

# QUARTERLY COMMENTARY



**Richard Liss, CFP, CIM®, FCSI®**

*Senior Portfolio Manager  
Private Client Group*

*(416) 777-7041*

*richard.liss@raymondjames.ca*

**Gala Petrenko**

*Financial Advisor Associate*

*(416) 777-7154*

*gala.petrenko@raymondjames.ca*

**Raymond James Ltd.**

Scotia Plaza - Suite 5300, 40 King  
Street West, Toronto, ON M5H 3Y2

Phone: (416) 777-7041

Fax: (416) 777-7020

[www.raymondjames.ca/richardliss](http://www.raymondjames.ca/richardliss)

## How to Keep Dancing When the Party is Slowing Down

It was another very interesting year for the markets in 2025. After a fleeting 20% correction last February into April, the markets rebounded incredibly quickly and despite a continuous barrage of geopolitical events, the year's performance ended very positive. Markets around the world absorbed considerable policy and political shock without breaking as tariff uncertainty, regulatory shifts and geopolitical noise failed to deter growth or risk assets. All of this while households unfortunately faced rising costs and deteriorating affordability. After last spring, volatility fell despite all of the elevated uncertainty, illustrating to investors that bull markets indeed can "climb the wall of worry". The S&P500 Index continued to reach new highs throughout the year as did the TSX despite consumer sentiment plummeting lower. We are now in a "K Shaped Economy" where high-income households and investors benefit from higher asset values while others struggle, facing stagnating wages, job insecurity and rising costs of living. AI could disrupt the existing job market - the outcome of the AI revolution has two diverging outlooks. The more positive view, informed by previous large scale technological advancements, promises that the AI age will bring about many types of new jobs that we can't imagine today. The more concerning view is that AI will fundamentally change the employment landscape by making many jobs redundant across a variety of industries. In either scenario the direct economic impact could be a sharp acceleration in GDP due to AI's ability to increase productivity. And improved productivity growth might be contributing to continued earnings resilience and buoyant stock markets especially in the U.S.

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Energy prices are strengthening despite President Trump's overthrow of the Venezuelan leader Maduro which many believe was an attempt to take control of their energy industry so as to eventually increase oil production and hence lower prices. The American oil behemoths are not so enthusiastic to take over though since the costs of improving the industry there with its decayed infrastructure and expensive-to-refine heavy crude would be costly indeed. The other cogent perspective is that Trump wants to have more control over to whom countries in the western hemisphere sell their energy – and Venezuela's clients are mostly America's enemies – Russia, China and Cuba.

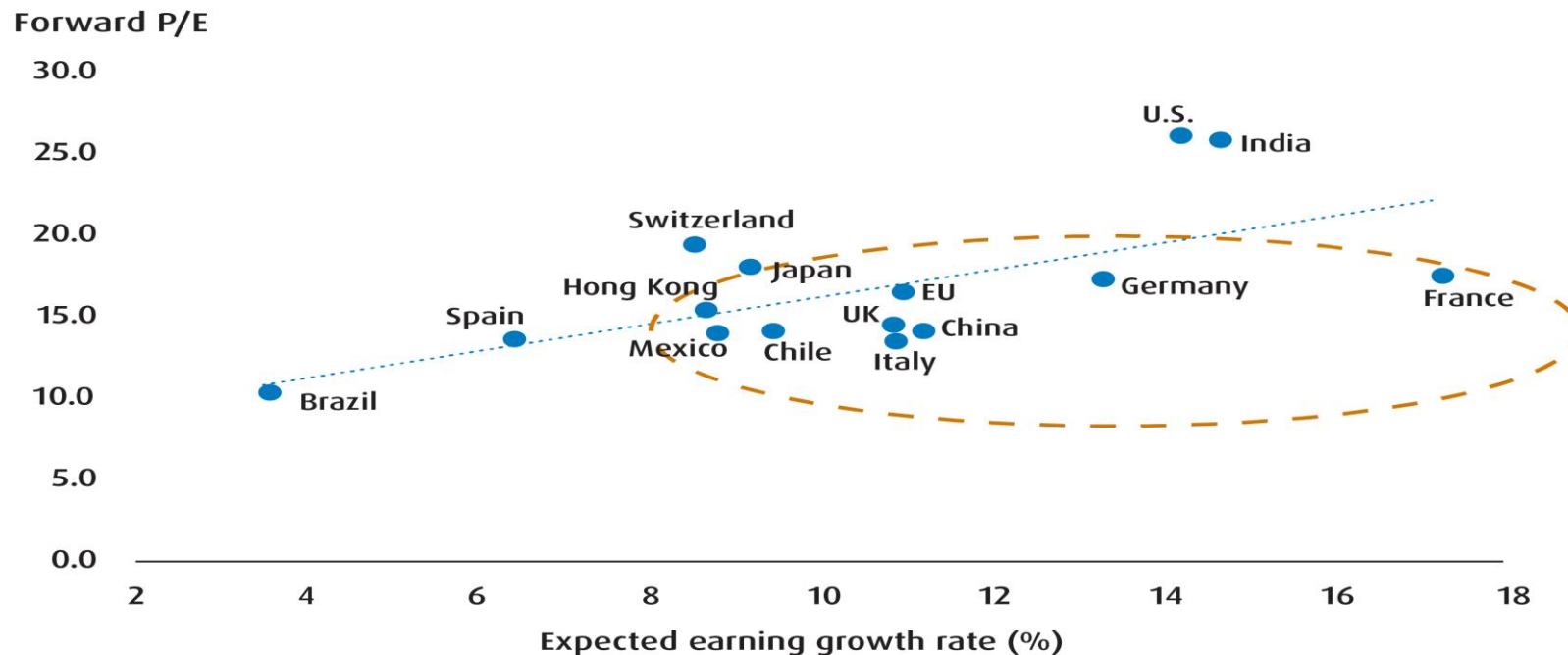
The AI trade continued to work in 2025 but now we are finally beginning to see a broadening out of the winners into other sectors of the economy. The extreme market concentration in AI companies is easing and the rotation of investor interest is into areas such as resources and small cap companies – which all contribute to a continuation of this market expansion. Indeed, the resource sector has been the strongest I've seen in many years – with precious metals, copper and uranium prices continuing to move higher. History has shown that leadership can move in an orderly fashion without necessarily a great deal of upheaval. Focusing on these other areas of the market and increasing international diversification lowers the risk for investors especially since the valuations of high-tech companies have been stretched for quite some time. Selectivity and risk management are more important now than at any other time in this cycle.

In Canada, the going expectation is that the economy should continue to 'muddle through' in 2026. Despite that, we're expecting a decent year for the financial and materials sectors in Canada. The wildcard? The Canada - U.S.-Mexico Agreement (CUSMA) trade negotiations, which should come into sharper focus by Q2. A breakdown could delay planned investments and push unemployment higher than the 6.8% level we are at already. Trump is a very tough negotiator and PM Carney isn't standing idly by hoping for the best. He's doing an amazing job scouring the world for more customers since America can no longer be relied on.

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Below is a chart that illustrates the relative valuations of International Equity Markets. The left-hand axis essentially is a measure of equity valuations. A diversified exposure to global markets can lower the risk of investing.

**Several international markets still look cheap relative to the U.S.**



Source: MSCI, Bloomberg. as of December 30, 2025.

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I believe we are entering the latter part of this bull market. That doesn't mean that a major downturn is imminent or we're about to have a repeat of 2022. Neither does it mean that we should necessarily lighten up on our equity allocation, especially when the return on fixed income investments is so poor, but it does mean that more emphasis should be placed on different sectors with lower valuations, geographic diversification and exposure to infrastructure and resources.

As always if you have any questions, are interested in a particular investment or you would like to have a comprehensive financial plan created for you please don't hesitate to call. In the meantime, turn off the news from time to time, keep warm and enjoy the New Year!

Regards,



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