

# Quarterly Newsletter

## A Banner Year for Diversified Portfolios

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Global markets closed 2025 on strong footing, capping a very profitable year for resilient investors. Despite a dramatic 19% decline in the S&P 500 Index earlier in the year following tariff announcements and persistent concerns around inflation, interest rates, and geopolitics, risk assets managed to deliver significant broad-based gains and rewarded disciplined investors who stayed the course through the noise.

For the full year, U.S. equities returned 17.9% in U.S. dollars (USD), while Canadian equities significantly outperformed, with the S&P/TSX 60 up 29.1% in Canadian dollars (CAD). International developed equities also posted an exceptional year, rising 31.2% in USD. Fixed income delivered solid returns, and alternatives once again played an important diversifying role, delivering returns from uncorrelated risk factors. The U.S. dollar fell against most other currencies, including the Canadian dollar, which strengthened by 5.4% versus the USD in 2025.

Taken together, 2025 was another reminder that markets can perform well even amid elevated uncertainty and that diversification across regions and asset classes continues to matter.

### Are We in a Bubble? Valuations, AI, and Market Reality

With U.S. equity markets near record highs and technology stocks continuing to lead, a natural question has emerged: are we in a bubble similar to the late 1990s?

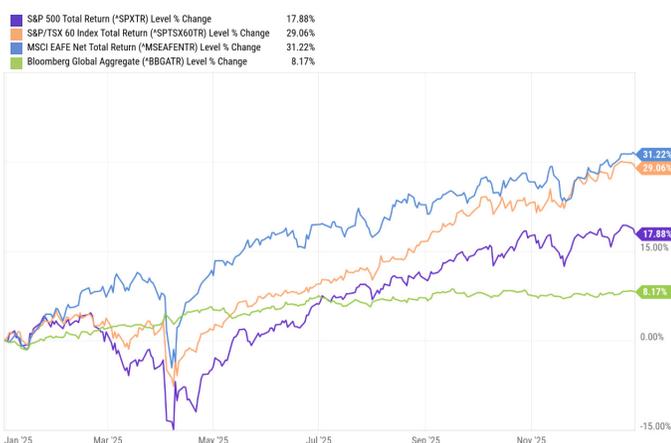
Valuations are unquestionably elevated. At year-end, the S&P 500 was trading at roughly 22 times forward earnings, well above its long-term average. However, the key point is this: valuations were not meaningfully higher than a year earlier. Market gains over the past year have largely been driven by earnings growth rather than expanding multiples. Indeed, roughly 79% of the S&P 500's return in 2025 was attributable to earnings growth, with valuation multiples essentially ending the year near where they began.

Just as important is where those valuations reside. Elevated multiples are heavily concentrated in a relatively small group of large-cap technology companies and companies related to artificial intelligence. Outside that group, valuations across the broader U.S. market remain far more reasonable and, in many cases, closer to historical norms.

### Profitability Is the Key Difference Versus the Late 1990s

One of the most critical distinctions between today's market and the dot-com era lies in corporate profitability.

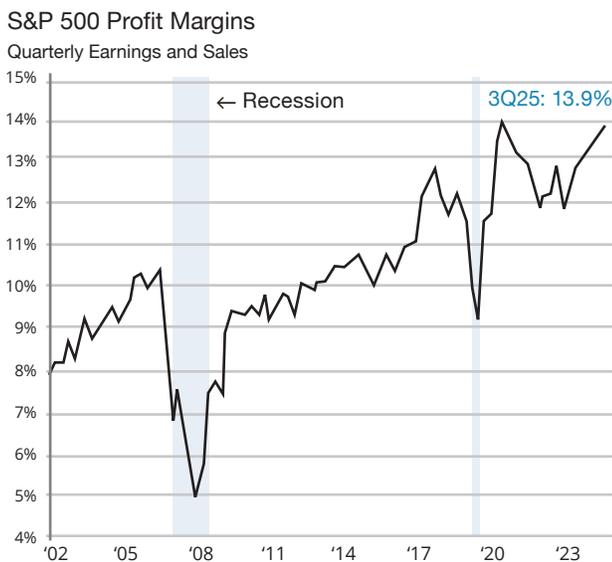
#### Index Returns



Clients of Cardinal Point are strategically invested with a focus on long-term performance objectives. We evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in context, but we do not make sweeping model changes based on short term market movements.

U.S. companies are operating with historically high profit margins, currently near the upper end of their long-term range. These margins have expanded steadily over the past decade and now sit well above levels seen in prior market cycles. Importantly, companies with these elevated margins represent a much larger share of overall market capitalization than they did in the late 1990s.

Over the past two years, research by Keith Lerner at Truist Advisory Services showed that within the technology sector, the price-to-earnings ratio was flat. While we have seen rising prices for those technology-oriented firms, their earnings have increased in lockstep. That compares to an 180% increase in tech stock P/E in 1998–1999.



In other words, today’s market leaders are not speculative businesses with unproven models. They are dominant firms generating substantial cash flow, high returns on capital, and durable earnings growth. Because these high-margin companies now make up a greater portion of the index, it is reasonable to expect that average market valuation multiples may structurally run higher than in earlier decades. As shown in this chart from J.P. Morgan’s Q4 2025 Guide to the Market, profit margins have been steadily rising over the last 20 years, which would point to higher valuation multiples.

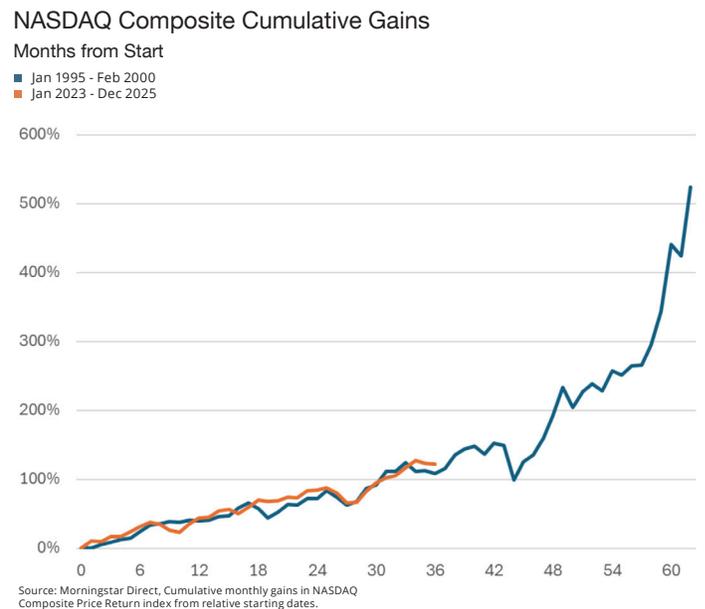
This dynamic alone does not eliminate risk, but it does materially differentiate today’s environment from the tech bubble.

### Nasdaq Then vs. Nasdaq Now

The Nasdaq Composite Index comparison is particularly instructive.

During the late 1990s, the Nasdaq rose more than 500% from the start of 1995 to its peak in early 2000. What is often forgotten is how extreme the acceleration became late in the cycle. Roughly half of those gains occurred in just the final two years, with the index rising at an annualized return of 72% over the two years leading up to the March 2000 peak. Valuations expanded rapidly even as profitability lagged, and many newly-public technology companies had little or no earnings at all.

By contrast, Nasdaq performance over the past three years has been strong, but far more measured. The index has delivered cumulative gains of 120%, a very powerful rally. Annual returns would need to rise roughly 50-70% to approach anything like the exponential surge of the dot-com era. While enthusiasm around AI has certainly contributed to returns, the pace, scale, and composition of gains look materially different from the “irrational exuberance” of the late 1990s.



Perhaps most importantly, today’s technology leaders are profitable, cash-generative, and deeply embedded in the global economy. That does not make them immune to corrections, but it does make the current environment far less speculative than the Nasdaq boom of 1999.

### Caution Is Still Warranted

While we do not view today’s market as a bubble in the same sense as the late 1990s, caution is still warranted. Make no mistake: there are considerable risks in today’s market.

History shows that meaningful market drawdowns are a normal and recurring part of long-term investing. Since the 1950s,

the S&P 500 has experienced six selloffs exceeding 30%, with roughly half of those involving deeper 40–50% declines. On average, a bear market (defined as a decline of 20% or more) has occurred every five to six years, meaning that over a 30-year investment horizon, investors should reasonably expect to experience multiple bear markets, including one or two severe downturns.

Importantly, each of these major declines was eventually followed by a recovery to new highs, rewarding patient investors who remained invested and reinforcing the value of a long-term perspective.

The chart below, also from the Guide to the Markets, further illustrates how common market volatility actually is. Over the past 46 years, the average intra-year drawdown has been approximately 14.2%, yet most years ultimately finished with positive returns. 2025 is a good example of this dynamic, with markets experiencing periods of meaningful volatility despite ending the year higher.

History also suggests that when markets deliver strong returns over multiple consecutive years, forward-looking risks tend to rise. Elevated valuations can make markets more sensitive to

disappointment, whether driven by slower earnings growth, policy changes, or unexpected macroeconomic events.

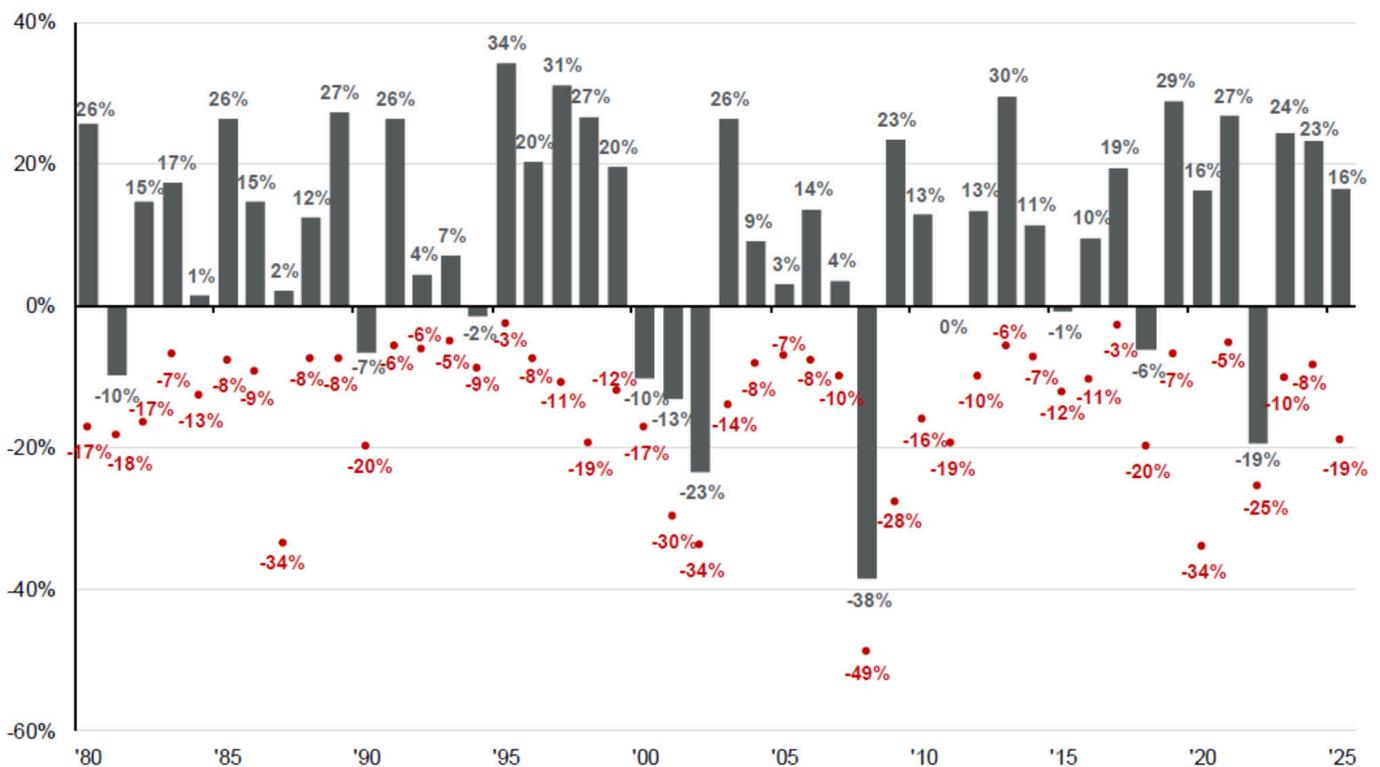
This is precisely why diversification remains critical. Portfolios that include exposure to Canadian and international equities, many of which trade at meaningfully lower valuations than U.S. stocks, can help reduce concentration risk. Smaller companies within U.S. markets are also trading at more attractive valuations. High-quality bonds can provide ballast during equity drawdowns, particularly now that yields are materially higher than they were just a few years ago. Alternative investments, including real assets and diversifying strategies, can further enhance resilience by reducing reliance on any single return driver.

We do not believe the appropriate response is to retreat from markets or attempt to time corrections. Rather, periods like this reinforce the importance of thoughtful portfolio construction, disciplined rebalancing, and maintaining exposure across a wide range of asset classes and regions.

Strong markets can persist longer than expected, but diversification is what helps ensure portfolios remain robust whenever the cycle eventually turns.

### S&P 500 Intra-Year Declines vs. Calendar Year Returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refer to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results. Guide to the Markets - U.S. Data as of December 31, 2025

# Financial Markets Review

## The USD View

The year ended with many of the same conflicting signals that dominated 2025. Recent data indicate that the U.S. economy is still expanding at a meaningful clip; inflation has moderated but job growth is very sluggish. The prolonged government shutdown and corresponding missing economic data did not help with clarity.

Job growth appears to have nearly stalled, with little to no job creation since August and a marked slowdown over the course of 2025. The unemployment rate ticked up to 4.6% in November, the highest level since 2021. The dramatic decline in immigration levels has led to a lower break-even in new job creation, but at this time the pace of job creation has slowed more quickly than the reduced growth of the labor force.

On the positive side, overall economic growth came in very strong with an initial estimate of 4.3% real GDP growth in Q3. That follows another strong result of 3.8% in Q2. Early indications for Q4 (from the Atlanta Fed's GDPNow model) also sit around 3.0%, suggesting continued robust growth in the second half of the year. However, considerable uncertainty remains with a significant amount of the government data missing during the period of the shutdown. This juxtaposition highlights a key source of confusion in the markets: we have strong economic growth fueled by massive investment in areas like AI (e.g., new data centers, power generation, and talent acquisition), offsetting weaker job growth and anxious consumers. In other words, business spending on transformative tech is helping keep GDP growth brisk even as labor markets cool.

Inflation has shown some signs of moderation, with energy prices remaining contained. Through November, year-over-year inflation averaged 2.7%, a small decline from recent figures. However, the figure was likely understated because the calculation assumed 0% shelter inflation for periods when shelter data were not available. While price increases are



down meaningfully from their 2022 pace, we have not yet seen inflation drop to the 2.0% annual rate the Federal Reserve is targeting. This puts the Fed in a tough spot, but on balance policymakers determined that risks to the employment picture outweighed those of inflation flaring up again. Accordingly, the Fed cut interest rates by 0.25% in October and then again in December. Current expectations are for another two small cuts over the course of 2026, though one should expect those expectations to move meaningfully as the unemployment, growth, and inflation numbers oscillate. Additionally, President Trump will nominate a new Fed chair soon, with Jerome Powell's term set to end in May.

Despite the additional Fed rate cuts, longer-term bond yields rose along the curve; the 10-year U.S. Treasury yield ended the quarter about 5 basis points higher than where it started. Given this minor backup in rates, but a healthy environment for corporate credit, the Bloomberg U.S. Aggregate Bond Index advanced a modest 1.1% for the quarter.

Equity markets, for their part, continued the V-shaped recovery seen since early April, hitting new highs multiple times and rising 2.7% in Q4. This brings the index return for 2025 to 17.9%, a third consecutive year of double-digit gains. International developed-

market stocks (MSCI EAFE Index) also did well, adding another 4.9% in the quarter; notably, international equities returned nearly double that of U.S. stocks in 2025, with EAFE finishing up 31.2%. Emerging markets surged to a similar degree; the MSCI Emerging Markets index jumped 4.7% in Q4, bringing EM equities return in 2025 to 33.6%.

Within the U.S. market, returns were more mixed than in previous quarters. Value companies outperformed, with Large Value and Small Value leading in returns, while only Mid-Cap Growth companies registered a loss for the quarter.

International developed markets saw continued strength with all segments in positive territory. Gains were spearheaded by Large Value companies, and most markets had a small additional benefit from the USD falling modestly in value over the course of the quarter.

### US Stocks Q4 2025

	Value	Blend	Growth
Large	3.8%	2.4%	1.1%
Mid	1.4%	0.2%	-3.7%
Small	3.3%	2.2%	1.2%

### International Stocks Q4 2025

	Value	Blend	Growth
Large	8.7%	5.6%	2.5%
Mid	6.2%	3.7%	1.1%
Small	5.0%	3.5%	1.9%

### Asset classes ranked by annual returns (in USD)

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2025 Q4
US Small Value 31.7%	Emerging Markets 37.3%	Cash 1.9%	US Stocks 31.5%	US Stocks 18.4%	US Small Value 28.3%	Commodities 16.1%	US Stocks 26.3%	US Stocks 25.0%	Canadian Stocks 35.6%	Canadian Stocks 7.7%
Canadian Stocks 24.9%	Intl Stocks 25.0%	US Bonds 0.0%	Canadian Stocks 29.5%	Emerging Markets 18.3%	Commodities 27.1%	Cash 1.5%	Intl Stocks 18.2%	Canadian Stocks 13.0%	Emerging Markets 33.6%	Commodities 5.8%
US Stocks 12.0%	US Stocks 21.8%	Alternatives -3.2%	US REITs 23.1%	Intl Stocks 7.8%	US REITs 24.5%	Alternatives -5.7%	Canadian Stocks 16.0%	US REITs 8.1%	Intl Stocks 31.2%	Intl Stocks 4.9%
Commodities 11.8%	Canadian Stocks 16.8%	US REITs -4.2%	US Small Value 22.4%	US Bonds 7.5%	Canadian Stocks 19.8%	Canadian Stocks -11.4%	US Small Value 14.6%	US Small Value 8.1%	US Stocks 17.9%	Emerging Markets 4.7%
Emerging Markets 11.2%	US Small Value 7.8%	US Stocks -4.4%	Intl Stocks 22.0%	Canadian Stocks 6.6%	US Stocks 15.9%	Intl Stocks -14.5%	US REITs 14.0%	Emerging Markets 7.5%	Commodities 15.8%	US Small Value 3.3%
US REITs 6.7%	Alternatives 7.1%	Commodities -11.2%	Emerging Markets 18.4%	Alternatives 6.4%	Intl Stocks 11.3%	US Bonds -13.0%	Emerging Markets 9.8%	Commodities 5.4%	US Small Value 12.6%	US Stocks 2.7%
Intl Stocks 1.0%	US REITs 3.8%	US Small Value -12.9%	Alternatives 9.3%	US Small Value 4.6%	Alternatives 7.2%	US Small Value -14.5%	US Bonds 5.5%	Cash 5.2%	US Bonds 7.3%	US Bonds 1.1%
US Bonds 2.6%	US Bonds 3.5%	Intl Stocks -13.8%	US Bonds 8.7%	Cash 0.7%	Cash 0.1%	US Stocks -18.1%	Alternatives 4.4%	Alternatives 4.3%	Alternatives 6.0%	Cash 1.0%
Alternatives 1.3%	Commodities 1.7%	Emerging Markets -14.6%	Commodities 7.7%	Commodities -3.1%	Emerging Markets -1.2%	Emerging Markets -20.1%	Cash 5.0%	Intl Stocks 3.8%	Cash 4.2%	Alternatives 0.3%
Cash 0.3%	Cash 0.8%	Canadian Stocks -15.3%	Cash 2.3%	US REITs -11.2%	US Bonds -1.6%	US REITs -26.0%	Commodities -7.9%	US Bonds 1.3%	US REITs 3.7%	US REITs -0.8%

## The CAD View

The Canadian economy's growth and labor market continue to lag the U.S., though some economic data did improve in Q4. The unemployment rate in Canada had been on a very troubling uptrend this year, rising from 6.6% in January to 7.1% as of September, a four-year high, before seeing a material improvement in October and November, dropping to 6.5%. Job creation returned to positive territory during the quarter; after a Q3 with net job losses, October and November saw monthly gains above 50,000 new jobs.

Economic output also rebounded from dire levels. After seeing Q2 economic growth fall by 0.5% (meaning the first half of the year was at a standstill), Q3 saw a material bounce back, posting a 0.6% increase. An increase in government capital spending in areas such as defense spending helped boost GDP. In short, the Canadian economy showed notable improvements in the second half of the year, but the economy remains fragile, with higher unemployment rates and ongoing housing price headwinds.

On the inflation front, the pace of price increases has been relatively steady and muted. Headline inflation is running about 2.2% year-over-year, coming in slightly below market expectations in the latest reading. This calmer inflation picture (closer to the Bank of Canada's 2% target) gives policymakers cover to maintain an easing stance to support growth as needed.

Indeed, the Bank of Canada cut rates again in Q4, bringing the overnight policy rate down to 2.25%. Longer-term interest rates went in the opposite direction, buoyed by the more robust economic data, and the 10-year Government of Canada bond yield rose by roughly 25 basis points during the quarter,



ending around 3.8%. Bond prices struggled with this move; the Bloomberg Barclays Global Canada bond index total return fell by 0.7% for Q4, meaning Canadian investment-grade bonds returned just 1.4% for the year.

While Canadian bonds languished, the Canadian equity market continued its success in 2025, gaining 5.7% during the quarter to finish the year with a gain of 29.1%. U.S. stocks rose just 1.1% in CAD terms in Q4, finishing the year with a 12.4% gain in CAD. International stocks gained 3.3% in Q4 and 25.1% YTD in CAD. The key drivers for Canada's market were broad-based. Basic materials, financials, energy, and technology stocks all contributed to the strong annual return.

The Canadian stock market saw gains across all sectors, with the most pronounced jumps coming in Small Cap areas and Value segments, while Large Growth lagged on a relative basis.

Cdn Stocks Q4 2025			
	Value	Blend	Growth
Large	8.8%	5.9%	2.2%
Mid	9.9%	6.9%	5.9%
Small	7.0%	9.3%	11.6%

Asset Classes Ranked By Annual Returns (In CAD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2025 Q4
US Stocks 21.6%	Canadian Stocks 21.1%	Intl Stocks 16.8%	US Stocks 4.2%	US Stocks 24.8%	US Stocks 16.3%	Canadian Stocks 17.5%	Canadian Stocks -5.8%	US Stocks 22.9%	US Stocks 36.4%	Canadian Stocks 29.1%	Canadian Stocks 5.7%
Intl Stocks 19.0%	US Stocks 8.1%	US Stocks 13.8%	Canadian Bonds 2.5%	Canadian Stocks 22.9%	Canadian Bonds 7.4%	US Stocks 15.3%	Intl Stocks -8.2%	Intl Stocks 15.1%	Canadian Stocks 21.0%	Intl Stocks 25.1%	Intl Stocks 3.3%
Canadian Bonds 3.7%	Canadian Bonds -0.3%	Canadian Stocks 9.1%	Intl Stocks -6.0%	Intl Stocks 15.8%	Intl Stocks 5.9%	Intl Stocks 7.7%	Canadian Bonds -9.9%	Canadian Stocks 12.1%	Intl Stocks 13.2%	US Stocks 12.4%	US Stocks 1.1%
Canadian Stocks -8.3%	Intl Stocks -2.5%	Canadian Bonds 0.1%	Canadian Stocks -8.9%	Canadian Bonds 3.7%	Canadian Stocks 5.6%	Canadian Bonds -3.8%	US Stocks -12.2%	Canadian Bonds 5.0%	Canadian Bonds 2.9%	Canadian Bonds 1.4%	Canadian Bonds -0.7%

**Indexes used:** Cash represented by ICE BofAML 3M U.S. Treasury Notes. MSCI Canada, MSCI World ex USA, and the Russell U.S. series are used to represent Large Value, Large Blend, Large Growth, Mid Value, Mid Blend, Mid Growth, Small Value, Small Blend, and Small Growth. Alternatives (USD and CAD charts) are represented by Credit Suisse Liquid Alternative TR USD. Commodities are represented by Bloomberg Commodity TR. The Nominal Broad U.S. Dollar Index is used for USD comparisons. **Additional representations (CAD):** Canadian Bonds: Bloomberg Barclays Global Canada; Canadian Stocks: S&P/TSX Composite TR; U.S. Stocks: S&P 500 TR; International Stocks: MSCI EAFE NR. **Additional representations (USD):** Short International Bonds: FTSE WGBI 1-5Yr Hdg; U.S. Stocks: S&P 500; U.S. Value: Russell 1000 Value; U.S. Small: Russell 2000; U.S. REITs: DJ U.S. Select REIT; Canadian Stocks: FTSE Canada; International Stocks: MSCI World ex USA Large; Emerging Markets: MSCI EM NR.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Bank of Canada, Capital Economics, Bloomberg Economic Calendar, U.S. Department of the Treasury, CME Group, Trading Economics, JP Morgan Guide to the Markets Q3 2025, YCharts, Morningstar Direct 2025, Jason Blackwell- Government Shutdown LinkedIn Post 10/1/2025.

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