2026 Market Outlook

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Global macro overview

Finding true "mettle" in a gilded market

Summary points

1. There's more to Canadian equities than gold.
2. Central banks return to rate cuts.
3. Tariff impacts on inflation muted, so far.

Steve Locke
CIO, Fixed Income & Multi-Asset Strategies

Lesley Marks
CIO, Equities

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A reflection on 2025: All that glitters is more than gold

This year delivered another highly profitable year to investors as markets continued to experience widespread good fortune across most asset classes and in most geographies.

Following significant policy-driven disruptions earlier in the year, equity markets staged a strong rebound over the summer and fall. Trade tensions began to ease as the US administration introduced new bilateral tariff agreements with several nations, helping to restore investor confidence.

With moderated tariff rates, these trade agreements mitigated some of the potential risk to global growth that would have persisted had the astonishing "Liberation Day" tariffs remained in force everywhere (Figure 1). This helped to deliver on our prediction that US equities would benefit from optimism that would be ushered in by a new president who promised to produce prosperity to the largest economy in the world through deregulation, an audacious business- and consumer-friendly fiscal package, and incentives to onshore manufacturing within the US borders.

Our expectation that investors would benefit from diverse exposures in undervalued markets like Canada and Europe also came to fruition as fiscal and monetary policy support in both markets helped to broaden equity returns beyond the multi-year dominance of US equities.

FIGURE 1: US average effective tariff rate since January 1, 2025
(Percent of goods import)

Source: The Tax Foundation, The Budget Lab October 17, 2025.

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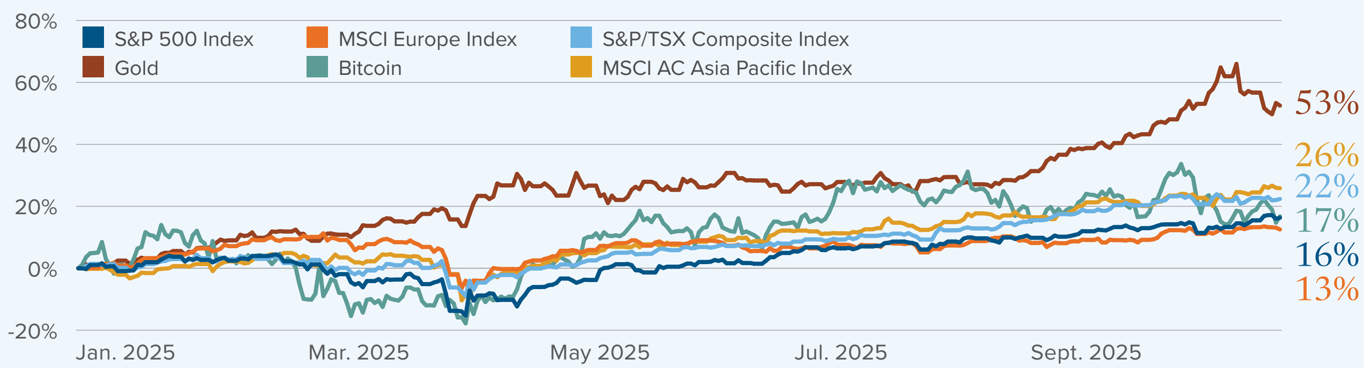
FIGURE 2: Asset class performance
(YTD returns)



Source: Bloomberg, data as of October 31, 2025.

Canadian equity investors were also rewarded by the surge in the price of gold, which gained over 50% this year (Figure 2), bringing the three-year return to more than 150%.

While we were also optimistic on the outlook for gold as a hedge against higher and sustained inflation, we did not anticipate the parabolic move that gold would make due to the trifecta of lower interest rates, increased central-bank buying, and a general rotation from the perceived safe-haven US dollar to hard assets like gold, also known as "the debasement trade".

In emerging markets, concerns about higher exposure to tariffs were offset as their equities were fueled by investing themes such as artificial intelligence (AI), robotics, quantum computing, and electric and autonomous vehicles. These thematic moves were visible across global equities, but most notably evident in Chinese equities, which ranked among the top performing geographic groups of the year.

US investors grew more optimistic as they focused on the outlook for pro-business tax and regulatory measures set for 2026, following the passage of the "One Big, Beautiful Bill Act."

The Bank of Canada responded to the weakening Canadian economy and deteriorating labour market largely as expected, cutting its policy rate by 75 bps over three policy decisions. The bigger story in central bank policy centered on the Federal Open Market Committee (FOMC), where President Trump's power politics had cast some doubt on the future independence of the Federal Reserve. The president's efforts to remove Federal Reserve governor Lisa Cook from her position — currently under review by the courts — together with his criticisms of Fed Chair Jerome Powell, have been widely interpreted as a significant step toward establishing informal control of monetary policy from the executive branch. Weighing the dual policy mandate of price stability and full employment, cracks in the labour market eventually pushed Powell and the FOMC to resume their rate-cutting cycle in September.

Our call for yield curve steepening largely played out this year, as diverging forces shaped the short and long ends of the market. Most central banks reduced their policy rates during the year amid easing inflation concerns, pushing short-term yields lower. Closer to home, the Bank of Canada led the way, trimming its overnight rate more aggressively than the Fed,

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reflecting Canada's relatively lower inflation rate, deteriorating employment data, and weaker economy relative to the US. Both in the US and Canada, longer-term bond yields fell by less than short-term yields as anticipated fiscal deficits expanded in both countries, driving up supply of longer-dated bonds.

Tariff impacts on inflation have been muted so far by import front running and delays to tariff rate implementation. Some tariff-related price increases trickled through to US consumers as the year progressed. Inflation traded in a range of 2.5% to 3% for most of the year, well within the Federal Reserve's targeted range. Our worry that the dramatic tightening of US immigration policies could lead to wage inflation was not realized, as cracks in the labour market generated by the so-called Department of Government Efficiency, tariff-related uncertainties delaying job creations and the weeks-long government shutdown more than offset any labour shortages in aggregate.

Our optimism for corporate bonds in 2025 proved correct as credit spreads tightened steadily through the year — aside from a brief widening during April's equity sell-off. Our call for a higher-quality tilt also paid off: BB-rated high yield bonds outperformed lower-rated B and CCC issuers. Rising defaults among weaker credits pushed the overall market default rate higher, reinforcing the value of higher quality.

Currency also played a significant role in the investing landscape this year. Despite the deteriorating economic backdrop and dovish central bank policy from the Bank of Canada, the Canadian dollar managed to appreciate slightly in US dollar terms, further bolstering the returns of Canadian asset classes compared with those south of the border. The same could not be said for European investments, where the Canadian dollar realized significant deterioration against the euro over the year, helping to boost returns for euro denominated investments for Canadian investors.

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Outlook for 2026: Finding true "mettle" in a gilded market

This year's relentless news from Washington — spanning trade, immigration, central bank policy, geopolitics and government shutdown drama — was taken in stride.

Investors were tested with sharp swings in both equity and bond markets, and 2026 is unlikely to be calmer, promising more chapters from the same playbook. With market volatility currently subdued, risk premiums compressed and valuations stretched amid a clear disregard for notable potential risks, we recommend maintaining a neutral equity-bond asset mix, while broadening diversification across regions and adding selective commodity exposure to portfolios.

Our outlook for bonds is based on the year ahead ushering in a less volatile trade and macroeconomic policy backdrop for bond markets. We also recommend neutral duration exposure. Portfolios should remain overweight in corporate bonds with a focus on quality to mitigate any potential earnings deterioration. Although spreads have narrowed, financial conditions remain generally supportive of funding.

The FOMC may not deliver as many rate cuts as currently anticipated for 2026, as the stimulus from the One Big Beautiful Bill Act begins to kick in and lift US domestic growth. With core inflation likely to hover uncomfortably close to 3%, the Fed will have reason to stay cautious. For markets, fewer rate cuts could be offset by fiscal tailwinds — tax reductions that may add roughly 0.5% to GDP through stronger consumer spending, and renewed business investment fueled by pro-growth tax incentives and the productivity promise of artificial intelligence (AI).

Against a backdrop of weaker domestic growth and the ongoing negotiation of a Canada–US trade relationship, the Bank of Canada may continue with a modest easing path for its overnight rate next year. The economic outlook remains cloudy, with headwinds from upcoming mortgage refinancings expected to weigh on households and potentially prompt further, limited policy easing. Prime Minister Mark Carney's first federal budget aims to generate economic growth tailwinds that will offset trade-related headwinds. Overall, the budget provides for fiscal stimulus with an emphasis on infrastructure spending and capital investment tax incentives for Canadian businesses. Some of these higher costs will be financed through a targeted approach to shrinking the federal government. Although economic stimulus through capital investment can take time to work its way through the Canadian economy, directionally, this provides the greatest chance to improve our ominous productivity quandary and overly north-south

> The FOMC may not deliver as many rate cuts as currently anticipated for 2026.

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dependent economy. Overall, Canadian yields should hold relatively steady, with a modest steepening of the curve likely.

Many observers have pointed to the strong three-year returns and outsized performance in more speculative areas of the market as indicative of a bubble for equities, which would indicate outsized risk in positioning towards equities. Our view toward equities is constructive and supported by four overriding fundamental trends: upside to earnings growth from a deficit-financed fiscal impulse in most major economies in North America, Europe and Asia; continued central bank dovish policy; a capital spending cycle that revolves around defense spending and capital projects; and productivity gains from widespread deployment of artificial intelligence.

Although there are frothy corners of the market, particularly in some of the major themes like AI and cryptocurrencies, most equities are well supported by earnings growth, improving margins, and reasonable valuations. This can best be seen in the valuation of the S&P 500 Equal Weighted Index, which trades at a reasonable 18.5 times price to current year earnings multiple, in-line with long-term averages. Of course, the path will not be a straight line and with little risk priced into equities, an equity correction would be a normal occurrence and not, in our view, the result of a "bubble popping".

But we must not forget about the "testing of the mettle" that comes with equity investing and likely there will be some point where one or more potential risks creates a bumpy ride over the next 12 months. Examples of risks that could derail our outlook are flare-ups in trade tensions with countries that the US continues to negotiate with, like China, or through the renegotiation of the Canada-United States-Mexico Agreement (CUSMA).

Inflation also poses a realistic risk where the aggregate cost of tariffs attributed to US imports is expected to

> Fewer rate cuts could be offset by fiscal tailwinds.

increase by more than 10%, and eventually finds its way into price increases for consumer goods. Another under-appreciated risk would be political, where year two of the US election cycle has historically been the weakest for equity investors of the four-year cycle. With a currently waning approval rating for President Trump, it is within the realm of possibility that the mid-terms may bring about a change in Congress which could lead to more shackles on policy initiatives for this administration.

Commodities remain an essential component of a well-diversified portfolio. While gold prices may appear stretched in the short term, the underlying drivers of its strength are expected to persist, keeping it as an attractive investment opportunity. Beyond gold, other commodities should also be considered — fueled by rising capital investment in infrastructure and technology. Materials such as steel and copper are benefiting from renewed capital spending, while growing electricity demand from data centre expansion is also boosting prospects for uranium, rare earth elements, and natural gas.

With this backdrop, the most effective strategy for investors is to look beyond the familiar index heavyweight names for more reasonably valued equity opportunities that can offer diversification attributes. For portfolios that have leaned heavily on US large-cap exposures, adding to small or mid-cap holdings, Canadian or international equities and commodities could help to diffuse that concentration and balance exposures through any uncertainty that lays ahead.

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Asset class views

Around the world

Global markets are entering a new phase in 2026, shaped by shifting policy, evolving macro conditions and structural change.

Our portfolio managers share their perspectives with Rajan Bansi across asset classes and regions, offering insight into the forces driving investment decisions — from inflation and interest rates to innovation and geopolitical dynamics.

Rajan Bansi

VP, Investment Strategy & Portfolio Solutions

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Fixed income

Konstantin Boehmer
SVP, Portfolio Manager & Head,
Mackenzie Fixed Income Team

With US inflation remaining moderate but persistent and the labour market continuing to cool, how might the Fed respond in 2026?

Konstantin: The cyclical forces leading to a weaker job market may be fading by 2026. New impulses, such as increased fiscal outlays, generous tax refunds and an administration motivated to win the mid-terms, can tighten the labour market again. The impact of technological displacement is likely not yet large enough to create meaningful challenges for employment. In such an environment, inflation will likely remain sticky with upside risks.

The Bank of Canada (BoC) is staring down a lackluster economy still digesting US tariffs. What accommodation do you expect in 2026?

Konstantin: I expect the BoC to cut rates more than markets currently anticipate, unlike the Fed, where I see fewer cuts ahead. This is unusual, because the two economies typically move in tandem. While "this time is different" is often a risky assumption, recent divergence suggests it may well be true, and I expect this trend to continue.

Prime Minister Mark Carney's ambitious budget has come under scrutiny for projected deficits. As a bond investor, what's your view on deficits?

Konstantin: What matters most to investors like me is confidence that we will be repaid. Countries issuing debt in their own currency can always repay, but credibility matters — loss of market trust can weaken the currency. A capital-heavy budget is generally positive as it builds economic potential, and it can be easily financed through international capital markets.

With the US deficit near 6% of GDP, how close are we to the bond market sending Washington a warning?

Konstantin: There is no doubt that US budget deficits are exceptionally high. However, given America's status as a global superpower and reserve currency issuer, these levels remain manageable. Tariff revenues are providing some relief. Increased spending by other countries on defense and infrastructure, together with strong US investment and tariff income, should strengthen the US credit profile, albeit from weak levels.

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Canadian equities

Shah Khan

SVP, Portfolio Manager & Team Co-Lead,
Mackenzie Bluewater Team

Immigration gave Canada a boost in recent years, but that tailwind is fading. How would you characterize the economic regime heading into 2026?

Shah: The immigration-driven growth we've enjoyed is fading, and that's exposing deeper structural issues: weak productivity, rising unemployment, and high household debt. As we enter 2026, I see Canada shifting toward a regime powered by government investment and strategic infrastructure. As the economic levers change, growth will be slower and bumpier, and execution, especially at the federal level, will be critical. Trade tensions add uncertainty. We're entering a more complex, less forgiving environment that will test our resilience and adaptability.

Specific to Canadian banks, you've previously said these are "best of breed" globally — how do you feel about this space entering the new year?

Shah: I still believe Canadian banks are best of breed. Strong regulation from the Office of the Superintendent of Financial Institutions (OSFI), disciplined underwriting and resilient earnings continue to set them apart. Loan growth has slowed, but Canadian banks are prioritizing profitability and balance sheet quality. Earnings growth has been healthy in 2025, credit conditions are stable, and even unsecured loan losses have shown signs of stabilization. But valuations are elevated and the market is pricing in perfection. So, any macro hiccup could trigger volatility. Execution will be critical in 2026.

On the housing front, there are signs of stress in the market. Where would you expect to see warning signs that housing is becoming a bigger issue?

Shah: I feel better about housing than I did last year, but we're not out of the woods. If housing market stress escalates, the first signs will show up in alternative lenders and then in issuers of adjustable-rate mortgages. However, loan losses for the big six banks remain benign as consumers are adapting to higher payments. The wildcard for the housing sector is unemployment; its direction will determine the magnitude of housing stress.

Could you share specific stocks you like right now and the thesis behind them?

Shah: One stock I really like is Descartes Systems. It's a Canadian logistics software company with 80% recurring revenue, growing organically at 5–7%. It has boosted this rate to 10–15% through disciplined, cash-funded acquisitions. As global trade gets more complex, Descartes stands to benefit by enabling supply chains to adapt. Another is TD Bank. We re-entered this position after the bank resolved its anti-money laundering issues and changed its leadership. Despite regulatory costs, its core Canadian business is strong, and it offers attractive upside.

US equities

Katherine Owen
VP, Portfolio Manager,
Mackenzie Global Equity & Income Team

Entering 2026, talk of concentration within the US large cap space continues. What are your thoughts on the subject?

Katherine: As we enter 2026, we are finding better marginal opportunities outside of the US. Concerns of "Magnificent 7" (Mag 7) concentration risk have been part of the investment narrative for a few years. Returns of the Mag 7 garner attention, but we can't lose sight of the enormous cash flow and earnings these companies generate and the staggering pace of growth they record. These companies are spending large sums to build data centres and carve out leadership in AI applications. Over time, these investments must deliver the bottom-line growth the market expects. We are global investors and want the best opportunities wherever they reside — in the US or elsewhere. When looking at valuations from a relative perspective, international companies look very attractive. Cash flow generation outside the US has increased meaningfully, and investors are not yet fully recognizing that improvement.

What are your thoughts on the US consumer?

Katherine: We continue to see bifurcation within the consumer segment. Entering 2026, we'll be looking for evidence that lower gas prices and potentially lower interest rates are easing the burden on household finances. Consumers who possess higher incomes and financial wealth continue to do well while the rest of the consumer base is struggling. We continue to see consumers in this segment trading down and we see particular stress as it relates to food price inflation. Consumers have been trading down from higher priced brands to lower priced brands for a while, but now, we're seeing more of them trading down to private label.

Entering 2026, what's a risk you feel investors should turn their attention to?

Katherine: Recency bias. Because of the Mag 7, US equities have performed extremely well over the last few years. I think the danger today perhaps could be becoming complacent about current positioning and, worse, extrapolating past returns well into the future. These are great companies with fantastic growth rates, but no market trend can continue forever. There are lots of high-quality companies inside and outside the US but you need to be actively looking for them.

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Asian equities

Nick Scott

SVP, Portfolio Manager & Team Lead,
Mackenzie Asia Team

Where is China in its deleveraging process among local governments and state-owned enterprises, and how much does this affect growth in 2026?

Nick: I don't think China is focused on deleveraging. Debt-to-GDP is stable around 290–300% and China's swapping of local debt for central debt is a smart move. I don't see this as a major drag on growth. The real story is industrial transformation — China is advancing in technology, renewables and value-added manufacturing. For 2026, I expect 4–4.5% growth with policy support when needed. But again, the equity story is about innovation, not macro-economic factors.

Let's turn to Japan, which may be entering a tighter monetary policy regime. What's your outlook given the Nikkei kept pace with the S&P 500 through 2025?

Nick: Japan's story is quite compelling. Wages are rising, reflation is underway, but real rates remain negative and that's good for equities. After years of zero-interest rate policy, Japan is trying to normalize monetary policy, which is not a bad thing. The real transformation is in corporate governance — where conglomerates are spinning off non-essential businesses and reducing cross-shareholdings. This can result in better capital allocation.

In 2025, you flagged Indian equities as attractive for the long-term, but too pricey in the short-term. Has the market's lag mostly been about valuation?

Nick: Yes, largely. India's price appreciation exceeded the fundamental outlook, particularly in mid-caps, and valuations became extended. It was also a case of country rotation in emerging markets, with capital moving from India to China, Korea and Taiwan. The Sensex Index was at 24 times earnings a year ago, and it's now closer to 20 times, which is much more reasonable. Strong demographics, political stability and rising manufacturing exports make India one of the most compelling long-term equity stories globally.

What do you think North American investors get wrong — or would be surprised to learn about Asian equities from your seat in Hong Kong?

Nick: They focus too much on GDP and not enough on industrial innovation. There's a lingering belief that Asia lacks creativity, which is just wrong. Look at Contemporary Amperex Technology Co. Ltd. (CATL), Taiwan Semiconductor Manufacturing Company (TSMC) and BYD Company Ltd. — these are truly innovative companies. Asia isn't just a low-cost manufacturing hub anymore. It's the AI supply chain of the world. Also, there's a bias in how China is written about — always through the lens of debt and deflation. But the real story is industrial strength and technological advancement. Western investors would be surprised by how much innovation is coming out of Asia.

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European equities

Seamus Kelly
SVP, Portfolio Manager & Team Lead,
Mackenzie Europe Team

What catalysts would allow European equities to continue re-rating higher after a strong 2025?

Seamus: The key catalyst for European equities in 2026 will be the transition from policy intent to execution. Germany's long-awaited spending on defense, infrastructure and energy transition is set to move from approval to deployment, providing a meaningful lift to the region's capital goods cycle. A second leg of re-rating will depend on earnings follow-through. After a year of mild contraction, consensus expectations point to a double-digit rebound in European corporate profits in 2026, led by industrials, materials, financials and an expected recovery across consumer sectors. Importantly, European equities still trade at a sizeable discount to US equities, offering scope for multiple expansion.

How likely is it that Europe can fund its strategic transformation without reawakening the sovereign debt crisis dynamic in 2026?

Seamus: Europe is well-positioned to fund its strategic transformation without reigniting sovereign-debt fears. Germany, with debt-to-GDP near 62%, retains ample fiscal space to invest in defense and energy transition. Sovereign spreads across the euro area have narrowed markedly, reflecting improved fiscal credibility and structural resilience. The European Central Bank's (ECB) 200 bps of rate cuts over the past year, alongside a robust euro-area household savings rate of roughly 15%, add to macro stability. While France, the eurozone's second-largest economy remains a clear fiscal risk, the broader landscape is far more secure due to Germany's fiscal expansion.

What are your thoughts on the UK equity market, which has posted solid returns but trailed some of its European counterparts?

Seamus: The UK presents a more nuanced picture. The macro environment remains uninspiring, growth is subdued, inflation lingers and politics are unsettled, but much of this is already reflected in valuations. The market still trades near 12.5 times earnings and remains under-owned globally, offering selective opportunity. With many UK companies boasting solid balance sheets, dividend strength and consistent cash generation, our focus will remain on individual ideas where alpha can be generated despite tepid economic growth.

Could you share one or two examples of stocks you like at the moment?

Seamus: I'm particularly positive on Marks & Spencer and Fresenius SE. Marks & Spencer is a credible recovery story in UK retail. Despite a cyber incident in April 2025, its food and clothing divisions are executing well, with modernized offerings and strong digital engagement. It's gaining share and appealing to younger consumers. On the logistics side, automation and store rotation are improving margins. Fresenius SE, a German health care company is likely to benefit from aging demographics in the region. It is well-positioned to benefit from Germany's €50 billion hospital transformation fund.

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Themes

What’s in store for 2026?

In 2026, we believe the markets will be guided by four key themes, with a degree of interconnection between these.

As investors seek exposure to new opportunities, quantitative investing models that can analyze both data and text may provide an edge in generating alpha. International equities offer a compelling alternative to the concentrated US market, driven by policy stimulus, structural reforms and attractive valuations. Global electricity generation and transmission remain a challenge, with opportunities to be found in grid hardware, power storage and critical minerals. Private markets should see strong demand across equity, credit and infrastructure, due to their differentiated sources of growth and stability.

1. **Quantitative investing:** Uncovering alpha in any market
2. **International markets:** Compelling prospects lie overseas
3. **Energy and commodities:** Reaching an inflection point
4. **Private markets:** Opportunity amid uncertainty

Theme 1

Quantitative investing: Uncovering alpha in any market

Arup Datta

SVP, Head of Team,
Mackenzie Global Quantitative Equity Team

The case for fundamental quantitative investing has never been stronger as we enter 2026.

The long-standing ambition to combine systematic discipline with fundamental insight in a reliable and repeatable investment process is no longer theoretical. Advances across several technological fronts now position managers with demonstrated skill in this discipline to seize opportunities to deliver alpha in both developed and emerging markets. Technology is at the core of how we manage money. Here we share insights on how we utilize machine learning, natural language processing, large language models and take advantage of cloud computing as we enter the new year. Lastly, we discuss why a human overlay will remain at the centre of our approach in 2026 and the years to come.

Numbers remain central to our approach. For most investors, numbers refer to conventional metrics such as valuations, earnings and price action. Of course, those metrics are critically important. But achieving alpha requires quant investors to identify novel patterns in the data or potentially unbundle conventional metrics into factors that can be identified and exploited.

Machine learning is one of the techniques that allows us to identify those novel patterns. An example of how we apply machine learning right now is in the prediction of company fundamentals, such as earnings and sales per share. By using machine learning techniques, we have been able to identify non-linear patterns in the data and mitigate the human biases that are commonly exhibited by sell-side analysts. We find our machine learning model can more accurately predict fundamentals of companies versus forecasts that have been developed and published by expert analysts on the sell-side who cover those companies very closely.

As powerful as these predictive models are, they represent just one dimension of the data-driven opportunity set. Increasingly, the focus is shifting toward unstructured information — language, text and narrative — which is where advances in natural language processing and large language models are beginning to play a transformative role.

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Theme 1: Quantitative investing

FIGURE 3: Overview of NLP and machine learning based factors

NLP-based peer groups

Our team uses natural language processing (NLP) to extract and analyze textual information from company financial reports. We identify peer companies based on common themes discussed in their reports, and construct peer-group momentum factor. We built this model to capture the world's most spoken languages, for example, English, Japanese, Korean, and Chinese.

Fundamentals prediction

We apply non-linear machine learning techniques to capture human biases in sell side analysts' consensus estimates; positioning portfolios towards stocks with conservative estimates of their fundamentals and away from those with overly optimistic consensus forecasts.

Text-based sentiment (LLM)

Our team applies large language models (LLMs) to capture sentiment of language used during company earnings calls. They are much more powerful than previously available sentiment analysis tools, and perform on par or better than alternative models that rely on human transcription.

Source: Mackenzie Global Quantitative Equity Team.

NLP allows us to analyze alterative data for signs of real-time signals that we can trade. Historically, quant investors focused on only traditional data sources that were found in standard financial statements, price data or reported macroeconomic indicators. Non-numerical information was purely the domain of fundamental managers and inaccessible for quants. Natural language processing techniques are changing that. Today, our team uses NLP to sift through text and pick up inferences. In other words, we are now able to utilize algorithms built using NLP capable of detecting meaning or patterns. We also use LLMs, which allow us to identify sentiment of the language used by management, for example during corporate earnings calls. We have found that LLMs are powerful tools in the process and it's important to note that these capabilities were not available to us just five years ago (Figure 3).

Utilizing all these technologies in 2026 as a fundamental quant investor would not be possible without the cloud — the silent infrastructure that makes scale possible. Cloud computing has evolved from a technical convenience into a strategic advantage. As global providers compete to deliver capacity, the economics of cloud computing have shifted decisively, driving down the cost of high-performance computing. What once required specialized, in-house hardware can now be deployed on demand at a fraction of the price. This democratization of computing allows investment teams to scale up rapidly when running large models and scale down instantly as workloads ease. For example, LLM frameworks operate across billions of parameters and terabytes of data, requiring access to powerful graphics processing unit (GPU) servers that we can now obtain on demand through our cloud

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Theme 1: Quantitative investing

infrastructure. Security in the cloud — once a limiting factor — has advanced just as quickly. Encryption, audit trails and localized data residency now allow us to innovate confidently, knowing that data integrity and regulatory standards remain intact. Ultimately, the ability to summon computational scale on demand — to retrain a model overnight or explore a new signal across decades of data — has become a decisive and durable advantage.

Human judgement remains at the core of what we do even as technology has transformed the scale and precision of our investment process. The ability to examine, validate and interpret model outputs is central to our philosophy. It ensures that technology amplifies human insight rather than replaces it. Our models generate numerous signals, drawing on both conventional and alternative datasets. But before these insights become trades, they are scrutinized by our team of portfolio managers and analysts. We assess whether the data is correct, whether a signal makes intuitive sense and whether it reflects structural opportunity or statistical noise. This partnership between human oversight and systematic process ensures discipline without dogma. Humans also remain responsible for the evolution of our models themselves: selecting new factors, defining peers, incorporating ESG and textual analysis, and continually testing for robustness.

We will continue to build and refine the very systems we use. Quantitative investing succeeds when human and machine are in dialogue. Our discipline eliminates emotion, but our judgement ensures adaptability. The future of our process — and the edge it delivers — lies not in choosing between human and machine, but in harnessing both to see the market more clearly than either could alone.

As we enter 2026, we want to comment on how these capabilities provide us distinct advantages as investors in both developed and emerging markets. The largest developed market — the United States — serves as the poster child for the information overload era. For a fundamental investor, keeping up with the flood of breaking news on Bloomberg, let alone the endless stream of posts on X, is nearly impossible. In highly efficient developed markets, where there is arguably too much information, our investment approach enables us to trade based on signals and tune out the noise. Emerging markets, on the other hand, offer a different kind of opportunity — one driven by inefficiency. While the economies of China and India, as examples, continue to grow faster than those of the developed world, the equity markets of these and other emerging countries remain relatively inefficient. We still focus on identifying the signal and ignoring the noise, but not because of information overload. Rather, it stems from limited standardized data, lower institutional participation and fewer analysts contributing to price discovery. Our approach remains centered on isolating the right signals to generate alpha, but in emerging markets, the potential for alpha arises precisely from weaker price discovery.

In 2026, our human oversight will remain critical to our success. We are disciplined quantitative investors, but we are not "black-box" quants. We are excited about what technology brings to our process, but there isn't a magic switch that will predict returns. Human judgement provides context, especially in extraordinary market events that lack precedent for a machine to analyze to identify a signal.

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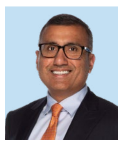
Theme 2

International markets: Compelling prospects lie overseas



Rajan Bansi

VP, Investment Strategy & Portfolio Solutions

For much of the past decade, US equities have dominated the investment landscape.

We expect higher allocations to international equities to be a key theme throughout 2026. This theme, which is a trend that began in Q2 2025, and proved durable through late 2025, could pick up in momentum in 2026, should international markets continue to outperform US equity benchmarks.

Through the end of Q3 2025 the S&P 500 delivered a solid return of 13.2%. Yet several international markets outperformed, including major EAFE indices, such as Germany's DAX (19.9%) and the UK's FTSE (25.0%), and emerging markets from Mexico (28.0%) to China (16.0%). These markets remain inexpensive relative to US equity benchmarks as we enter the end of 2025, and they possess notable catalysts that could help close the valuation gap. We believe investors building resilient portfolios for the next 15 years should look to the current risk/return opportunity set that favours international equities versus relying on allocations to US equities that have worked well for the better part of the last 15 years.

The valuation of international equities stands in direct contrast to US markets as we enter 2026 (Figure 4). The MSCI EAFE Index, which is a benchmark for international developed market equities, trades near 13 times forward earnings, which is a significant 35% discount to the S&P 500. Yet, low valuations without catalysts can represent a value trap for investors. We believe there are several catalysts already providing a tailwind in developed markets that could close the valuation gap with US equity peers.

European equity markets could be on the verge of a meaningful re-rating higher in 2026, driven by a confluence of fiscal stimulus, structural catalysts, and the benefits from monetary easing that occurred in 2025. The EU's €700 billion Recovery and Resilience Facility (RRF) continues to inject significant capital into the modernization of digital infrastructure, renewable energy projects, and the expansion of domestic semiconductor production. These initiatives are designed to not only stimulate growth but also to enhance Europe's strategic autonomy following years of reliance on US technology and Asian manufacturing supply chains. Complementary policy frameworks, such as the European Chips Act, could also provide meaningful tailwinds. The European Chips Act, introduced in 2022 and formally adopted

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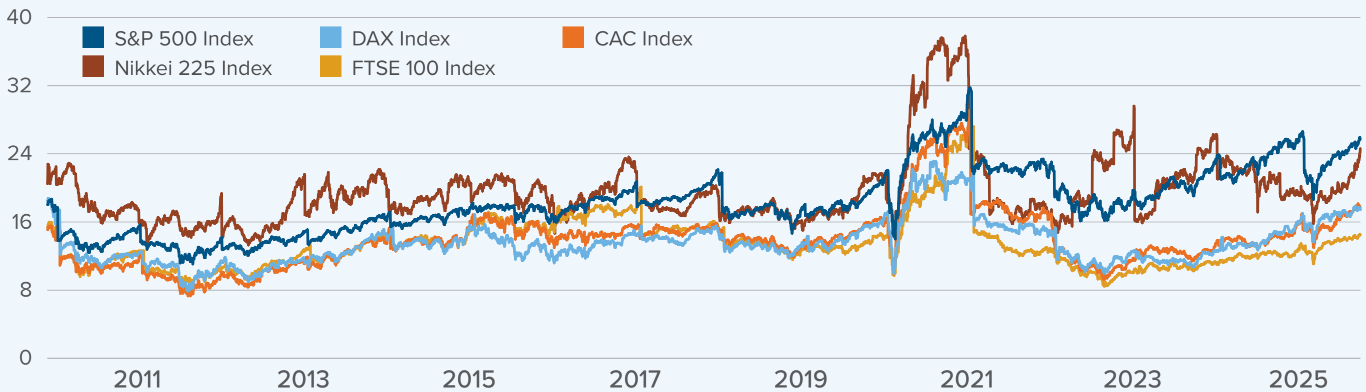
Theme 2: International markets

FIGURE 4: Historical forward P/E



Source: Bloomberg, data as at October 31, 2025.

in 2023, matters in 2026 because tangible economic effects should start to materialize in a meaningful way around that time. Similarly, the Green Deal Industrial Plan (GDIP) could also demonstrate visible impact on economic data in 2026. The GDIP represents Europe's response to the US Inflation Reduction Act (IRA) and 2026 is when many of the first large-scale manufacturing projects should be either operational or nearing completion.

Finally, while we believe the European Central Bank will remain on hold in early 2026, the benefits of its rate cuts in 2025 will be felt in the economy. Lower borrowing costs, paired with the aforementioned stimulus measures, are expected to provide an important lift to corporate earnings in Europe. Investors could very well reward equities with a bump in valuation if corporate earnings revisions continue to turn positive and confidence grows that the trend can be sustained.

Staying in developed markets but moving to Asia, Japanese equities continue to look attractive entering 2026 as the economy marches through a period of renewal. Inflation remains modest but durably so, which is a sharp break from three decades of deflation. Corporate governance reforms, encouraged by the Tokyo Stock Exchange's campaign for higher price-to-book ratios, continue to take hold, and shareholder friendly governance and actions that include a record level of share buy backs continue to unlock shareholder value that had remained elusive for more than 30 years. The Nikkei is on pace to finish 2025 at its highest level since 1989 and yet Japanese equities still trade at just 15 times earnings.

Valuations in these developed markets stand in stark contrast to the US, which should be a key consideration for investors from a portfolio construction perspective. The S&P 500 ended Q3 2025 trading nearly 21 times forward earnings, which is well above its long-term (20-year) average of just 15 times. This valuation premium is in part justified by the outsized profitability of a small group of technology firms, often referred to as "The Magnificent 7", that have business moats linked to artificial intelligence, cloud computing, and digital infrastructure. Yet such valuations also leave little margin for disappointment. It's also worth noting that market breadth has narrowed dramatically. The Magnificent 7 represent nearly one-third of the S&P 500's total market capitalization, which is an unprecedented level of concentration by modern standards.

Emerging markets also offer investors compelling valuations, providing exposure to secular growth

MACKENZIE Investments

Theme 2: International markets

that could be on the verge of accelerating. The MSCI Emerging Markets Index trades just 12 times forward earnings, which is a significant 40% discount to the S&P 500. Catalysts at the country and regional level are in place in emerging markets, similar to what was discussed with regards to international developed markets, suggesting the valuation gap with US equities could narrow in 2026.

China's growth in 2026 is forecasted to be in the range of 4.5%-5.0% as the economy continues to move away from property dependence and toward innovation and advanced manufacturing. Chinese firms now command more than 60% of global EV-battery output and dominate solar-supply chains. The state's latest support measures include tax incentives for EV and semiconductor producers, and expanded credit lines for biotech and the MSCI China Index trades near 9 times forward earnings, which is less than half the US multiple.

Neighbouring India enters 2026 with equities that have absorbed a year of consolidations but with the economy still set to enjoy reform-driven expansion. India's economy is forecasted to grow by another 6.5% with a rising middle class and manufacturing expansion leading the charge. Valuations remain elevated despite 2025's consolidation, but it's also true that corporate earnings are expected to grow at double-digit rates.

Elsewhere in the emerging markets, regional manufacturing hubs such as Mexico, Vietnam, and Indonesia provide additional sources of inexpensive growth. While Mexico is seeing steady investment as manufacturers shorten supply chains, Vietnam and Indonesia are attracting technology investment. Many emerging market central banks tightened earlier than the developed world, giving them room to ease into 2026 and extend domestic credit cycles.

Overall, 2026 represents a pivotal year for global equity diversification, as international markets continue to demonstrate superior relative value and emerging catalysts for growth. We believe investors who remain underweight in international markets should move to at least market weight. To do so, investors can crystalize gains recorded in geographic allocations that have been overweight, which for many has been the US large cap equity space. With developed markets such as Europe and Japan benefiting from policy support and structural reforms, and emerging markets poised for cyclical and secular expansion, international equities present a compelling alternative to the concentrated, high-valuation US market. We believe investors seeking resilient, forward-looking portfolios should embrace this evolving opportunity across international markets.

GLOBAL MACRO OVERVIEW

All that glitters is more than gold

Finding true “mettle” in a gilded market

ASSET CLASS VIEWS

Fixed income

Canadian equities

US equities

Asian equities

European equities

THEMES

Quantitative investing

International markets

Energy and commodities

Private markets

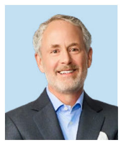
ASSET MIX RECOMMENDATIONS

Equities

Fixed income

Theme 3

Energy and commodities: Reaching an inflection point



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The underbuilt world comes due: In 2026, we will reassess the importance of physical assets.

The coming year is poised to be one of reset and reassessment — a reflection of just how historically significant 2025 may turn out to be. Like all inflection points, we believe 2025 and 2026 will form “before and after” bookends for the global economy and markets:

- Before 2025, the world favoured open, global trade. In 2026, de-globalization driven by regional interests and security concerns will shape capital allocation and valuations more than technological innovation and open access to new markets.
- Similarly, before 2025, energy was global. In 2026 and beyond, it will be regional in focus, with energy and the energy transition driven by national security imperatives over climate change and the environment.
- Before 2025, economies had largely open access to resource supply chains. In 2026, a fundamentally altered trade landscape will emerge forcing nations to decide which economic inputs are of national interest and what supply chains must be developed domestically.
- Before 2025, advanced economies in the west underinvested in infrastructure of all types. Beginning in 2026, they will be forced to reprioritize their investment in physical assets and resources.

These are the areas where we expect the dynamics of “before and after” to play out:

Demand dynamics: electricity at the centre

Annual power demand growth has risen from roughly 2% to 4% in recent years. At this pace, system capacity will need to double in about 20 years.[1] This will challenge regions unevenly, straining global supply chains. And while AI-related demand is real (but cyclical), it carries a range of risks, particularly if data centre power demand begins competing with the energy demands of households and essential industries.

By differentiating between short-term excitement and the longer-term investment required to meet population and economic growth, we will focus on companies and systems that can deliver power reliably, and build, connect and operate efficiently in regions where electricity is scarce.

1 Electricity 2025, Analysis and forecast to 2027, IEA.

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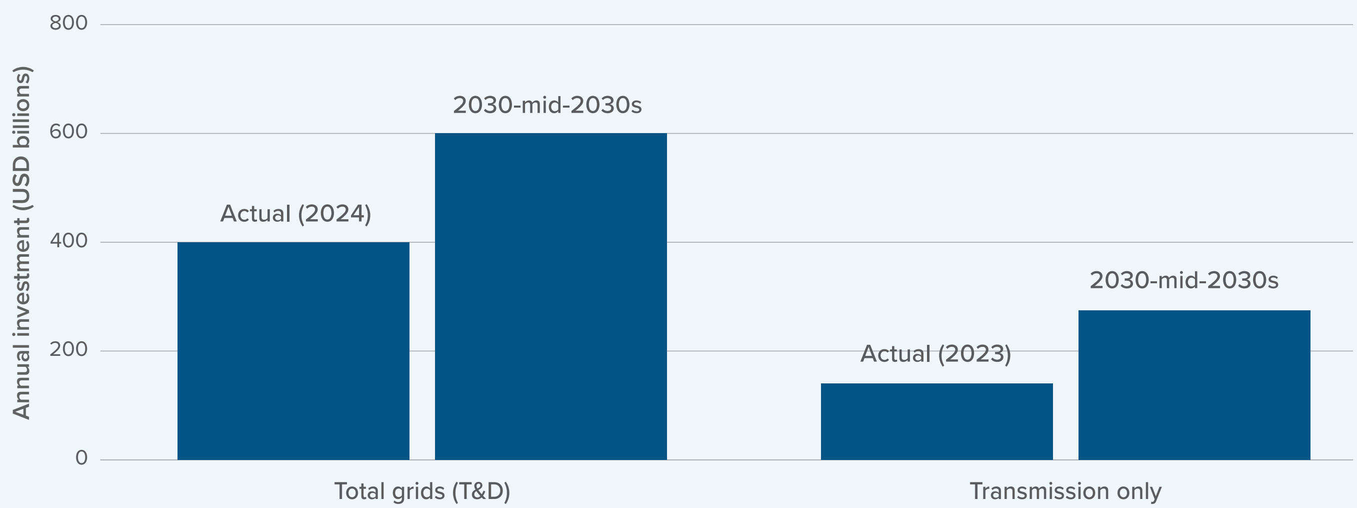
Investments

Theme 3: Energy and commodities

FIGURE 5: Global electricity infrastructure investment: today vs ~2030 need



Source: IEA World Energy Investment 2024 (grids = $400B in 2024); IEA World Energy Investment 2025 exec summary (grids = $400B now); IEA Electricity Grids & Secure Energy Transitions 2023 (need ≥ $600B/yr by 2030 for T&D); IEA Building the Future Transmission Grid 2025 (transmission = $140B in 2023; need $250-300B/yr).

Supply constraints: the new price setter

As grids and pipelines become stretched, local constraints are creating local prices, where pipeline capacity is limited or existing grid connections are at full capacity. We expect regional price gaps to widen (Figure 5). Following decades of underinvestment, the equipment and network providers tied to transmission lines, transformers, substations, and grid software will have pricing power.

We remain disciplined on valuation and avoid paying venture style multiples for utility-like earnings tied to AI-adjacent businesses.

Commodities and processing: where scarcity lives

Years of limited investment in processing, refining and infrastructure have left the world short of conversion capacity. That shortage now carries a structural premium for those able to deliver it.

Copper remains the backbone metal for electrification. Demand will stay strong, but we remain cautious on supply, given aging assets, a thin project pipeline and increasing concentration in refining and processing.

Aluminum is power-intensive to produce. With limited-capacity grids, new smelters are unlikely, which quietly supports a pricing premium.

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Theme 3: Energy and commodities

Rare earths face a chokepoint in the midstream, including separation, magnets and processing equipment, where China maintains a clear lead. We favour processing rather than deposits and apply higher discount rates where midstream capability is not credibly solved. This reinforces how geopolitical risk will continue to shape valuations.

Nickel has seen subsidized Indonesian supply reset the global cost curve, making it difficult for higher cost producers to compete. The opportunity lies in midstream capacity such as precursors, recycling and fabrication that convert raw nickel into battery grade materials supported by credible policy and long-term offtake.

Oil and gas remain essential in the near term, although oil ranks lower in our multi-year outlook. Natural gas is expected to continue gaining momentum as a transition fuel, and we believe that gas tied to domestic power demand performs better in regions with tight capacity. We remain cautious about Liquified Natural Gas (LNG) projects that rely solely on export infrastructure and volatile global pricing.

Thermal coal is not expected to see a developed market revival. Its persistence will remain regional, particularly in India.

Unlike today's cyclical noise connected to AI demand, inventory restocking or short-term price swings, the shortage of infrastructure and processing capacity is structural. This imbalance anchors our long-term positioning and shapes where we choose to take risk.

Renewables and storage: the next phase

Without storage improvements, we have reached the integration wall with renewables. After a major build-out of wind and solar, adding capacity requires storage to keep systems stable. Europe offers a clear example of this challenge. Intermittent generation alone cannot support reliability, and stable capacity must grow alongside production. The most investable opportunity lies in grid hardware and control systems, with storage expected to scale next. Renewables combined with storage can eventually provide baseload power, but in 2026, this will still be early stage. Until storage catches up, natural gas will continue to act as the bridge for reliability.

Capital intensive themes: new nuclear and hydrogen

We distinguish refurbishments, including life extensions and upgrades, from new-build nuclear, which includes small modular reactors (SMR) until they are proven at scale. We view the latter as a likely capital trap in 2026 because of long timelines, cost creep, and policy dependence.

Hydrogen projects without contracted industrial offtake fall into the same category for now. We prefer exposure to reliability and delivery while remaining cautious toward unproven buildouts.

Canada's strategic role

Canada's advantage grows as it moves up the value chain. Instead of exporting "bricks" and importing finished materials, we favour expanding domestic processing. This includes turning copper concentrates into rod or wire and building aluminum fabrication. In nickel, Canada's edge lies in processing and fabrication, particularly battery precursors and recycling, supported by aligned policy and long-term offtake. We also prefer Canadian gas linked to domestic power, which offers stable demand and lower volatility than only LNG exposure.

Equally important, Indigenous equity participation from the outset helps align interests, accelerate approvals, and strengthen long-term project durability.

Investment perspective: how we are positioned

The next five years will reprice the physical world, where molecules, electrons, and the hardware that move them matter more than the stories built around them. In 2026, supply and the ability to deliver those physical assets will more strongly define value. Our objective is to hold the assets others must queue for and to support the execution that turns megawatts, molecules, and materials into dependable cash flows.

Across infrastructure and materials, that means focusing on assets that convert resources into reliable supply. While some assets may appear ex-growth, our focus will be on finding value where replacement

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Theme 3: Energy and commodities

incentives are weak and supply remains tight. These are the underbuilt areas of the system where scarcity drives value:

- Grid infrastructure and integration.
- High-voltage cable and components.
- Midstream and processing facilities that refine and process mined material into usable, high-grade inputs.
- Refurbishments of nuclear and hydro life extension projects with predictable engineering work and limited construction risk.
- Large-scale battery projects advancing toward grid connection and longer-duration storage where procurement and off-take programs are dependable.
- Upstream Canadian gas positions geared to domestic power demand rather than uncontracted LNG exposure.

Those who recognize the post-2025 shift should outperform

In this historic time of disruption and transition, there will be more moving pieces for investors to consider. This is the nature of fundamental change. It introduces new complexities that must be assessed. Those who embrace this new complexity — acknowledging how profoundly the world has changed and seeking to understand its implications — are likely to outperform those clinging to the assumptions of the pre-2025 era.

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Theme 4

Private markets: Opportunity amid uncertainty

Northleaf Capital Partners
Private Markets

We entered 2025 confident that deal activity would rebound as inflation stabilized and rates began to decline.

Deal makers were more comfortable with the outlook and more optimistic about their ability to confidently underwrite investment opportunities. However, new tariffs introduced early in the year created fresh uncertainty and briefly paused market momentum.

Since then, conditions have stabilized and businesses have adjusted, though the environment remains more selective. Longer hold periods and lower liquidity have underscored the importance of active management and disciplined capital deployment across private markets. We are now beginning to see M&A activity pick up again in late Q3 and early Q4 as investor confidence returns, and we anticipate that trend to continue in the quarters ahead.

Against this market backdrop, several themes are shaping the evolution of private markets as we move through 2025 and into 2026:

- Strong and growing demand for mid-market private equity secondaries.
- Private credit continues to be a preferred source of financing, providing attractive yields and downside protection.
- Public sector funding gaps are creating compelling investment opportunities in essential infrastructure.

Mid-market strength and selectivity

Within private markets, we believe the mid-market continues to present the most compelling opportunity set. More than 90% of US companies with revenues of over $100 million remain privately owned,[2] and most fall within this mid-sized segment. Often regionally focused and less exposed to global trade disruptions, these businesses provide access to a broad universe of private assets. They also offer more levers for value creation through operational improvement, new products or marketing initiatives, management alignment and targeted M&A, which can meaningfully drive earnings growth. Because significant capital has accumulated in the large-cap space, competition for deals there has intensified, while mid-market valuations remain more attractive and entry pricing more disciplined. This creates an investment universe where manager skill in sourcing, diligence and execution can have an outsized impact on outcomes.

2 Capital IQ/NAICS Association data as at December 2024.

Theme 4: Private markets

Private equity

Secondary markets coming of age

The secondary market has become an increasingly important channel for both private equity managers and investors, providing new sources of liquidity and opportunity. Looking ahead, we expect secondary activity to remain strong as investors seek greater flexibility in managing private market exposures.

In 2024, secondary transaction volumes rose 45% year over year to a record $160 billion (USD), with projections exceeding $200 billion (USD) by the end of 2025.[3] These transactions have become increasingly valuable in a cautious deal-making environment, allowing managers to generate liquidity without selling prized holdings at sub-optimal times, while giving investors access to seasoned assets with established performance histories.

The market's evolution is also changing its participant base. Roughly 40% of limited partners active in secondary transactions in 2024 were first-time sellers[4] — evidence that secondaries have evolved from a niche liquidity solution to an established portfolio management tool. As participation has broadened, pricing and transparency have improved, helping create a deeper and more resilient market that has supported steadier performance through past periods of volatility.

As uncertainty in public markets persists, high-quality mid-market companies — particularly those with pricing power, strong balance sheets and differentiated business models — are expected to remain the backbone of private equity opportunity. Coupled with expanding secondary activity, this focus on selectivity and value creation is likely to define private equity performance in 2026.

Private credit

Resilience through volatility

While credit conditions tightened following tariff-related volatility, selectivity has increased, terms have remained lender-friendly and managers have continued to provide financing solutions where traditional lenders have pulled back. The asset class offers attractive yields, structural protections and borrower flexibility. With base rates expected to remain elevated near 3.5% over the next several years, yields across private credit are anticipated to stay strong.

Borrower performance has been broadly resilient, even as higher rates increased debt service costs. Defaults have risen modestly, particularly in more cyclical industries, but remain below historical averages, reflecting disciplined underwriting and a shift toward service-based businesses with recurring revenues. Mid-market borrowers — often backed by private equity sponsors — tend to have more flexible capital structures, conservative leverage and fewer ties to global supply chains.

As demand for private capital persists and traditional lenders continue to retrench, we expect mid-market private credit to maintain its trajectory as a preferred financing source. With its attractive yield profile, lower correlation to public markets and strong downside protection, private credit remains a cornerstone of resilience in the broader private markets landscape.

3 Figures in USD. There can be no assurance that the trends highlighted will continue in the future. Total secondaries transaction volume source: Evercore Private Capital Advisory – FY 2024 Secondary Market Review, January 2025.
4 Source: Global Secondary Market Review, Jefferies Jan 2025.

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Theme 4: Private markets

Private infrastructure

Bridging the funding gap

Private infrastructure is emerging as one of the most powerful long-term themes in private markets. By 2040, an estimated $100 trillion (USD) in capital will be needed globally to maintain, replace and build essential infrastructure.[5] Governments, constrained by fiscal pressures and mounting debt, will increasingly rely on private investment to meet these needs. In 2024, over 85% of infrastructure transactions in developed markets were valued at under $1 billion.[6]

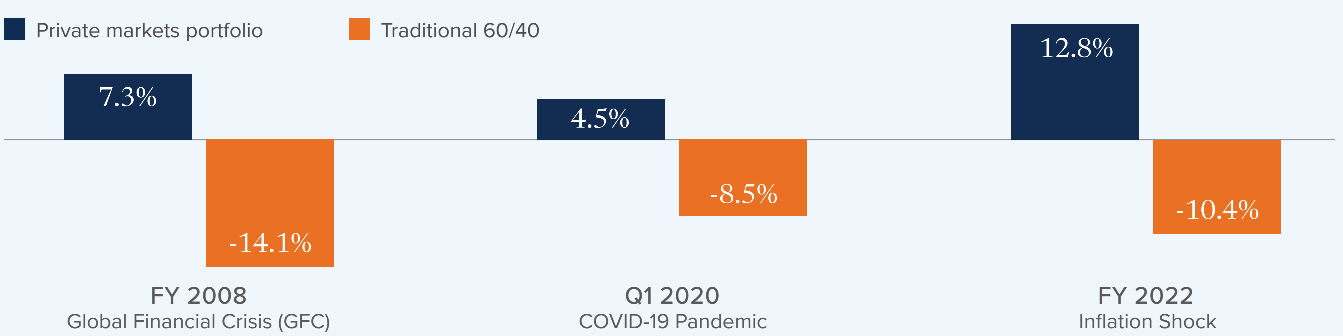
Several secular forces are reinforcing this demand: the global energy transition, AI-driven digitalization and the push toward decarbonization are all driving large-scale investment needs across energy, transport and data infrastructure. While the scale of the investment need is clear, execution risk and policy uncertainty continue to influence the pace and structure of capital deployment.

Experienced private infrastructure managers can partner with under-capitalized operators to fund expansion and improve efficiency, creating long-term value through active asset management. The result is a portfolio exposure that blends equity-like return potential with yield, inflation protection and low correlation to public markets — an attractive combination in an environment of elevated volatility and persistent inflation risk.

Outlook for 2026

Across private equity, credit and infrastructure, the key theme for 2026 is opportunity through selectivity. The private markets' ability to focus on long-term value creation rather than short-term sentiment continues to underpin their resilience. Investors are increasingly using secondary markets to manage liquidity, private lenders to fill financing gaps and infrastructure strategies to capitalize on global transformation. As public markets grapple with uncertainty, private markets offer differentiated sources of growth and stability grounded in long-term fundamentals. Navigating the coming year will require selectivity, patience and a long-term focus — qualities that have historically rewarded investors through changing market cycles (Figure 6).

FIGURE 6: Market resilience – private markets vs. traditional 60/40



This simulated performance information is provided for illustrative purposes only and is subject to a number of limitations.
Source: Preqin and MSCI, as at December 31, 2024. Traditional 60/40 is comprised of MSCI World Index GR CAD (20%), S&P/TSX. Composite Index TR CAD (20%), S&P 500 TR CAD (20%), ICE Bofa Canada Broad Market TR CAD (40%). The private markets portfolio is comprised of Preqin Global Private Equity Index CAD (1/3), Preqin Global Private Credit Index CAD (1/3), Preqin Global Private Infrastructure Index CAD (1/3). Portfolios are rebalanced on a quarterly basis. Data denominated in CAD. Private equity returns are shown net of fees, expenses and carried interest.

5 Source: G20 Global Infrastructure Outlook (as of December 2024). In USD. $15 trillion need is projected cumulative gap between 2015 to 2040.
6 Source: Preqin (as at December 31, 2024).

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Asset mix recommendations

Mackenzie Investments Global Investment Committee

- Equities
- Fixed income

Equities

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Equities		■	
Canada		■	
US		■	
International		■	
Emerging markets		■	

Equities are expected to continue their upward trajectory in 2026 as resilient earnings, fiscal tailwinds and easier monetary policy help offset tariff and policy uncertainty. Valuations remain elevated across most markets, suggesting that future returns will rely more on earnings delivery and prudent diversification than on multiple expansion. Although thematic trends such as artificial intelligence and increased defense spending are expected to continue, broader participation beyond the narrow leadership from these trends should create opportunities for investors willing to look beyond these pervasive themes.

Canada

Canadian equities are positioned for steady returns as modest economic growth and a supportive policy backdrop balance persistent headwinds from household refinancing and a deteriorating employment picture. Stable commodity demand and renewed capital investment in energy and materials remain key pillars of support, alongside gold's continued strength. Canadian equities offer reasonable value and income potential, serving as a notable diversification tool within global portfolios.

US

US equities continue to anchor global allocations, supported by strong fiscal stimulus under the One Big Beautiful Bill Act, investment in industrial reshoring and ongoing productivity gains tied to artificial intelligence. Earnings trends remain constructive, but valuations appear stretched, leaving markets vulnerable to short-term corrections if growth slows, particularly within AI-related sectors, or if inflation reaccelerates. Market leadership may broaden if investors rotate into value segments or back towards quality companies.

International

International markets should benefit from easier monetary policy and a modest improvement in domestic demand. Europe's outlook is underpinned by rising real incomes and expanding fiscal support, while Japan's structural reforms and shareholder engagement continue to unlock value. Although regional performance could be uneven, relative valuations remain compelling and provide meaningful diversification against concentrated US exposure.

Emerging markets

Emerging-market dynamics are improving as trade frictions ease, and a weaker US dollar supports capital flows into select economies. China remains an interesting opportunity for global investors, providing access to advanced technologies in areas such as robotics, alternative energy sources and AI. Our cautious optimism on the region comes from the additional risk of policymakers' goals to offset declining export demand by fueling a domestic demand-driven economy. Broader EM valuations remain reasonable, warranting selective exposure.

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	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Fixed income		■	
Sovereign bonds		■	
IG corporate bonds			■
HY corporate bonds		■	

Fixed income

The fixed income landscape in 2026 reflects an environment where central banks are progressing through, but have not yet completed, their easing cycles amid persistent inflation uncertainty. Policy rates have moved lower, but the scope for more aggressive interest rate cuts is constrained by elevated fiscal deficits, sticky core inflation and potential tariff-driven price pressures. Bond markets have largely priced in a benign disinflation path, suggesting limited room for yields to fall materially from here. Bond investors should focus on income generation in fixed income portfolio construction.

Sovereign bonds

Central banks are likely to remain cautious as fiscal expansion sustains growth even amid softer data. In the US, resilient domestic demand and inflation hovering near 3% could prevent the Fed from meeting the aggressive cuts the market expects. Conversely, ongoing economic softness and household refinancing pressures argue for a more accommodative stance from the Bank of Canada, presenting value at the short end of the curve. We remain cautious on the long end, where higher fiscal deficits may keep term premiums elevated.

IG corporate bonds

Investment-grade credit remains well supported by healthy balance sheets, stable funding conditions, and continued investor demand for high-quality income. Although credit spreads remain historically tight, corporate bond yields remain attractive. Against a backdrop of modest growth and manageable corporate leverage, investment-grade bonds continue to offer a reliable source of income and ballast within diversified portfolios.

HY corporate bonds

The high-yield bond market is expected to deliver uneven returns as credit differentiation becomes more pronounced. Lower-quality issuers face more challenging refinancing dynamics as coupons reset higher, which should keep stress concentrated in the weakest parts of the market and gradually lift default rates. Economic and credit market conditions taken together favour higher-quality non-investment grade issuers with durable cash flow and lower refinancing risk characteristics. Higher-quality high-yield bonds should offer incremental yield to investors without meaningfully increasing default risk.

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