4Q25 | YEAR-END MOMENTUM AMID SOME DISINFLATIONARY TAILWINDS

INVESTMENT ENVIRONMENT

- Markets pivot to 2026 with optimism as trade pragmatism and cooling inflation broaden the recovery beyond AI-driven wealth concentration.

EQUITY MARKETS

- Improving financial conditions and M&A momentum create a constructive setup for sectors previously hampered by high rates.

FIXED INCOME MARKETS

- Yield curve volatility persists despite central bank easing, yet corporate credit appetite remains very strong, absorbing significant issuance.

INVESTMENT ENVIRONMENT | NAVIGATING TOWARD BROADENING GROWTH

The year just ended witnessed a dizzying number of geopolitical and global trade-related developments. With the exception of the initial aftermath of 'Liberation Day,' financial markets navigated this volatility well and delivered strong returns. While we expect a less eventful 2026 on these fronts, early days suggest the year may still be headline-rich. The recent capture and extradition of Venezuelan President Maduro to the U.S., ostensibly in support of economic and security objectives, points to continued bold actions by the U.S. administration. The situation remains fluid, with many variables and potential implications that we delve into further in the Equity Markets section of our report.

Last year, Trump's aggressive agenda of immigration reform, spending cuts, and tariffs initially saw broad support. However, as affected areas of the economy cooled, there was a greater recognition that full implementation may have cemented sticky goods inflation and entrenched supply chain friction, thereby negatively impacting consumers. This realization—coupled with industry pressure and midterm election risks—has led to a recalibration of the administration's approach.

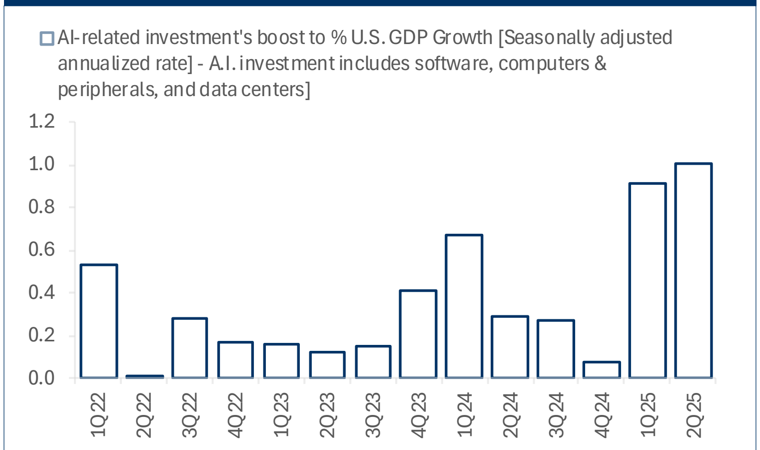
Consequently, while the White House maintains its aggressive rhetoric, actual policy execution has been defined by strategic retreats and delays, suggesting that economic pragmatism is quietly superseding ideology. For Canadian investors, this provides cautious optimism for a trade resolution this year—be it a modernized USMCA or a shift toward bilateral terms. Furthermore, a U.S. Supreme Court decision upholding limits on the Emergency Powers Act would serve to clarify the boundaries of executive tariff authority. While the administration would seek alternative frameworks, a ruling favoring a more structured legislative process would temper trade adjustments and reduce some uncertainty currently weighing on cross-border investment and trade.

While trade policy seeks more stable footing, the AI ecosystem continues to advance at breakneck speed, fueling global capital spending and economic growth (Figure 1). While the outlook remains robust, the sector faced increased scrutiny this past quarter as investors questioned whether physical constraints—primarily power demands—might stall expansion. Furthermore, complex financing arrangements have shifted the focus toward revenue capture for both foundational model providers and specialized software niches. Moving forward, agentic AI adoption, the 2026 IPO pipeline, and clearer evidence of return on investment will likely shape market sentiment and expectations for growth.

This surge in AI-driven market value has sustained the "wealth effect" for high-income earners. This has widened the divide in the two-track consumer recovery, leaving lower wage and younger workers to struggle under high interest rates and inflation. November's cooling inflation data was a welcome sign for this latter group, despite potential reporting gaps from the government shutdown (Figure 2). While some metrics like Owners' Equivalent Rent may be understated, they align with broader downward trends in real estate. Sustained disinflation would give the U.S. Federal Reserve (The Fed) flexibility to cut rates, providing support for lower-income consumers and the broader economy.

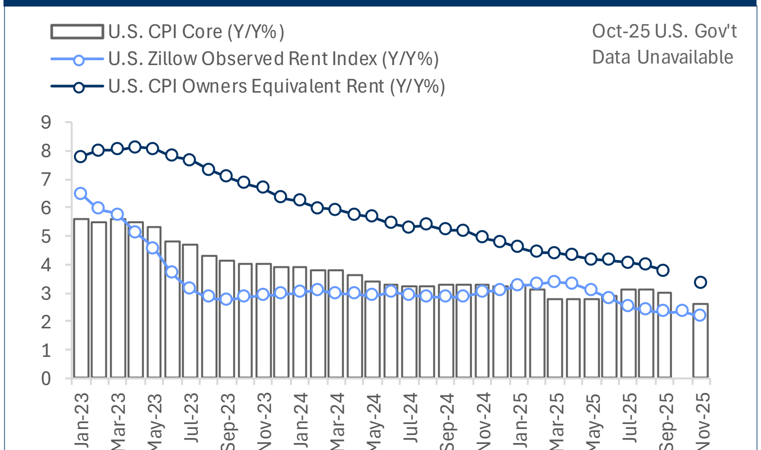
Looking into 2026, the macro backdrop appears slightly more supportive as policy and tariff uncertainty fades, helping rebuild corporate confidence and lift the odds of stronger capex, hiring, and a continued strength in Mergers and Acquisitions. In parallel, easing inflation and a lower-rate environment should improve consumer spending capacity—especially for big-ticket discretionary items. With infrastructure and defence spending continuing, and the multi-year AI capex cycle intact, 2026 looks positioned for broader and more durable growth.

FIGURE 1: AI INVESTMENT HAS BOOSTED U.S. GDP



Source: Wall Street Journal and Barclays | Last Datapoint 2Q25

FIGURE 2: INFLATION LOOKS CONTROLLED DESPITE 'FUZZY' DATA



Source: LSEG Workspace & Zillow | Last Datapoint Nov-25

EQUITY MARKETS | CONTINUED STRENGTH WITH SOME IMPROVING MARKET INTERNALS

Equity Index Returns				
	4Q25 (CAD)	4Q25 (USD)	YTD25(CAD)	YTD25(USD)
Global (Net)	1.6%	3.1%	15.4%	21.1%
Canadian	6.3%		31.7%	
CDN Small Cap	10.2%		50.2%	

Equity markets maintained their upward momentum in 4Q25. Within global markets, leadership rotated toward Healthcare, Financials, and Information Technology—most notably semiconductors and hardware. Healthcare benefited from easing drug-tariff fears, while Financials gained on improved interest-rate conditions. In contrast, Industrials, Consumer Discretionary, and Software lagged during the quarter. Global thematic trends were largely mirrored in Canadian markets, though Materials stood out as a notable exception due to the strength of mining stocks. A potential shift has emerged via signs of broadening market participation, although the durability of this move remains difficult to assess. As economic growth improves and financial conditions gradually ease, we expect the broadening trend could extend into 2026— potentially creating a more constructive setup for sectors that have been working through softer activity levels.

BIM EQUITY FRAMEWORK

Looking ahead, several market segments are poised for continued momentum. Notably, the record-breaking pace of mega-mergers in 2025 is expected to broaden into the middle-market and private equity sectors throughout 2026 (Figure 3). These dynamics have already bolstered the capital markets franchises of major banks and are expected to provide further tailwinds in the year ahead; accordingly, we continue to maintain healthy exposure to this space.

Additionally, certain areas that struggled in 2025 are showing signs of stabilization and appear well-positioned for growth. Some consumer-facing sectors previously hampered by high borrowing costs and trade policy uncertainty are beginning to see these pressures ease, while also benefiting from the incentives within the 2025 U.S. tax reform. Furthermore, we see early signs of a recovery in the transportation sector as significant headwinds—most notably structural overcapacity in North American trucking, persistent inventory imbalances, and geopolitical trade shifts that disrupted global volume—begin to fade. We discuss further in the Global Markets section below.

GLOBAL MARKETS

For much of the last few years, early-cycle equities have lagged under three converging forces: a fading COVID-era boost, high rates constraining investment, and 2025's tariff uncertainty. As policy ambiguity subsides and rates ease, the hurdle for committing capital should drop. This creates a more favorable backdrop for confidence to heal and for spending to broaden beyond a few resilient pockets.

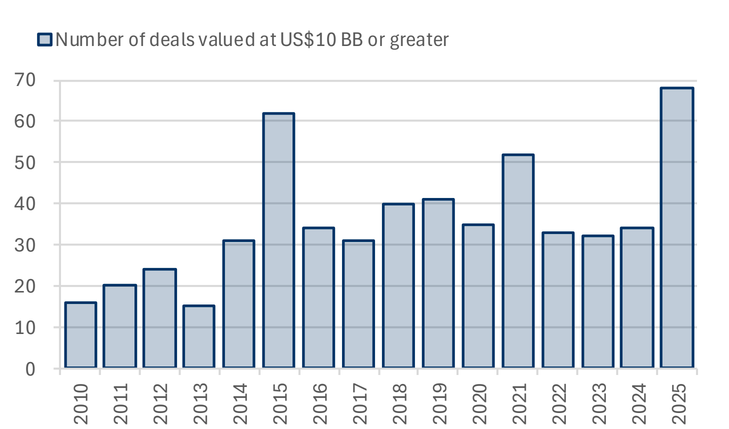
In this environment, Industrials are often the first beneficiaries. Many businesses have seen soft routine activity—maintenance, small projects, and general capex—where orders can rebound quickly once customers gain clarity. What softened fast can recover fast; even a modest sentiment shift can drive meaningful demand across supply chains. Transportation-oriented industrials respond early as activity lifts shipment volumes. Our position in DSV A/S fits this view: as a leading freight forwarder, it offers direct leverage to improving global trade flows, with an additional tailwind from the Schenker acquisition. While normalization depends on growth and inflation, the direction of travel is clearly improving.

CANADIAN ALL-CAP MARKET

Canadian banks enjoyed a strong fourth quarter and a great year overall. As mentioned earlier, capital markets divisions performed very well, and these franchises are expected to maintain their momentum. Fee-related businesses, such as Wealth Management, also reported strong results, while recent rate cuts helped lending margins. Moving forward, assuming reasonable revenue growth and positive operating leverage, banks should make continued progress toward Return on Equity (ROE) objectives that should be valuation supportive.

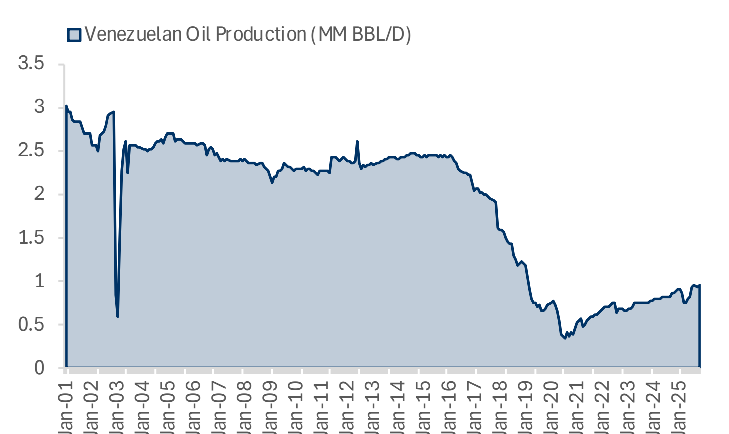
As the calendar turned, Canadian energy markets were spooked by the prospect of Venezuelan heavy-grade production returning to historical levels upon Maduro's capture and Trump's stated goal to revitalize Venezuela's oil industry (Figure 4). Establishing in-country stability is a prerequisite for any analysis of the tens of billions in annual spend required to restore production levels, and rule of law, regulatory certainty, and cost of supply would all influence the investment calculus for producers considering re-entry. Ultimately, under the assumption of a slow, capital-intensive transition for the Venezuelan energy industry, we would view such a shift as a slight negative at the margin for Canadian energy. While recent events intensify calls for broader export infrastructure, integrated producers like Suncor (SU) are best positioned to navigate this landscape via their internal refining capacity, which insulates cash flows should future Venezuelan heavy crude impact North American pricing differentials.

FIGURE 3: 2025 WAS A BANNER YEAR FOR MEGA DEALS



Source: Wall Street Journal and LSEG Workspace

FIGURE 4: VENEZUELAN OIL PROD'N WELL BELOW PAST LEVELS



Source: LSEG Workspace | Last Datapoint Nov-25

CANADIAN SMALL-CAP MARKET

The Canadian small cap benchmark surged ahead during the fourth quarter, led as it has been all year by bull-market enthusiasm in the metals complex. Gold prices lifted 57% in 2025 (CAD), driving small cap gold miners +182% and leaving other non-mining areas of the market lagging behind. With small cap energy also performing well, resources sectors (materials and energy) now represent 62% of the small-cap bench (up from 50% last year), a level we have not seen since we began tracking weights. This extreme commodity exposure has rendered the benchmark less informative for active diversified managers.

Though we are optimistic trade and policy uncertainty improves, as noted above, 'hope' – as they say – is not an effective investment strategy. We continue to view a "made in Canada" solution as imperative for solidifying the economy and providing resilience to shifting global allegiances. This is crucial for small caps, which have a heavier domestic focus, and we've been gearing the portfolio towards ramping capital investment at home. During Q4, we added a few positions that fit this Canadian self-help theme. 1) AECON (ARE) is a Canadian construction company levered to infrastructure spending, including nuclear power expansion and complements our existing holding in Bird Construction (BDT); 2) Black Diamond (BDI) is a leading provider of mobile and remote accommodation, set to benefit from the burgeoning LNG export investment; and 3) MDA Space (MDA) is a global leader in satellite systems and robotics seeing record backlog with defense spending and communication requirements on the rise and MDA benefiting as our domestic champion.

BIM EQUITY THESIS SPOTLIGHT

One new addition to the small cap portfolio worth elaborating on is Extendicare (EXE). Like larger-cap Canadian holding Chartwell Retirement (CSH-U), EXE is benefitting from aging demographic tailwinds driving strong demand growth, albeit in an adjacent segment. While CSH-U focuses on retirement homes, EXE is involved in many different aspects of long-term care in Canada, including owned/operated homes, third-party management and a growing home health care business. Management has made a strategic pivot to focus growth in the "capital light" areas of the business (home healthcare, managed services), which has accelerated growth and improved returns over the historical heavily regulated cash flow base. EXE is now highly free cash flow generative and boasts an underutilized balance sheet (helpful to drive future growth) and undemanding valuation, which in our view does not yet reflect the improved quality of the business.

Post our investment, two positive developments have served to push shares higher and initially validate the thesis. First, Q3 results handily beat expectations with growth and margins ahead of consensus expectations, and demand for home health care expanding. High growth, margins, cash conversion are all aspects we believe the market is missing. Next, EXE announced a highly accretive acquisition of a large home health care competitor, CBI Home Health. The deal expands the business to a more national presence (vs primarily Ontario). It also provides evidence of the continued pivot to higher-growth verticals and upside optionality from the clean balance sheet to execute on meaningful M&A—both key tenets to the investment rationale.

FIXED INCOME MARKETS | ROBUST DEMAND FOR CORPORATE CREDIT

Fixed Income Index Returns		
	4Q25	YTD25
Canadian	-0.3%	2.6%

Even though The Fed implemented two rate cuts totaling 50 basis points in the fourth quarter—and the Bank of Canada followed with a single 25-basis-point reduction in October—both central banks adopted a firmly data-dependent stance, refraining from pre-committing to further easing. Emerging stresses in the labor market, combined with inflation remaining somewhat elevated above target levels, injected persistent uncertainty into the future policy path. This backdrop fueled notable volatility in the bond market, with 5-, 10-, and 30-year government yields moving more than 20 basis points wider even as overnight rates declined, highlighting the disconnect between short-term policy signals and longer-term rate expectations (Figure 5).

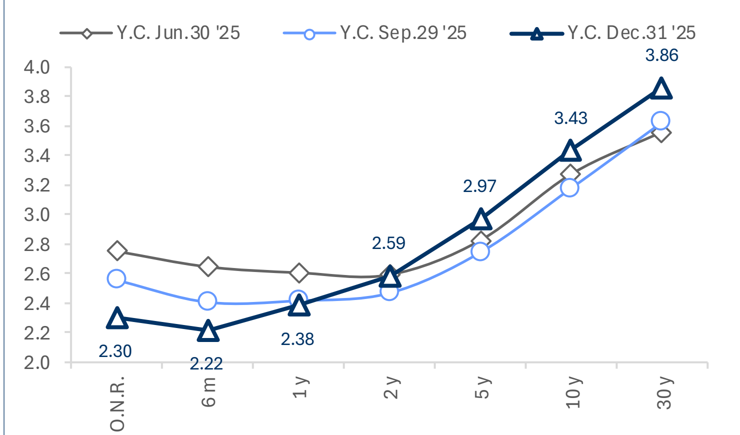
Corporate bond spreads continued their relentless grind tighter throughout the quarter. The most significant compression was observed in the 10-year maturity bucket across all ratings, as investors chased yield in the intermediate segment amid a backdrop of resilient corporate fundamentals. BBB-rated corporate bonds outperformed markedly, benefiting from elevated carry and narrowing value gaps relative to higher-rated peers. Conversely, short-dated bonds (maturities under 5 years) rated AA and A widened by 2 to 5 basis points. Some fixed income investors have begun "high-grading" their portfolios—favoring shorter-duration, higher-quality names—amid concerns that spreads have reached their tightest levels in at least five years, prompting caution against overextending credit risk.

Fourth-quarter corporate debt issuance in Canada reached $40 billion, comfortably surpassing historical averages. The market's ability to seamlessly absorb this substantial volume of new supply further validates the depth of institutional demand and strong backdrop for corporate credit.

BIM FIXED INCOME FRAMEWORK

We maintained an overweight stance on corporate bonds, concentrating exposure in the intermediate segment (10 years and shorter) to capture spread compression and yield pickup. A modest allocation to longer-dated infrastructure debt targeted compelling relative value with low default risk. In sovereigns, we remained underweight federal and provincial issues overall, but favored the long end to capture term premiums in provincial bonds. By prioritizing liquidity and rigorous credit assessment, we successfully navigated volatility, preserving capital while capturing alpha from selective opportunities.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: LSEG Workspace

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