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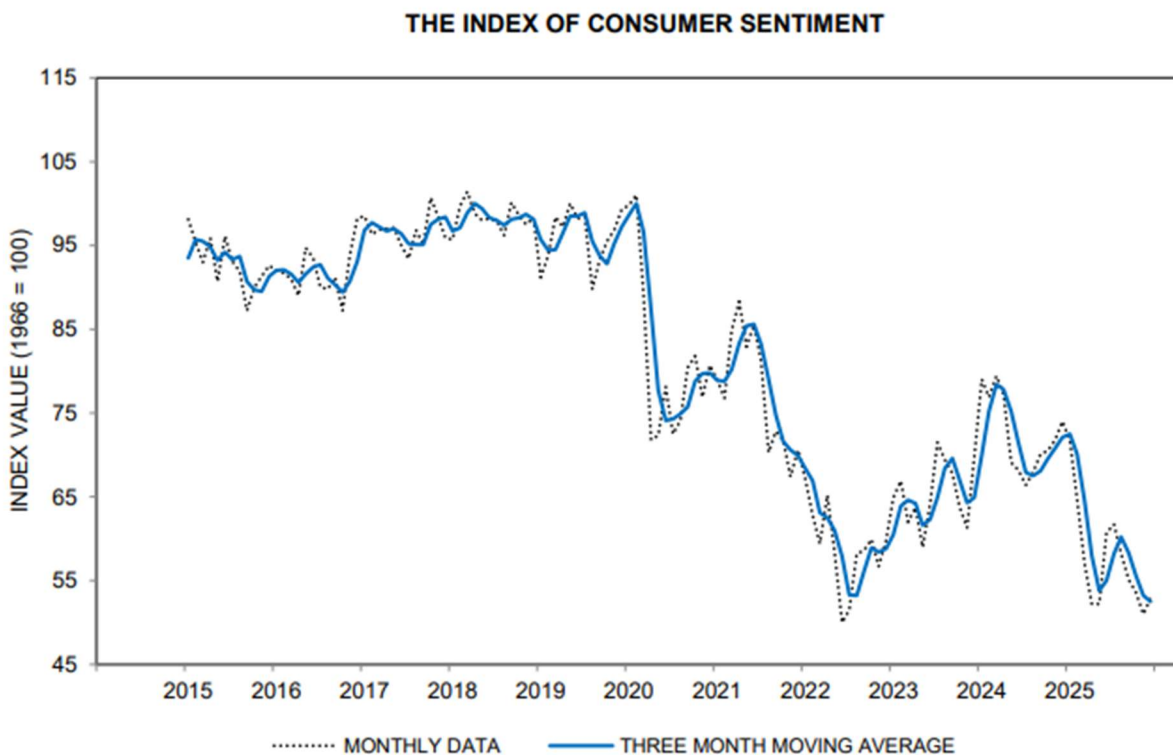
Year End 2025

In a topsy turvy year, the Canadian stock market had one of its best years this century, a total return of 31.7%, led by the sector Materials which were up 100.6%, with the sub sector Gold up 132.3%, and Financials up 35.3%, with the sub sector Banks up 45.5%. The S&P 500 total return was 12.5% in Canadian dollars (17.9% in U.S. dollars). This was the third good year in a row. Growing U.S. government debt and a weaker U.S. dollar undoubtedly sparked interest in gold, but in investing the narrative always follows the price. Not buying gold was what Warren Buffett might call a sin of omission. Commodities are not my cup of tea; I do not like their boom-and-bust nature. This is ironic as during the last gold craze, when still a private investor, gold exploration companies were a hobby of mine, but I came to dislike their fickleness. Gold and Bitcoin are both what are known as 'bigger fool investments'. They do not make anything or pay any dividends. Buying them only makes sense if you believe some bigger fool will pay even more for them. I find it hard to make sense of the fourth quarter's performance of Silver Bullion, up 52.04% in U.S. dollars and Bitcoin, down 23.50% in U.S. dollars, in just three months. It seems arbitrary and driven by emotion, not by cash flows. I suppose silver was 2025's meme stock.

In 2025, the U.S. dollar trade weighted index of six major currencies (DXY) fell 9.4%. Against the Canadian dollar, the U.S. dollar was down only 4.7%. The decline in the greenback seems emblematic of 2025. Strength in the Canadian dollar was not widely forecasted after Trump's reelection and his threats against Canada. The U.S. dollar was particularly weak in the first half of 2025 when tariff threats dominated the headlines.

If U.S. tariffs are meant to bolster U.S. manufacturing, a weaker U.S. dollar may be concomitant with that. However, tariffs may not be working. Derek Holt of Scotiabank wrote in The Globe and Mail (January 3) "President Trump lauds the virtuous effects of tariffs for bringing home jobs. That isn't happening. Greater uncertainty and tumbling confidence since the tariff war began are reducing the hiring appetite..." The fall in the U.S. dollar may reflect a growing concern about the creditworthiness of the U.S. government. Moody's rating agency dropped the U.S. from AAA in May

2025. The U.S. dollar's position as the world's reserve currency gives it more capacity to carry a heavy debt load but if U.S. dollar weakness persists that exceptionalism may not last.



Surveys of Consumers University of Michigan, Jan 6, 2025 - <https://www.sca.isr.umich.edu/charts.html>

Wall Street is always coming up with a cute way to characterize the investing climate. In 2025 it was the 'K-shaped economy effect', where those doing well financially, the top / in the K, expect to do even better, and those doing poorly, the lower \ in the K, see things getting worse. The Globe and Mail (December 26) reported that "this Christmas older and affluent Canadians increased spending, while younger consumers cut back and took on debt." Stock market gains and the wealth effect are improving the mood of the fortunate, but not consumer confidence in general. David Rosenberg (Globe and Mail January 3) marveled at the stunning decline in consumer confidence in the U.S: "Call it the Great Dichotomy. The University of Michigan U.S. consumer sentiment index has declined to its second lowest level in the 72-year history of the series and far below the lows posted in all recessions dating back to the early 1950s. Sentiment is at a record low for low-income households, and now the loss of confidence is bleeding into the middle class."

When I cast my eye down the list of my top ten stock holdings, I remind myself that they became one of the top ten because they have gone up, often over many years. Only three are Canadian - Dollarama, Loblaws and Toronto Dominion. Five are related to Artificial Intelligence and data centers - Alphabet, Amazon, Corning, Microsoft, and Siemens. Berkshire and Johnson & Johnson round out the top ten. I am cautious about buying more of the big winners, although I hope we are in an AI boom and not a bubble.

In 2017, the year of the flood, I finished 7 years on the Executive Committee of Pointe Claire Yacht Club as Commodore. The following year I was Past Commodore, which I thought was the best title available. In 2026 I will be Honourary Commodore which I find very flattering. My first reaction was that I must have lived a long time if PCYC is getting around to making me an Honourary Commodore. It might also be a recognition of the 10 years I have spent as the Chair of the TRY (Training Regatta for Youth) which is the biggest sailing regatta in Montreal and, the 5 years I have spent as the co-Chair of the Peter Kelly Athlete Assistance Fund, which helps young sailors compete internationally. Peter was my great friend and teammate and a founder of the TRY Regatta, so it has been a privilege to help with both of those to honour his memory.

Happy New Year and thanks for reading.

Sincerely,

George Stedman, CFA

Senior Portfolio Manager, Honourary Commodore

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