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Q4 2025 Market Commentary

Benchmark performance as of December 31, 2025

Index	December	3-Month Trailing	2025 Return
S&P/TSX Composite TR	1.3%	6.3%	31.7%
S&P 500 TR	0.1%	2.7%	17.9%
Nasdaq Composite	-0.5%	1.1%	20.4%
WTI Oil	-2.0%	-9.1%	-20.8%
Natural Gas	-23.9%	11.8%	8.6%
Copper	13.6%	21.4%	43.6%
Gold	4.2%	14.2%	67.4%
10-Year US Treasury Bond	-0.9%	0.9%	7.7%
USD/CAD FX	-1.8%	-1.4%	-4.6%

Source: FactSet

2025 Year in Review

2025 can best be described as both volatile and resilient. The S&P 500, Nasdaq 100, and S&P TSX all delivering their third consecutive year of double-digit gains despite geopolitical headwinds and trade policy uncertainty earlier in the year. A resilient yet not-too-hot economy and strong corporate profits helped fuel the equity rally off the April tariff induced lows.

The portfolios that performed best in 2025 were not the ones that tried to react to the year's volatile headlines, but those that were diversified and maintained discipline, proving once again the importance of staying invested through uncomfortable periods.

Equity Market Strength

The S&P 500 rose by 17.9% in 2025, driven significantly by a narrow group of AI-oriented mega-cap stocks. The S&P/TSX enjoyed a 31.7%

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performance due to strength in two key sectors – Financials (Banks) and Materials (Gold). TD Bank (after a terrible performance in 2024) was the largest point contributor to the S&P TSX performance closely followed by Royal Bank and Shopify. Gold stocks drove one-third of the S&P TSX performance in 2025. Global equity markets rallied with Europe, Japan, UK, and Emerging Markets delivering double digit returns.

Monetary Policy Pivot

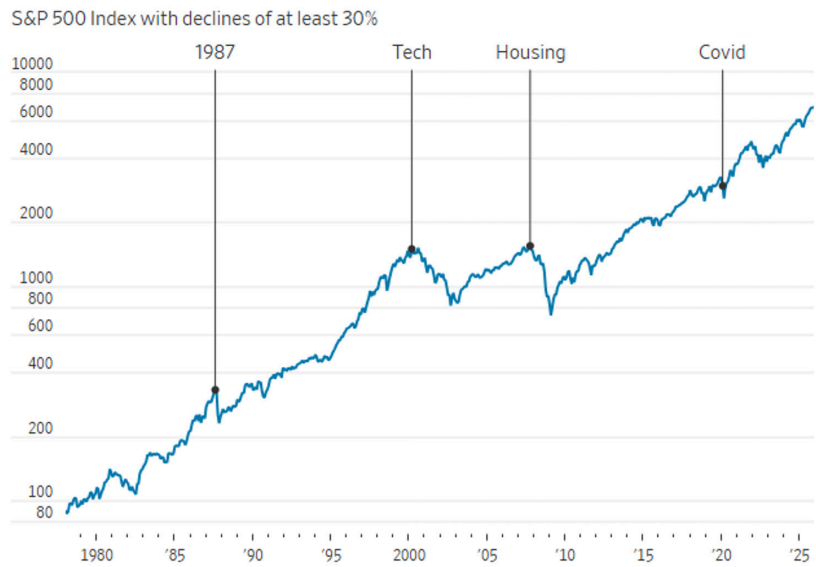
Contrary to earlier expectations, central banks, including the US Federal Reserve (Fed) and the Bank of Canada (BoC), implemented earlier and faster interest rate cuts amid moderating inflation and slowing economic momentum, providing a significant boost to risk assets. The Fed cut interest rates three times in 2025. The market is expecting the pace of rate cuts to accelerate once Fed Chair Powell’s term ends in April and Trump appoints a new and more accommodative Fed Chairperson. However, the misconception is that a new chair can reset policy direction on arrival.

Practically, the Fed chair’s power lies in agenda-setting, coalition-building, and communication, not in overruling the committee. And with a more hawkish-leaning voting roster, lingering inflation risks, and heightened sensitivity around Fed independence, consensus will be hard to build for rapid easing.

That is why 2026 looks less like a turning point for monetary policy and more like a transition year.

Last year, the BoC implemented four rate cuts, the Bank of Japan (BoJ) raised interest rates twice—first in January (to 0.5%) and again in

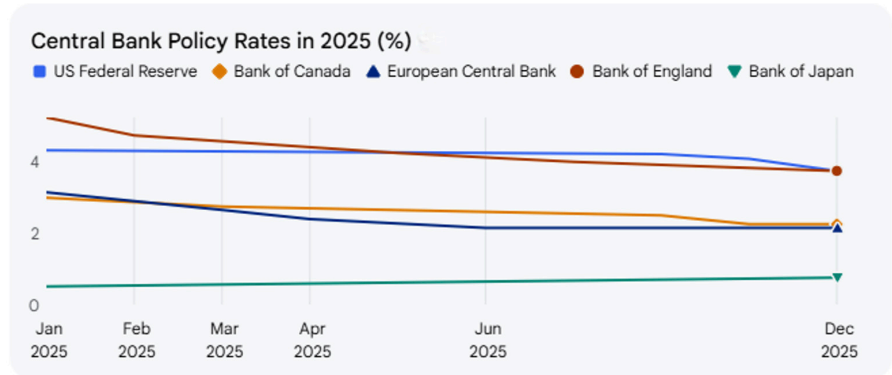
Chart 1 – S&P 500 Bear Market Declines are Rare Occurrences



Note: Data are shown on a logarithmic scale.

Source: WSJ

Chart 2 – 2025 Central Banks Lower Interest Rates in 2025 (ex-Japan)



Source: The US Federal Reserve

December (to 0.75%)—representing a landmark shift to the highest borrowing costs since 1995. However, Japanese interest rates are barely getting off the mat relative to other nations due to idiosyncratic

demographic issues in their country (See Chart 2). Japanese interest rate policy is relevant because of the Yen carry trade whereby investors borrow in Japan at low rates and invest in higher yielding securities

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(US Treasuries). The prospective unwinding of the Japanese carry trade comes at an awkward time for the United States. Trump’s large tax cuts have increased the US government’s budget deficit to an annual rate of around \$2 trillion. The last thing that the US government needs is the selling of its bonds by one of its major creditors.

Commodity Divergence

While gold and silver performed strongly on safe-haven demand and central bank purchases, crude oil (WTI) prices finished the year lower by 19% (See Chart 3). Precious metals were among the year’s strongest performers with gold rising 64%, its best annual gain since the 1970s, while silver and platinum more than doubled. Gold benefited from US Dollar depreciation from overvalued levels, inflation concerns, and central bank buying, and the recognition that gold has supplanted bond exposures as a superior portfolio diversifier.

Currencies

In 2025, the USD weakened against the Canadian Dollar by 4.60% and the US Dollar Index (DXY, “the Dixie”) declined by over 10% relative to a basket of foreign currencies. This USD weakness weighed on portfolio performance for Canadian Dollar native currency investors despite the robust performance of the US Equity markets.

Looking Forward to 2026

As we look forward to 2026, we can build on the foundation from last year including equity market momentum, fiscal (Big Beautiful Bill) and monetary stimulus (New Fed Chairman), and a powerful capital expenditure cycle driven by Artificial Intelligence (AI) spending

Chart 3 – Gold Shined in 2025



Source: Bloomberg

Chart 4 – Regional Trailing and Forward Earnings Growth and Valuations

Index	Growth	Growth	Trailing P/E Ratio	Forward P/E Ratio
US (S&P 500)	10.0%	15%	22.4x	22.4x
Europe (MSCI Europe ex-UK)	9.0%	9.0%	17.7x	15.6x
Japan (Nikkei)	4.0%	6.0%	16.6x	22.9x
Canada (S&P/ TSX)	13.0%	10.0%	22.2x	17.1x
Emerging Markets	14.0%	17.0%	17.0x	13.5x

Source: FactSet

that should keep US GDP growth strong. Bloomberg’s monthly survey of strategists has all twenty-one pointing to a higher S&P 500 this year. It is always worrisome when everyone is on one side of the boat but its hard to argue with the positive economic data.

According to FactSet, the median S&P 500 year end target from strategists is 8,060 implying a 15% performance in line with projected corporate profit growth. Recession risk remains low allowing for bullish positioning even after three years of solid equity returns.

As we roll the calendar into 2026, the set up is more challenging. The known risks include – pricey valuations, index concentration in the top 10 AI companies, elevated levels of margin debt, circular financing schemes in the AI ecosystem, sticky inflation, high government debt levels, elevated 10 year bond yields, the mid-term elections, Fed independence, and geopolitics.

Chart 4 above details that all markets are two points higher in valuation with a similar growth forecast in 2026. All this adds up to is

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a slimmer margin of safety for equity investors. If the S&P 500 delivers 15% earnings growth we can expect new highs for the S&P 500 in 2026 even with no multiple expansion. US nominal GDP increased by 6.0% (annualized rate) during the third quarter, while real GDP grew by 4.3%. High nominal GDP rates support the revenue outlook for US corporations as they maintain pricing power while profit margins should improve as AI initiatives are implemented and labour costs are reduced.

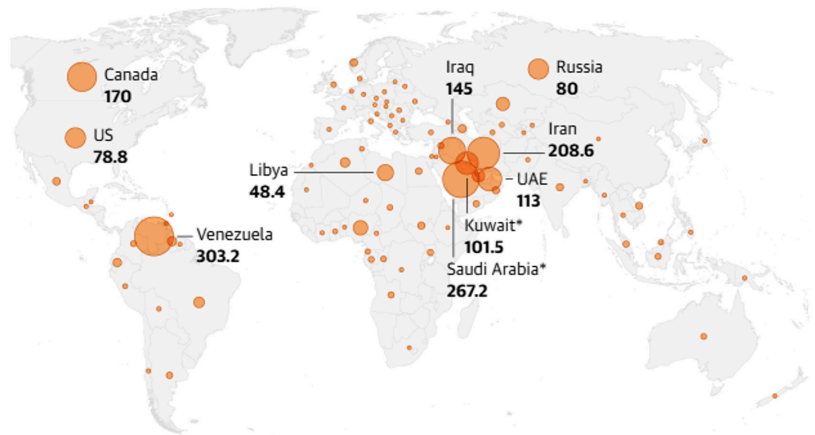
We enter 2026 with President Trump, who has long championed increased oil production and a target price of \$50 a barrel, planning a sweeping initiative to rehabilitate Venezuela’s oil fields and market its output. This action effectively makes Venezuela (not Canada) the 51st state.

US intervention in Venezuela will reshape the global oil map—putting the U.S. in charge of the output of one of the founding members of the Organization of the Petroleum Exporting Countries (OPEC) and, along with America’s own prodigious production, give it a potentially disruptive role in a market already struggling with oversupply.

Chart 5 highlights Venezuela’s leading oil reserves. Accessing the full potential of these reserves may prove problematic in the short run. Reviving Venezuela’s dilapidated oil industry will take huge investments and a lot of time, but even a small near-term output increase could exacerbate the global imbalance and push oil prices further down. The president has promised that US oil companies will return to the region to spend billions upgrading its infrastructure and growing its production. But the companies – including Chevron, ExxonMobil, and ConocoPhillips – are wary about the return on investment of this

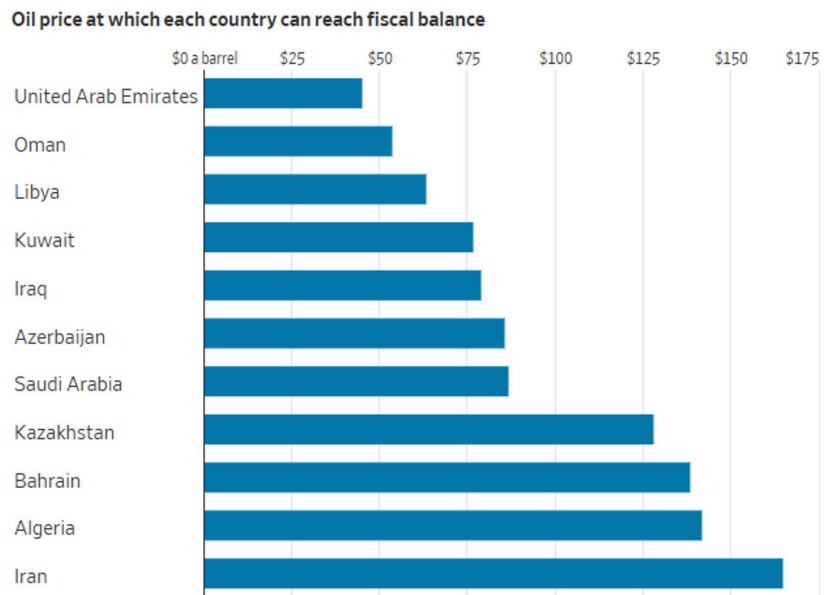
Chart 5 – Venezuela Leads in Proven Oil Reserves

Venezuela holds the world’s largest proven oil reserves
Estimated proven reserves of oil in Jan 2026, billions of barrels



Source: The Guardian

Chart 6 – Oil Producing Nations Need Oil above \$50 per barrel



Source: International Monetary Fund

initiative. Although recent headlines have focused on oil, Venezuela also holds huge underground gold resources.

Oil prices remain a key risk to inflation and to Trump’s success in the mid-term elections as he is attempting to reduce inflation and

prices at the gas pump is where voter support can be won or lost.

Chart 6 highlights the level of oil prices required to achieve fiscal balance by nation. Persistently low oil prices are difficult for OPEC countries such as Saudi Arabia because their social welfare

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programs are extensive and require \$80 per barrel to balance the books. It is unsurprising to see the social unrest in Iran given their high dependence on high oil prices. Iran is under extensive and complex US sanctions, considered among the most comprehensive imposed on any country, targeting its energy, finance, shipping, and other key sectors to pressure the regime over its nuclear program, support for terrorism, and human rights.

Last year, Canadian Energy companies outperformed (+15%) the oil price (-19%) due to the increase in pipeline capacity, decent gas and liquids exposures, and new Liberal policy initiatives that are more supportive to the sector. The landmark Memorandum of Understanding (MOU) signed in late

November between the Federal and Alberta governments may increase domestic investment and foreign interest in the oil and gas sector after a lost decade.

Final Thoughts

I remain responsibly bullish on equity markets into 2026 given positive GDP growth, softer inflation trends, stable bond yields, and solid earnings growth expectations. Recession risks remain low while geopolitical risks remain elevated particularly after the action taken by the US in Venezuela and the lack of a peace deal between Russia and Ukraine.

Last year, the markets were very resilient to trade tensions, but this may not persist if inflation returns due to tariffs or the USMCA is

revised in any dramatic fashion. Investor enthusiasm for the AI trade could wane if return on investment metrics fail to impress and capex spending becomes difficult to underwrite. After three years of strong equity markets, I need to see robust earnings growth to moderate high equity valuations.

Undoubtedly in 2026, the AI and second derivative capex investments in power generation will be a boon to economic growth and our portfolios are positioned to benefit from this powerful industrial revolution.

I wish you a happy, healthy, and prosperous New Year.

- RK



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