



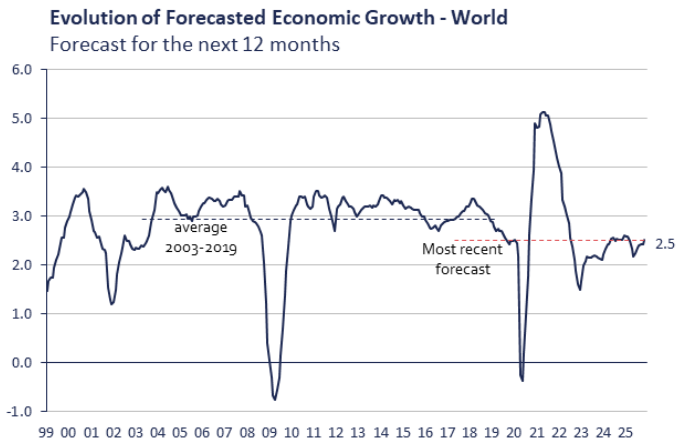
Market Review

DECEMBER 2025

Economic Review

Caution among central banks: Is monetary easing coming to an end?

Economist forecasts over the past two years have generally turned out to be overly cautious. Despite ongoing global uncertainty, the economy has been more resilient than expected. Sustained government stimulus, the wealth effect generated by rising stock markets—especially for affluent households—and, in 2025, the unexpected rebound in confidence following the announcement of U.S. trade tariffs contributed to a more resilient economy than expected, despite a still uncertain global environment. While economists agree that global growth will remain below pre-pandemic levels in 2026 and 2027, growth could beat expectations once again over the coming year.



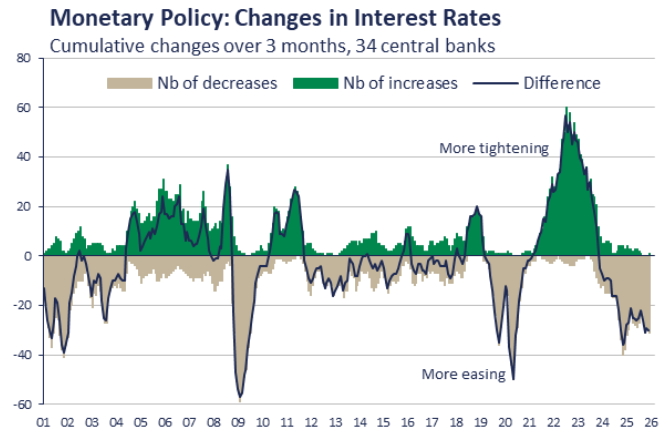
Sources: DGAM, Consensus Economics, December 2025

Leading indicators in several regions suggest conditions are improving, except in the United States, where they point to a slowdown. The consensus forecast for the next 12 months predicts global growth of 2.5%, in line with the 2025 average,

although this is expected to be uneven across the major economic regions.

Monetary Policy

Most central banks continued to ease monetary policy over the final quarter of 2025. The US-led trade war prompted central banks in multiple countries to lower rates as a precautionary measure.



Sources: DGAM, central banks, LSEG, December 2025

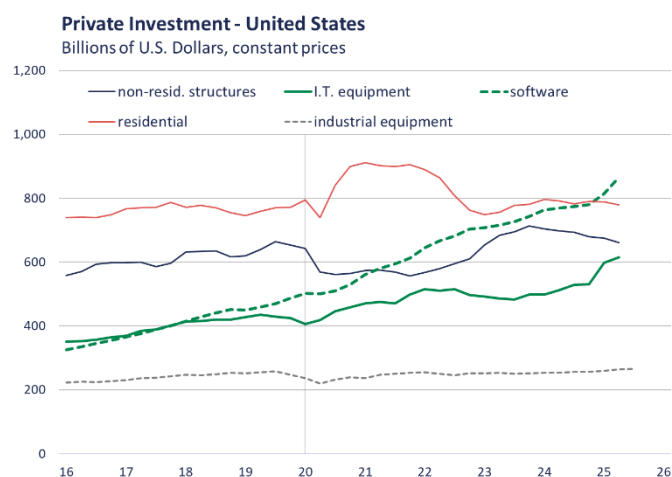
In the United States, the trade war renewed inflationary pressures, leading the Federal Reserve (Fed) to signal that it would act more cautiously going forward, after two successive 25-basis-point rate cuts in the fourth quarter. Consequently, expectations of further cuts in 2026 may prove overly optimistic unless unemployment rises sharply or the next Fed chair, to be appointed by President Trump, takes a more accommodative stance.

Meanwhile, central banks in certain other countries have hinted that they will take a more hawkish approach in the future. This is the case in Japan, where inflation remains sticky, and in Europe, where headline inflation is still slightly above the 2% target. This

means that, without a significant drop in demand that drives unemployment higher and reduces inflationary pressures, the current monetary normalization cycle may be ending.

United States

US economic growth is expected to remain below the global average, between 1.8% and 2%. Investment, which is concentrated in artificial intelligence (AI) and primarily driven by very large businesses, should continue to buoy GDP growth in 2026. That said, we cannot assume this trend will hold in 2027. Shortages of critical components and energy supply constraints could cause significant delays. In addition, concerns remain about potential excess capacity and the profitability of AI investments. In other sectors, capital spending is flat or declining.



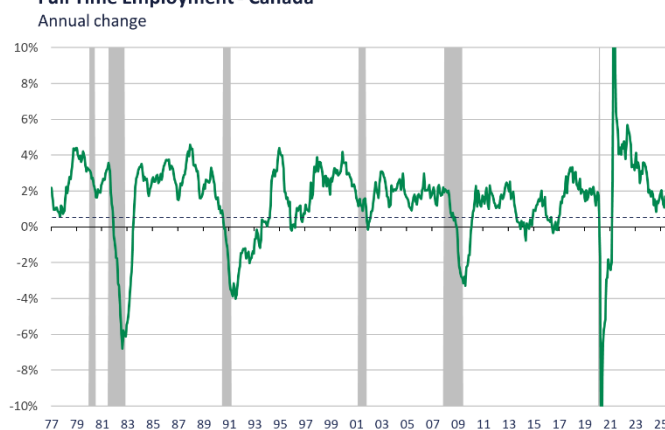
Sources: DGAM, LSEG, December 2025

Despite signs of slowing household demand, forecasters remain optimistic about consumer spending, especially in light of the tax cuts implemented by the US government. But headwinds could stem from a number of factors, such as restrictive monetary policy, a stagnant labour market, worsening social conditions and stubborn inflation. On the other hand, the Trump administration is thinking of giving each taxpayer a \$2,000 “tariff dividend,” in addition to the \$1,000 tax refund that’s already been confirmed for Q1 2026. The net impact of these measures is as yet hard to quantify.

Canada

With all the uncertainty arising from trade tensions with the United States, it’s particularly hard to paint a clear picture of Canada’s economy. Economic data point to significant volatility. This is especially true for the labour market: some 106,000 jobs were shed in July and August, but 180,000 were added after that. Seasonal adjustments and hiring freezes in response to trade tensions explain the summer slump, whereas the autumn rebound resulted from the need for fewer layoffs after the summer hiring freeze. However, employment has slowed markedly overall.

Full Time Employment - Canada



Sources: DGAM, LSEG, December 2025

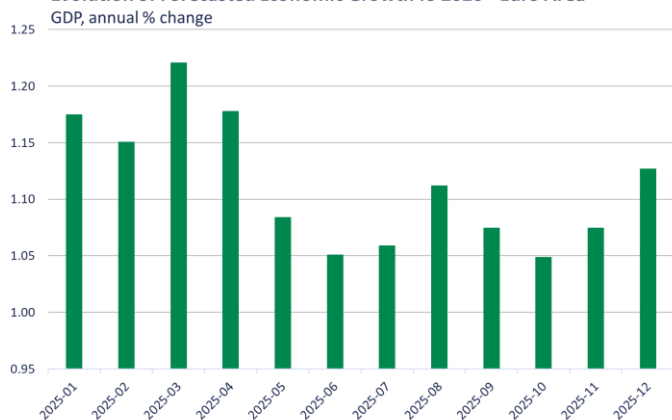
In our view, it is too early to attribute the recent rebound in employment to the resilience of the Canadian economy, especially since domestic demand contracted in the third quarter. On the positive side, increased investment by the federal government and looser monetary conditions should pay off over the coming year.

After cutting its policy rate by 25 basis points (bps) in October to 2.25%, the Bank of Canada is taking a more cautious approach amid the trade tensions with the United States, especially in light of the upcoming CUSMA negotiations. While headline inflation has hovered around the 2% target for over a year, measures of core inflation, which exclude food and energy, show prices rising 2.5% to 3%.

Europe

Growth forecasts for Europe have been revised slightly upward after the economy proved more resilient to US tariffs than expected. Germany is grappling with renewed economic challenges, including industrial decline, difficulty competing with China and US trade barriers. Exports to China, a key growth driver in the past few decades, have fallen 25% over the past three years, while exports to the US have tumbled 20% since last April. The 2025 stimulus package focusing on infrastructure and defence has been bogged down by administrative delays, though investment is expected to accelerate starting in 2026. In fact, orders are on the rise, especially from domestic buyers, which suggests the stimulus is beginning to take effect.

Evolution of Forecasted Economic Growth fo 2026 - Euro Area



Sources: DGAM, Consensus Economics, December 2025

As for France, although third quarter growth was stronger than expected, the uptrend remains modest. Structural reforms and stimulus programs are impossible given government paralysis, political uncertainty and fragile public finances.

With inflation in check, the European Central Bank (ECB) was able to lower its key rate by 25 bps in December. However, we can't assume additional cuts are forthcoming. Inflation rebounded at the end of 2025, coming in slightly above target at 2.3% in December, which justifies a more restrictive tone for 2026.

Asia

Japan's economic climate remains broadly positive. Business investment intentions are still strong despite trade tensions, and the weaker yen will likely strengthen exports. The AI boom should also boost exports of electronic components. Against this backdrop, the new prime minister, Sanae Takaichi, who strongly favours expansionary fiscal policies, recently adopted a ¥21 trillion stimulus package—the largest since the pandemic. The measures are intended to ease the impact of inflation and include tax cuts, energy subsidies and support for consumers. The stimulus package also targets key sectors such as semiconductors, AI, shipbuilding, defence and aerospace. Japan's economy is therefore expected to return to growth in 2026 after GDP fell unexpectedly in Q3 2025.

Elsewhere in Asia, the economic picture remains more uneven. In China, the economy is still being held back by the persistent weakness in the property sector and anemic domestic demand, despite support measures. The five-year plan (2026–2030) tabled in October confirms that the government is looking to boost household consumption in the hopes of making domestic demand a key driver of growth. Beijing has extended its consumer goods trade-in program for the first quarter of 2026. Prospects are brighter in South Korea and Taiwan: the cyclical recovery in semiconductors, driven by global demand for AI and advanced electronics, is boosting industrial production, exports and investment.

Sources: Bloomberg, LSEG and DGAM analyses as of December 31, 2025

Canadian Fixed Income

In the fourth quarter, the 10-year Government of Canada bond yield rose from 3.18% to 3.43%. Over the same period, the FTSE Canada Universe Bond Index returned -0.3%. Corporate bonds within the index returned 0.3% thanks to higher interest rates and narrower credit spreads.

In 2025, corporate bonds generated a total return of 4.5% compared to 2.6% for the FTSE Canada Universe Bond Index. This gap was primarily due to tighter corporate credit spreads and carry.

Provincial Credit

Fall economic updates showed that most provinces' fiscal positions are worse than their original budget estimates, with the exception of Quebec and Ontario. But given the impact on credit spreads, the market may have been expecting worse. At one point, long-term Ontario bonds were trading at a spread of less than 70 bps, a level not seen since 2018. Several factors explain these narrower spreads:

- Supply was lower than expected, as most provincial borrowing programs were already well advanced.
- High coupon payments bolstered demand in December.
- Provincial bonds remain attractive compared to corporate bonds, which are more expensive.
- The economy was more resilient than expected.

As a result of these factors, benchmark spreads for Ontario bonds narrowed slightly, with 5-year bond spreads narrowing by 3 basis points from 17 bps to 14 bps, and 10- and 30-year spreads both narrowing by 10 basis points to 46 bps and 72 bps, respectively. Conversely, credit spreads for Quebec bonds widened by 5 to 10 bps over Ontario due to the political environment. With elections on the horizon in Quebec, volatility is expected to persist.

We still find provincial bond spreads relatively expensive. Even though the provinces are approaching the March 31 fiscal year end in a good financial position, their borrowing programs will resume thereafter. And since their financing needs will likely remain elevated over the medium term, we think there will be better opportunities to increase our exposure to provincial bonds later this year.

Corporate Credit

Credit spreads on corporate bonds in our benchmark index narrowed by an average of 4 bps during the fourth quarter. This was mainly due to sustained demand for corporate credit

combined with a fairly resilient Canadian economy. The CDX North America Investment Grade Index also tightened by 3 bps during the quarter. Spreads narrowed across the curve, tightening particularly sharply beyond 10 years, amid weak activity in the primary market and TELUS buying back more than \$1 billion in bonds. The steeper yield curve makes long-term financing less attractive to companies, resulting in lower issue volume. Despite the recent moderation, the primary market remained very active during the quarter and helped set an annual issuance record.

We believe corporate credit spreads are too narrow relative to market risk, Canada's weak growth outlook, a robust primary market, high geopolitical risk and increased merger-acquisition activity in 2026. We therefore maintain our recommendation to underweight this segment.

Fixed Income Strategy

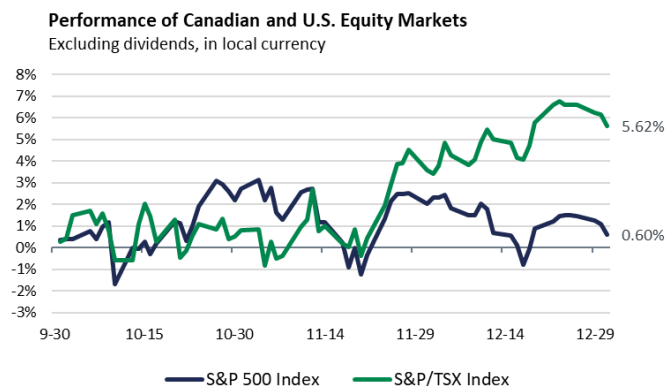
Appetite for risk assets remained strong in the fourth quarter. Stock markets set record highs, driven by an increasingly concentrated group of companies, and US-based hyperscalers issued US\$90 billion in debt, a move that has already had an impact on credit spreads. This situation calls for vigilance given potentially unreliable US employment data, the cautious tone coming from central banks, fragile public finances and expectations that Canadian interest rates could go up in 2026. We took advantage of the past quarter to capitalize on several portfolio positions that had achieved the performance we expected against a backdrop of monetary policy normalization. As a result, we trimmed our exposure to the steepening yield curve as well as our overall duration position. We also reduced corporate and provincial credit positions along the long end of the curve, mainly in December, while maintaining a slight tilt toward longer maturities due to current uncertainties.

Stock Markets

Canadian and US Equities

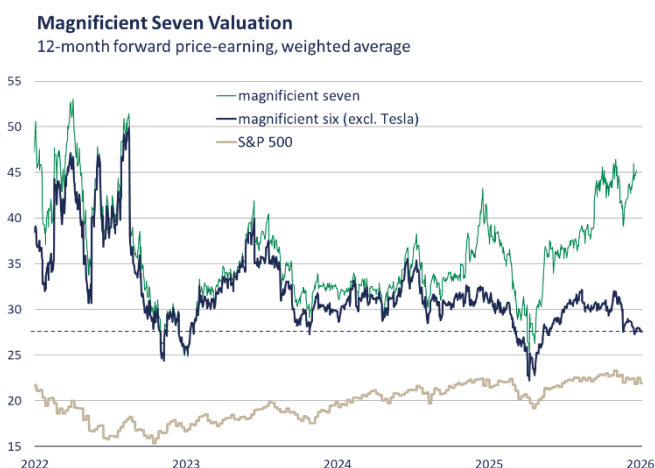
Investors remained optimistic in the fourth quarter, despite all the uncertainty that shaped the year, including the US government shutdown and ongoing concerns related to inflation and trade tensions. As a result, the North American stock markets continued to push higher, though they dipped slightly at the end of the period. The S&P/TSX ended the quarter up 6.3% from September 30, bringing the annual gain to 31.7% (total returns including dividends, in CAD). In the United States, both the S&P 500 and the Nasdaq advanced 2.7%. These indexes posted returns of 17.9%

and 21.2%, respectively, for 2025 as a whole (total returns including dividends, in USD).



Sources: DGAM, Bloomberg, December 2025

In Canada, investor optimism led to a shift toward cyclical stocks in the fourth quarter, with the bulk of the gains going to the materials, financials and consumer discretionary sectors, at the expense of quality stocks. Since it's structurally more exposed to cyclical components, the S&P/TSX reached record levels and outperformed its US counterparts in 2025. At the same time, the technology sector in both Canada and the US is at the centre of a debate over the AI boom, as concerns mount about potential overvaluation, return on investment and the risk of overcapacity.



Sources: DGAM, LSEG, December 2025

Moreover, it will take some time before the real impact of the Trump administration's tariffs—on inflation, employment and economic activity—can be measured. But in addition to trade-driven uncertainty, there are unknowns related to central banks taking a more cautious stance and potentially ending the current phase of monetary policy normalization. This has had an impact on interest rate-sensitive sectors, like real estate and utilities. And yet, investor risk appetite grew, with optimism reaching levels comparable to those seen in the years following the financial crisis (2010–2011), the European Central Bank's quantitative easing program (2015), and the COVID-19 pandemic (2020–2021). This

optimism was reflected in the Bank of America’s December Fund Manager Survey, with 57% of respondents expecting a soft landing for the economy in 2026 and only 3% expecting a hard landing.

Valuation multiples nonetheless edged down in the fourth quarter. At the end of 2025, the S&P/TSX was trading at around 16.7x forward earnings, down from 17.1x three months earlier. In the US, the S&P 500 had a ratio of 21.1x earnings, down slightly from 22.8x at the end of September. Analysts expect earnings per share to grow over the next 12 months, reaching 14.8% for Canadian companies and 11.3% for their US counterparts.

Across Canada, most industries ended the fourth quarter in positive territory, with just the industrial, communication services and real estate indexes recording declines. As in the previous quarter, gold stocks delivered the strongest returns, fuelled by soaring gold prices that reached a record high of US\$4,533 per ounce in December before closing the month at roughly US\$4,319 per ounce. This favourable backdrop provided yet another boost to mining shares, with the sector index posting an 11.9% return in the fourth quarter. In addition, we are still seeing a rotation from quality large-cap stocks to high-beta stocks. Given the renewed interest in more cyclical stocks, the consumer discretionary sector also had a good quarter, with its index value rising 11.0%. The information technology sector, which returned 2.8% in the last quarter, remains under pressure due to concerns that the AI bubble could burst and capital expenditures weighing on share prices.

With uncertainty still high, short-term economic forecasts remain difficult to establish.

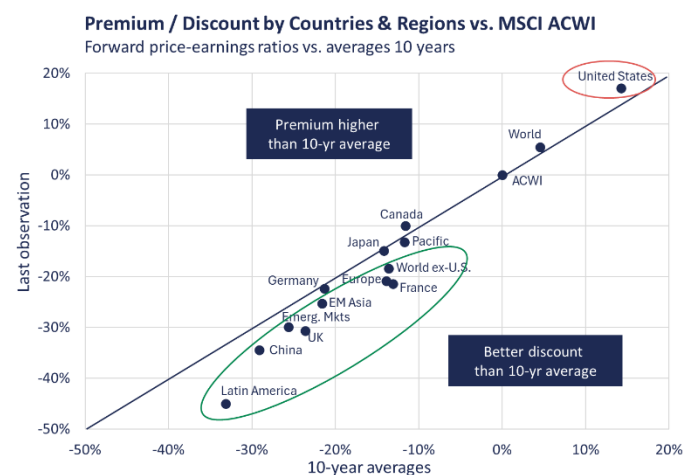
Now more than ever, the situation requires agility. We are maintaining a core of quality holdings, focusing on those most likely to remain resilient across economic cycles. At the same time, we will be looking for opportunities in securities that have undergone price corrections and show concrete signs of improvement. We are taking a balanced approach so that we remain nimble in the face of different economic conditions and seize market opportunities as they arise.

International Equity

The fourth quarter was relatively calm for global equities, compared with the volatility earlier in the year. The MSCI World Index posted an increase of roughly 2.5%. In 2025, the index rose 18.4%—the third consecutive year of strong gains—bringing the rebound from its 2022 low to 90% (total return, net dividends reinvested, in local currency). Momentum accelerated after April, supported by trade deals, optimism about AI and expectations of rate cuts.

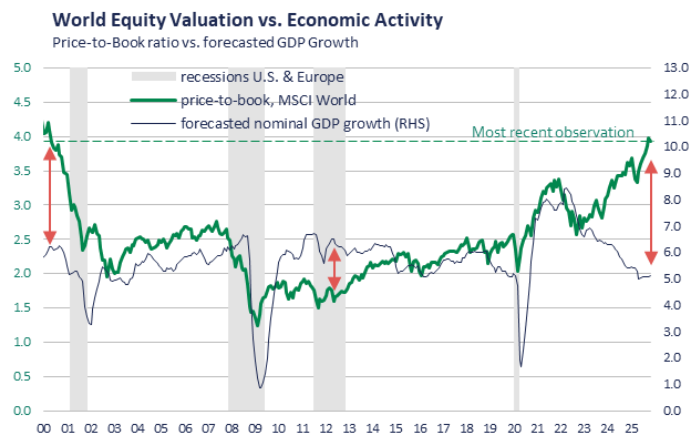
Sector performance was mixed during the quarter: healthcare outperformed with a 10.82% gain, materials were up 5.21% thanks to the rebound in gold and silver prices, and the financials and communication services sectors were buoyed by renewed interest in cheap cyclicals and diversification beyond AI-related stocks. However, concerns about select segments weighed on the tech sector, which had the second-worst performance with a meagre 1.51% return.

Global equity markets remain very expensive by historical standards, with the MSCI World Index at the 97th percentile of its historical distribution. The last time valuations were this high was in December 1999. The US market is still the most expensive, at the 99th percentile, even though it is the only major market to have posted a slight decline. The European market continues to be the most affordable, though its valuation has edged up from the 85th to 88th percentile.



Sources: DGAM, IBES, MSCI, December 2025

In this environment, volatility risk remains elevated, and the expected cyclical rebound appears largely priced in, leaving the long-term outlook moderate amid opposing macroeconomic forces, high valuations and overly optimistic investor sentiment.

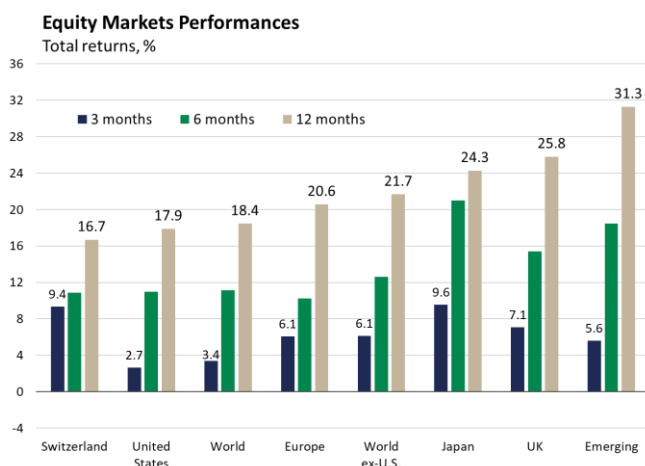


Sources: DGAM, LSEG, Consensus Economics, December 2025

We are keeping a neutral stance in the short term, while maintaining a bearish bias over the next 12–18 months. We continue to favour quality stocks, with a preference for global equities, as their valuations are more attractive and return potential exceeds that of US equities. We plan to shift to a more defensive stance as economic fundamentals or investor optimism weaken.

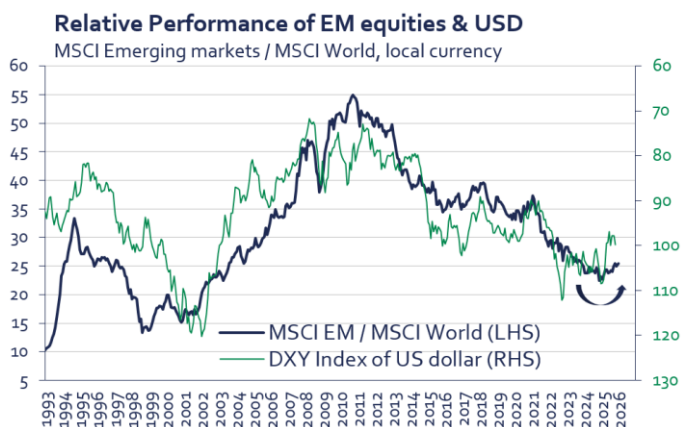
Emerging Markets Equity

Emerging market equities posted a fourth consecutive gain in the fourth quarter, with the index up 5.6%. For 2025, the index returned 31.3%—its best year since 2009—and outpaced developed market equities by 12.8 percentage points (total return, net dividends reinvested, in local currency).



Sources: DGAM, MSCI, LSEG, December 31, 2025

After a 15-year underperformance cycle amid US market exceptionalism, some observers may see this as the start of an outperformance cycle for emerging markets.



Sources: DGAM, MSCI, LSEG, December 31, 2025

The tech sector continues to rally, particularly supporting Taiwanese, South Korean and Chinese stock markets. However, certain market behaviours point to a speculative AI bubble.

Despite elevated prices, we hold a neutral position in the sector, favouring South Korean stocks expected to benefit from the memory (DRAM) cycle, which is less advanced than the semiconductor cycle. China is expected to maintain a highly expansionary stance in 2026, as are the United States, Germany and Japan. This should support export demand in emerging markets, though the strong growth seen in 2025 will be hard to replicate in 2026.

According to our model, emerging market equity valuations sit at roughly the 96th percentile—the most expensive within their historical distribution. However, this market remains very attractive compared to developed markets, especially compared to US equities. Taiwan is undoubtedly the most expensive country. South Korea has now surpassed India as the second most expensive country. At the other end of the spectrum, holdings in Southeast Asia and the Middle East are enjoying particularly attractive valuations.

We are therefore favouring South Korean equities and the communication services sector at the expense of Taiwanese shares and commodity-related sectors. Over the past few months, we increased exposure to South Korean and Taiwanese equities on improving economic fundamentals, while reducing positions in Philippine equities and the consumer staples sector.

Asset Allocation

Heightened vigilance as AI and fiscal stimulus inflate markets

In the current market environment, US equities appear expensive, but valuations remain below the extremes of the 2000 dot-com bubble. Macroeconomic conditions are much more favourable, with the Fed supporting monetary easing and fiscal stimulus anticipated in early 2026. While the economy’s fundamentals remain solid—sustained earnings-per-share growth, contained interest rates, stable profit margins—history counsels caution. Historically, the S&P 500 rarely posted four consecutive years of returns greater than 15%.

At the same time, enthusiasm for AI seems to be maturing, as reflected in the recent differentiation among stocks in this sector and the potential public-market listings in 2026 of Anthropic, OpenAI, Databricks and SpaceX—plans that could be derailed by tighter funding, as seen with WeWork. Valuations for the Magnificent Seven (excluding Tesla) have normalised, market breadth is widening with greater participation from small- and mid-caps, and the average S&P 500 intrayear drawdown during midterm-election years—traditionally the most volatile—is 19%, versus 12% in other years.

A persistent tension—mediated by the Fed—has emerged between economic growth and earnings, and valuations and investor sentiment. Over the past 30 months, valuations and sentiment have risen when the US 10-year Treasury yield nears 4.5%. The global outlook remains supported by Chinese and German fiscal stimulus, lower oil prices and the lagged effects of policy-rate cuts. We are tempering our appetite for risk assets amid concerns over AI overinvestment, off-balance-sheet leverage, private credit, the unwinding of the yen carry trade and geopolitical tensions. Accordingly, we maintain a slight overweight in equities through positions in the equal-weighted S&P 500 (given its limited exposure to very large caps), MSCI EAFE (for its reasonable valuations) and South Korea (in light of its revaluation reform).

Even though the Fed has resumed expanding its balance sheet, a meaningful decline in 10-year yields is improbable in the face of widening fiscal deficits, core inflation persisting above the 2% target, and higher long-maturity yields globally. This time, bond vigilantes seem more interested in AI-linked securities than in Treasuries. AI-sector credit spreads have grown more volatile—

signalling increased unease—even as overall spreads remain near historical lows. We therefore maintain a slight preference for Canadian bonds over US corporates, despite a widening federal deficit in Canada.

The table below shows our positioning recommendations as at December 31, 2025.

POSITIONING					
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CANADIAN EQUITY	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
US EQUITY	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EMERGING MARKET EQUITY	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EAFE EQUITY	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
US 10Y BONDS	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CANADIAN 10Y BONDS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CAN. CORPORATE BONDS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CASH	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

■ Fixed Income					
	Current level	1 month	3 months	6 months	1 year
Yields to maturity - Canada					
Bank of Canada overnight rate	2.25%	2.25%	2.50%	2.75%	3.25%
2 years	2.59%	2.42%	2.47%	2.59%	2.93%
10 years	3.43%	3.15%	3.18%	3.27%	3.23%
30 years	3.86%	3.60%	3.63%	3.56%	3.33%
Credit market					
Mortgage rate (prime rate)	4.5%	4.5%	4.7%	5.0%	5.5%
5-yr credit spreads (CDX.IG)	50	51	52	51	50
5-yr High yield credit spreads (CDX.HY)	317	322	321	318	311
5-yr Emerging debt credit spreads	231	244	258	295	297

■ Fixed Income indices					
	Current level	1 month	3 months	6 months	5 years (ann.)
FTSE Provinces index	1368	-2.0%	-0.6%	1.9%	-1.5%
FTSE Municipal index	1503	-1.6%	-0.3%	3.1%	-0.7%
FTSE Corporate index	1504	-0.6%	0.3%	4.5%	1.5%
FTSE Overall	1200	-1.3%	-0.3%	2.6%	-0.4%

■ Currencies					
	Current level	1 month	3 months	6 months	Variation 5 years (ann.)
CAD/USD	0.73	1.8%	1.4%	4.8%	-7.2%
CAD/EUR	0.62	0.6%	1.3%	-7.6%	-3.5%
CAD/GBP	0.54	0.1%	1.2%	-2.7%	-5.9%

■ Fixed Income					
	Current level	1 month	3 months	6 months	1 year
Yields to maturity - United States					
Fed rate	3.75%	4.00%	4.25%	4.50%	4.50%
2 years	3.47%	3.49%	3.61%	3.72%	4.24%
10 years	4.17%	4.01%	4.15%	4.23%	4.57%
30 years	4.84%	4.66%	4.73%	4.77%	4.78%
Credit Market					
Spreads Ontario - 10 years	41	50	50	57	57
Spreads utilities - 10 years	82	93	92	92	95
Spreads communications - 10 years (BBB)	106	120	116	125	132
Spreads banks - 10 years	72	75	70	82	83

■ Equities					
	Current level	1 month	3 months	6 months	5 years (ann.)
S&P/TSX Composite	31711	1.3%	6.3%	31.7%	16.1%
S&P 500	6846	-1.8%	1.2%	12.4%	16.1%
MSCI World	4430	-1.0%	1.7%	16.0%	14.3%
MSCI Emerging Markets	1404	1.1%	3.2%	28.0%	6.1%
MSCI Global Small Cap.	664	-0.9%	1.4%	14.9%	9.2%

■ Misc.					
	Current level	1 month	3 months	6 months	Yield / return 5 years (ann.)
VIX (level)	15%	16%	16%	17%	23%
Bloomberg Commodity Index	110	-2.5%	3.3%	5.9%	8.6%
Gold	4319	1.9%	11.9%	64.6%	17.9%
WTI crude oil	57	-1.5%	-6.6%	-15.1%	5.1%

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