



2025 Year-End Review and 2026 Forecast

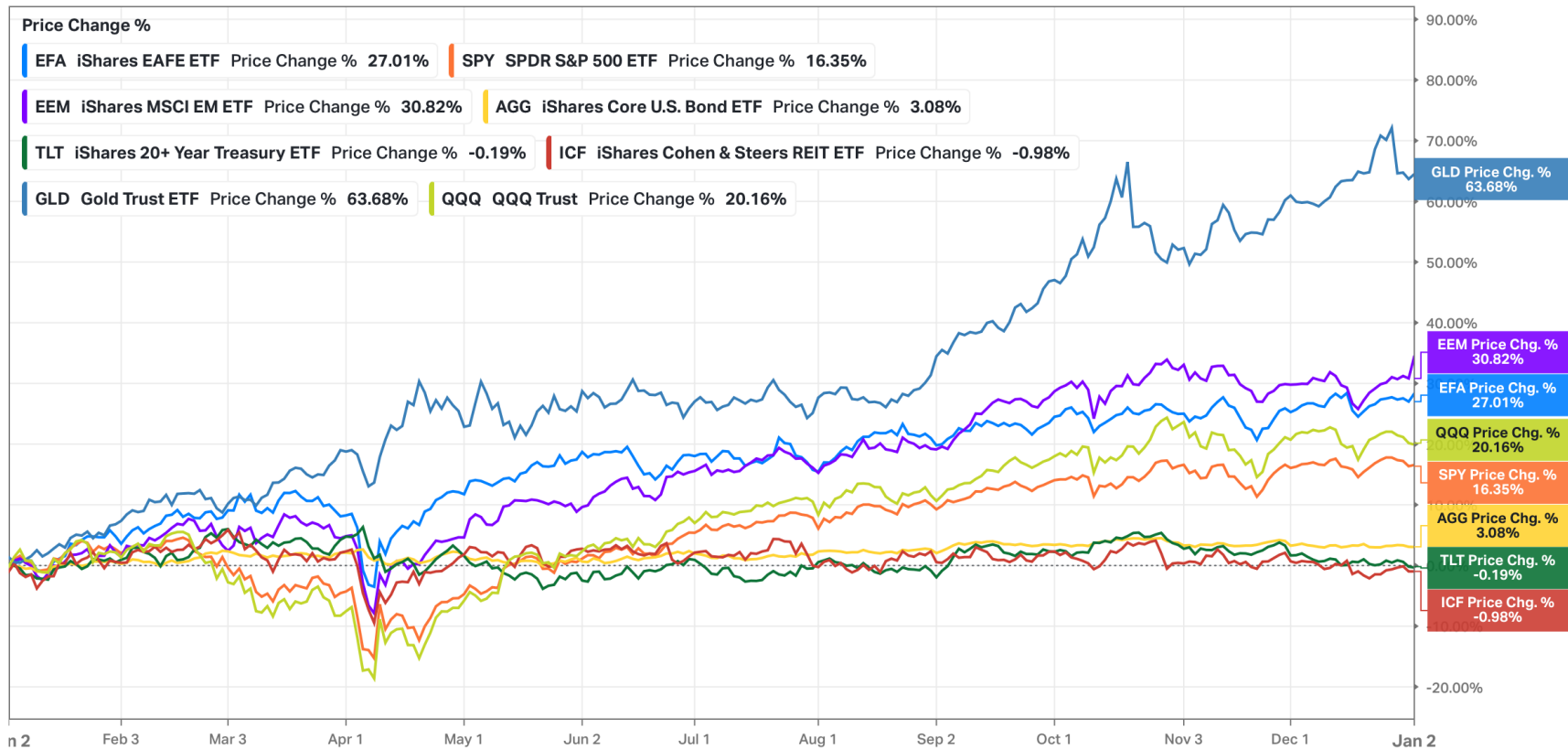
17 January, 2026

I like to start these year-end reviews by looking back at the predictions I made at the beginning of the previous year. Quite often this analysis shows just how difficult it is to predict market and economic events – usually I get some things right and some wrong as well.

At the beginning of 2025 I said the following: Looking at the global economic picture my best guess is that we should steer the course. I don't see a reason to get defensive yet, and I'm expecting a decent year in stock markets, but towards the end of 2025 we should re-evaluate, also because by then we should have an idea of what Trump's policies may actually mean.

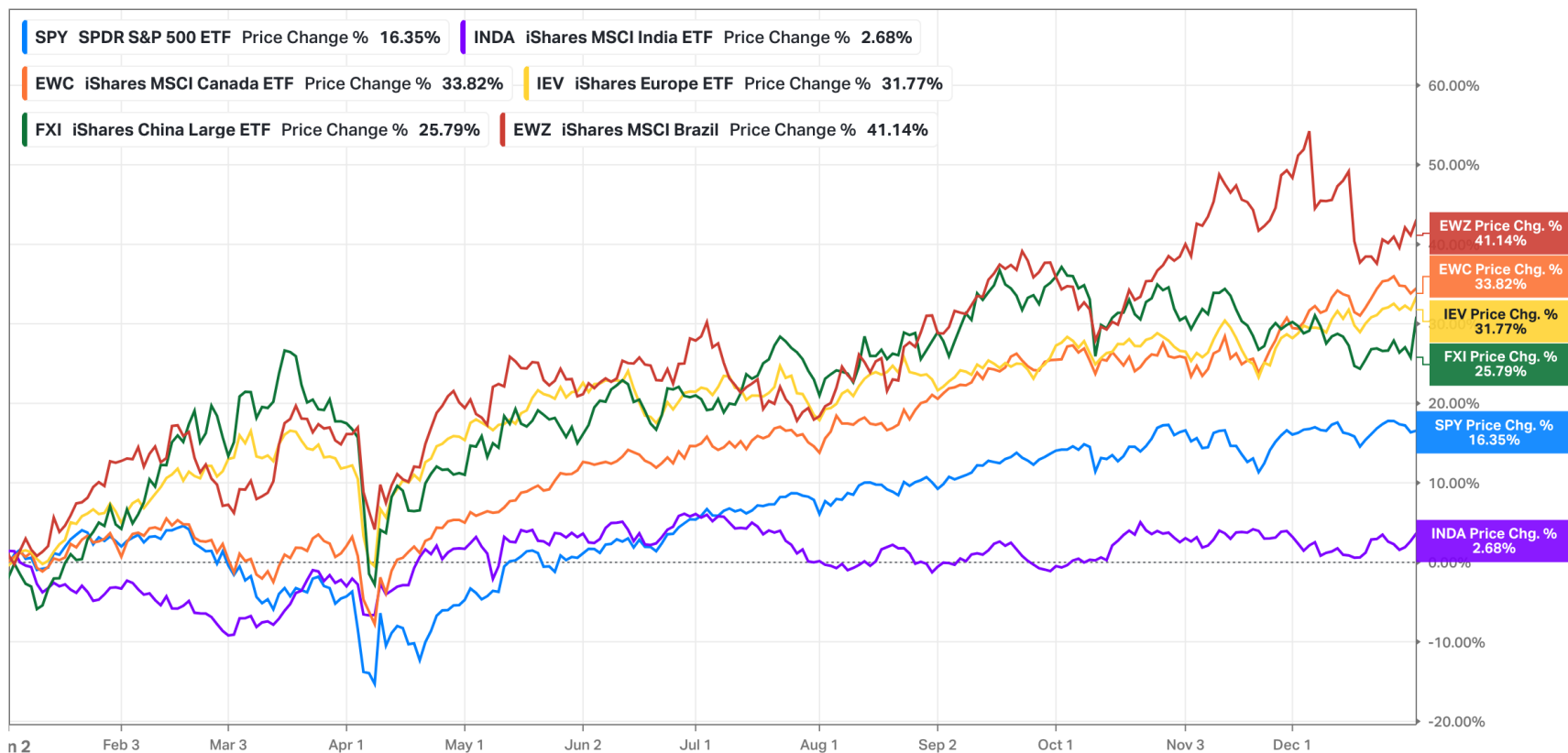
It was indeed a good year for global stock markets with non-US markets outperforming US markets and gold up over 60%. Bonds didn't do as well as I expected despite interest rates stabilizing and even coming down a bit in most places. Bonds did provide some diversification benefit during the brief downturn caused by president Trump's Liberation Day tariff threats.

The place to be in 2025 was in certain commodities like gold, silver (which was up about 200%), and copper, and in non-US markets which benefitted from strong investor interest and a weakening US dollar. The one exception to the non-US market theme was India, whose investment market didn't do well and whose currency was one of few to weaken against the US dollar in 2025.



The chart above shows performance of a number of asset classes; gold is the big outperformer, followed by emerging markets up 30% as a group and non-US developed markets up 27%. Real estate investment trusts as a group continue to do poorly – a trend we have seen now for several years.

REITs are actually kind of a mixed bag because they come in many flavors and some offer good dividend yields and diversification benefits. Also, some of the REITs we have in the portfolio, such as SBRA, which is in seniors housing and Iron Mountain which is in the data storage business have done pretty well over the last three years. It is mostly REITs in areas such as malls and office buildings that have been having a hard time.



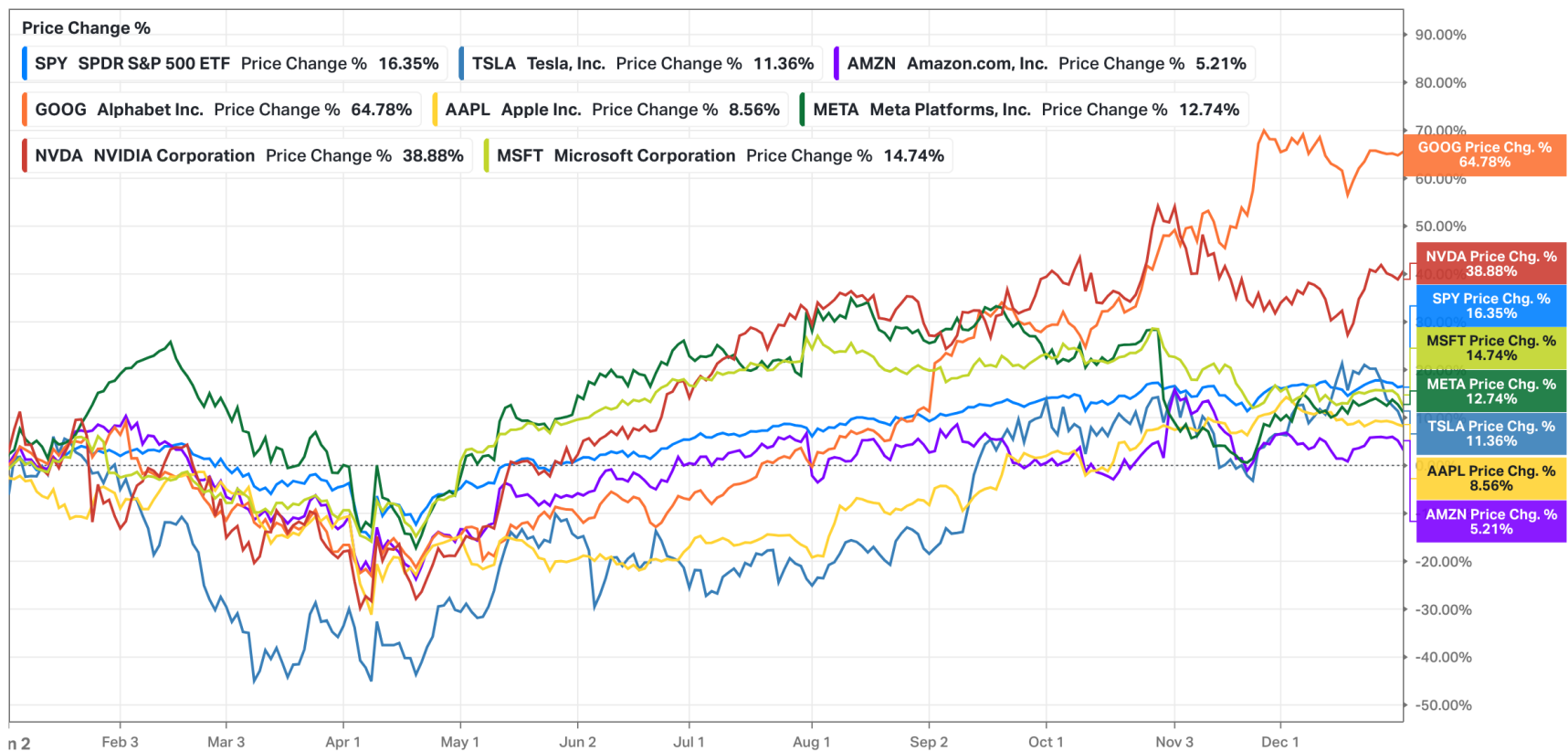
There was a great deal of anxiety earlier in 2025 as to how the Trump tariffs would affect US trading partners. However, most non-US markets outperformed US markets in 2025, as can be seen in the chart above. The S&P500 was up about 16%, whereas China, which is perhaps the most highly-tariffed country by the USA, was up 26%. Other trading partners that have had tariffs imposed, such as Europe, Canada, and Brazil, were up between about 30% and 40%.

The reality is that Trump has had to back off many tariffs and had to carve out many exclusions to the tariffs for various industries. So instead of some sort of a tariff policy, what we end up with is pretty much a mess. I think it is difficult to forecast how Trump's policies will affect investment markets going forward because what Trump says and what he does are quite often two very different things. In my opinion the

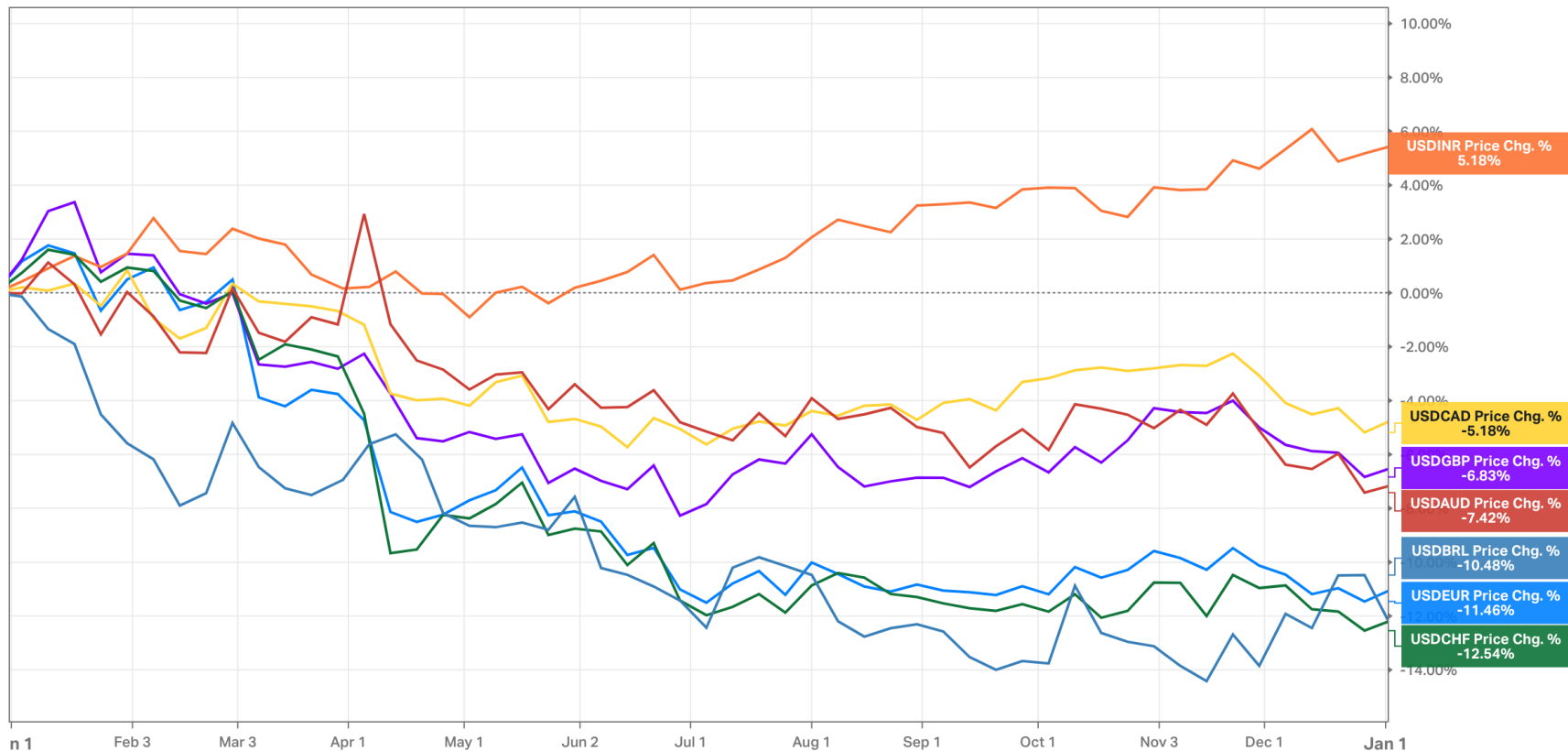
tariff threats are probably overblown and mainly a negotiating strategy since imposing broad tariffs on imported goods would be inflationary for Americans and would be unlikely to benefit anyone.

I was expecting good times for US oil and LNG companies on the back of less regulation and Trump's "drill-baby-drill" policy, however this has not materialized as there seems to be a glut in the oil markets at the moment with supply exceeding demand.

Over the last few years it has been technology companies that have been driving US investment market returns, with tech making up a third of the S&P500 index. In 2025, what we call the "magnificent seven" tech companies mostly underperformed the broad market, which is partly what held back US indexes compared to less tech-heavy markets. There is a great deal of concern amongst investors about an "AI bubble", which may hold back returns for these companies over the near term.



The chart below shows how the US Dollar fared against a number of major currencies. As can be seen, the USD mostly weakened, quite substantially in some cases, such as over 11% vs the Euro for example.



A number of our clients in Europe are concerned about how a weakening USD might affect their situation given that their investments are mostly held in the USA. However, even if the account is a US account, it is not an issue to diversify into non-US investments using exchange-traded funds or shares of companies that are based outside the USA. In fact we increased the proportion of our non-US investments at the beginning of 2025 and, depending on the strategy, most accounts are at least 50% in non-US

investments. It is important to remember that major currencies, unlike the stock market, are mean-reverting – meaning that they do not weaken or strengthen forever.

So what can we expect in 2026? Here is what analysts are saying as reported in the Financial Times:



The blue-chip S&P 500 index will rise to more than 7,500 points by the end of next year, a roughly 10 per cent increase from its current level, according to the average forecast of nine major investment banks surveyed by the Financial Times.

Equities outside the US are also expected to rise next year, although less strongly than markets on Wall Street. The Stoxx Europe 600 index will rise 6.4 per cent from current levels to about 615 points by the end of the year

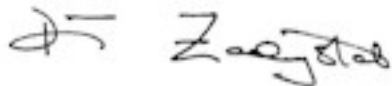
In general, analysts are expecting an average year for the US stock market. US stocks, on average, have returned about 10% per year over the long term and that is the average of analyst expectations for 2026. Personally, I think there is a good chance that non-US markets may outperform again this year. There is just so much uncertainty with respect to US policy as a result of our president's temper tantrums and attacks against institutions such as the Federal Reserve. I think investors are looking for stability and this should weigh on the US Dollar.

There is also much concern about the AI bubble bursting and the perception is that technology companies will end up suffering as a result of overinvestment in AI with not enough to show for it. Since the US market is more heavily tech-focused, this should also be a drag on the US stock market compared to others. I am still expecting positive returns but I think it is prudent to maintain a significant exposure to non-US equities and other asset classes, such as gold for example.

I am often asked whether I am nervous about the market and my answer is that I am not nervous as long as other people are nervous – when I get worried is when everyone is saying what a great time it is to invest. At the moment, people are nervous and so I think we should just continue to steer the course.

As always, I invite you to contact me directly should you wish to schedule a call to discuss your personal investments, our strategies, or any other issues with which we might be able to assist.

Until next quarter,

A handwritten signature in black ink, appearing to read "Tom Zachystal". The signature is written in a cursive, slightly slanted style.

Tom Zachystal, CFA, CFP®
President
International Asset Management