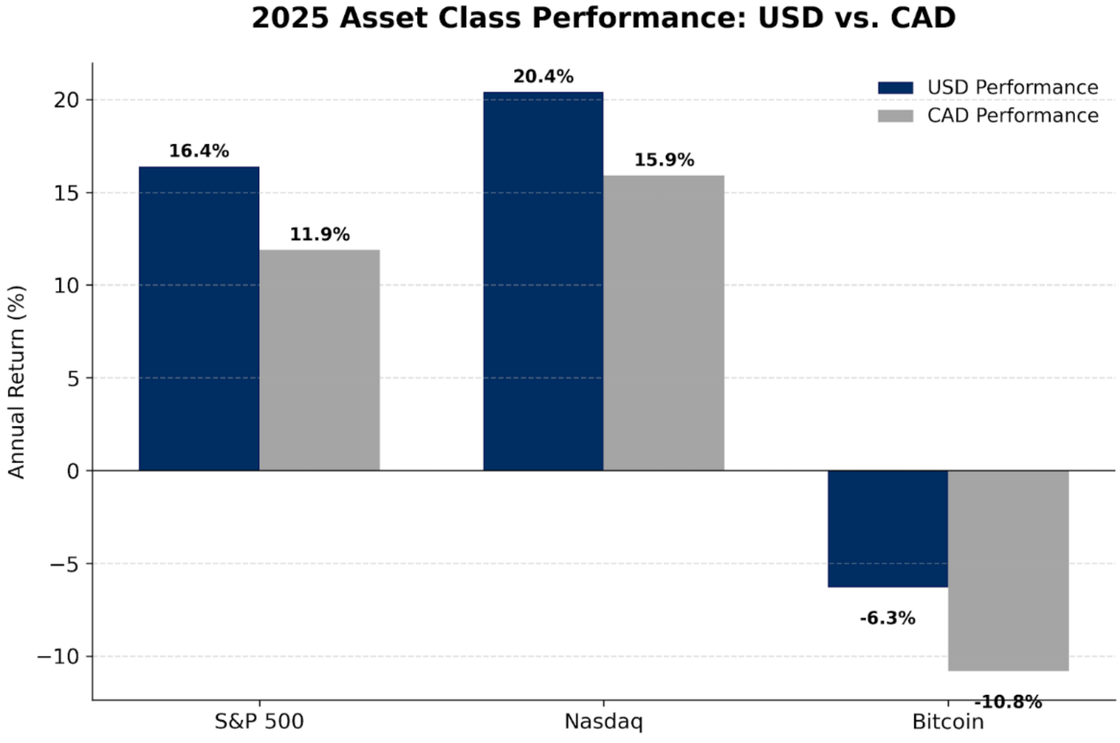
Investing 101: The Impact of Currency on Real Returns

So why does a stronger Canadian dollar matter? If you own US investments without currency hedging, you are really making two bets at the same time. The first is on the investment itself, like an S&P 500 index or a US-listed stock like Meta. The second is on the US dollar holding its value versus the Canadian dollar.

When the loonie rises, it quietly chips away at what those US holdings are worth once they are translated back into Canadian dollars. Think of it as a currency tax. Even if a US stock goes nowhere, a 5% rise in the Canadian dollar can still translate into roughly a 5% decline in the value you see in your Canadian account.

This effect shows up even more during strong markets. When US equities are rallying, a stronger loonie takes a bite out of the gains, meaning you keep less of what the market delivered. The only way to offset that drag is for the underlying investment to rise enough to outpace the currency move. In 2025, for example, the Nasdaq gained just over 20% in US dollar terms. Once currency was accounted for, the return for Canadian investors was closer to 16%.

The takeaway is simple. Currency can be a tailwind or a headwind. That is why we treat currency exposure as a core portfolio decision, not an afterthought.

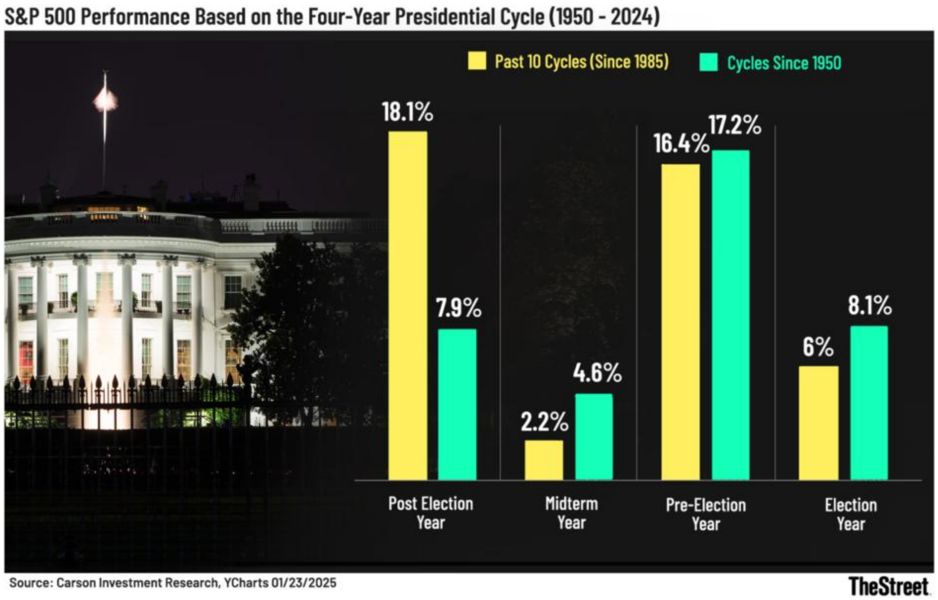


Source: Guru Focus & Google Gemini

2026: Where Do We Go Next?

Like any other year, the outlook for 2026 is likely to be shaped by several competing themes rather than a single dominant narrative.

In the United States, two related forces are likely to shape market expectations in 2026. The first is the Federal Reserve transition, with Jerome Powell's term expiring in May and markets focused on the tone, credibility, and perceived independence of the next Chair. The second is the political cycle, with midterm elections approaching and a clear incentive for the administration to support growth and financial markets. Taken together, this backdrop suggests the White House will do everything it can to encourage supportive policy conditions, including more liquidity, lower borrowing costs, and an environment that helps corporate earnings momentum heading into the midterms. Historically, midterm election years have produced some of the lowest average returns within the Presidential cycle, a reminder that policy support does not always translate neatly into market gains.



The economic picture is becoming more mixed. Productivity remains strong, while labor market conditions have softened. That combination can support margins, but it also raises questions about the durability of earnings growth if employment continues to weaken. Valuations in several areas of the market also leave less room for disappointment, which tends to amplify reactions to missed expectations.

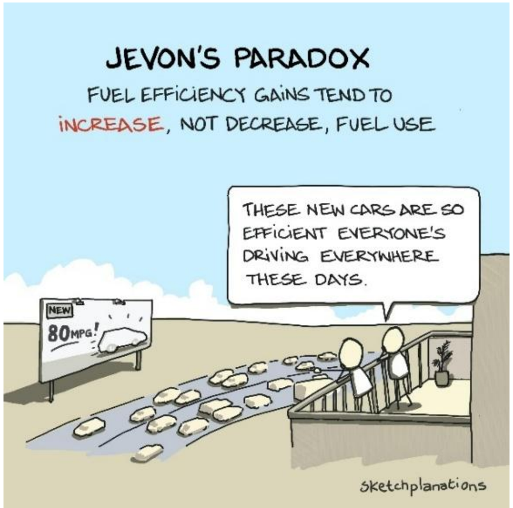
The artificial intelligence narrative is evolving from spending to results. After a period dominated by infrastructure buildout, attention is shifting toward productivity and profitability. In 2026, markets are likely to reward companies that can translate AI adoption into real efficiency gains, which could broaden leadership beyond a narrow group of providers.

Trade policy remains another important variable. As global supply chains continue to adjust and key trade agreements come under review, negotiation risk and political rhetoric may resurface. These developments are unlikely to drive markets in a straight line, but they can influence sector leadership and introduce periodic volatility.

From a technical perspective, the long-term uptrend in the S&P 500 remains intact. The chart shows a consistent pattern in this cycle: pullbacks toward the 200-week moving average have repeatedly acted as support, followed by renewed advances. At the same time, the index is currently extended above that long term trend line, and history suggests a 20% to 25% correction would not be unusual even within a healthy bull market.

Source: Investing.com

Behavioural Investing: The Jevons Paradox



The Jevons Paradox is a helpful way to think about what is happening with AI. The idea is simple. When technology makes something cheaper and easier to use, people usually end up using more of it, not less. In the 1800s, better steam engines did not reduce coal use. They made steam power more attractive, so the world built more engines and burned more coal. AI is similar. As the cost of intelligence falls, companies are not sitting back and saving money. They are racing to use more AI, which is one reason we are seeing such aggressive spending on data centers, chips, and infrastructure.

This matters for investor behaviour because it tends to trigger a few predictable mental traps:

1. **Linear Extrapolation (Infinite Growth):** Investors see early AI efficiency gains, like faster coding or automated customer service, and assume those gains will scale smoothly and permanently. Markets then start pricing in endless margin expansion, even though lower costs often attract new competitors, and the advantage can get competitive over time.

2. **Fear of Missing Out:** Because the AI story is easy to understand and widely repeated, it herds capital. Companies spend heavily to avoid being left behind, and investors chase the same winners because everyone else is doing it. That crowding effect can push valuations beyond what current profits support.

3. **Overconfidence and Recency Bias:** Strong early returns from AI leaders can make investors believe the current trajectory is permanent. People anchor on what just worked and assume it will keep working, even though technology cycles tend to come in waves and the path from spending to sustainable profitability is rarely smooth.

The takeaway is not that AI lacks long term merit. If anything, the Jevons Paradox suggests it will become even more widespread than most expect, and that optimism and productivity gains can continue to fuel this cycle. The risk is that markets often price in the full benefit too quickly.

For disciplined investors, the edge is staying constructive on the innovation while staying grounded on expectations and valuation. This is also why portfolio insurance matters. Bull markets can overshoot, and drawdowns often arrive when confidence is highest. Downside protection helps preserve capital and stay invested through the full cycle.

The MacNicol Investment Team

Firm Wide News:

We are pleased to offer complementary Financial Plans for our direct clients, as well as complementary portfolio review consultations for friends and family who may benefit from a second opinion.

The 2025 RRSP contribution deadline is March 2. The maximum RRSP deduction limit for 2025 is the lesser of $32,490 or 18% of your 2024 earned income. If you would like to top up your RRSP before the deadline, please contact Angela Knapp or Ruchi Aggarwal and they can outline the easiest way to contribute.

Looking ahead a few other registered account reminders for 2026:

- RRSP contribution limit is the lesser of $33,810 or 18% of your 2025 earned income. Setting aside roughly $2,800 per month would put you on pace to reach that target over the year.

- TFSA contributions are $7,000, plus any unused TFSA room carried forward from prior years. Withdrawals made in 2025 are added back to your contribution room in 2026.

- RESP contributions of $2,500 per child can help maximize the 20% CESG grant, up to $500 per beneficiary.

- FHSA contributions are $8,000 per year for eligible first-time home buyers. For children or grandchildren age 18 or older, it can be worthwhile to open an FHSA early, since contribution room starts only once the account is opened, unlike a TFSA where room accrues automatically. If you'd like to learn more about these registered plans, please contact our Team.