



Mawer Quarterly

Fourth Quarter 2025

Market Overview

Global equities advanced further in the fourth quarter, and leadership broadened as investors rotated away from U.S. mega-cap AI winners toward cyclicals. Canadian equities outperformed U.S. equities, benefiting from strong commodity gains led principally by gold, while European equities also substantially outpaced U.S. equities, supported by semiconductor stocks and banks, which benefitted from a steeper yield curve, as well as mining companies, which were lifted by this year's commodity price boom.

AI remained the dominant market narrative, yet the year's shift from a focus on computing power to concerns about data centre profitability and power supply raised bubble concerns. History offers uncomfortable parallels with past technological booms, from railroads and autos to the late-1990s dot-com bust, which developed over several years and were often amplified by retail participation, leverage, and easy credit.

Central banks continued to underpin risk assets, with most major institutions either cutting rates earlier in the year or now on hold as inflation steadied, keeping financial conditions broadly supportive. At the same time, the U.S. dollar weakened notably over the year against most major currencies as interest-rate differentials narrowed and investors grew more concerned about the U.S. political outlook, adding another tailwind for non-U.S. assets.

Bond markets continued to adjust to this new regime. Intermediate and longer-term government yields in most developed markets drifted higher as investors reassessed the trade-off between persistent inflation pressures and ongoing monetary accommodation, while shorter-dated U.S. yields moved lower following the latest Fed cut. Canadian yields were relatively stable, leaving North American curves steeper. Against this backdrop of easier global policy and unresolved geopolitical and trade risks, gold remained well supported.

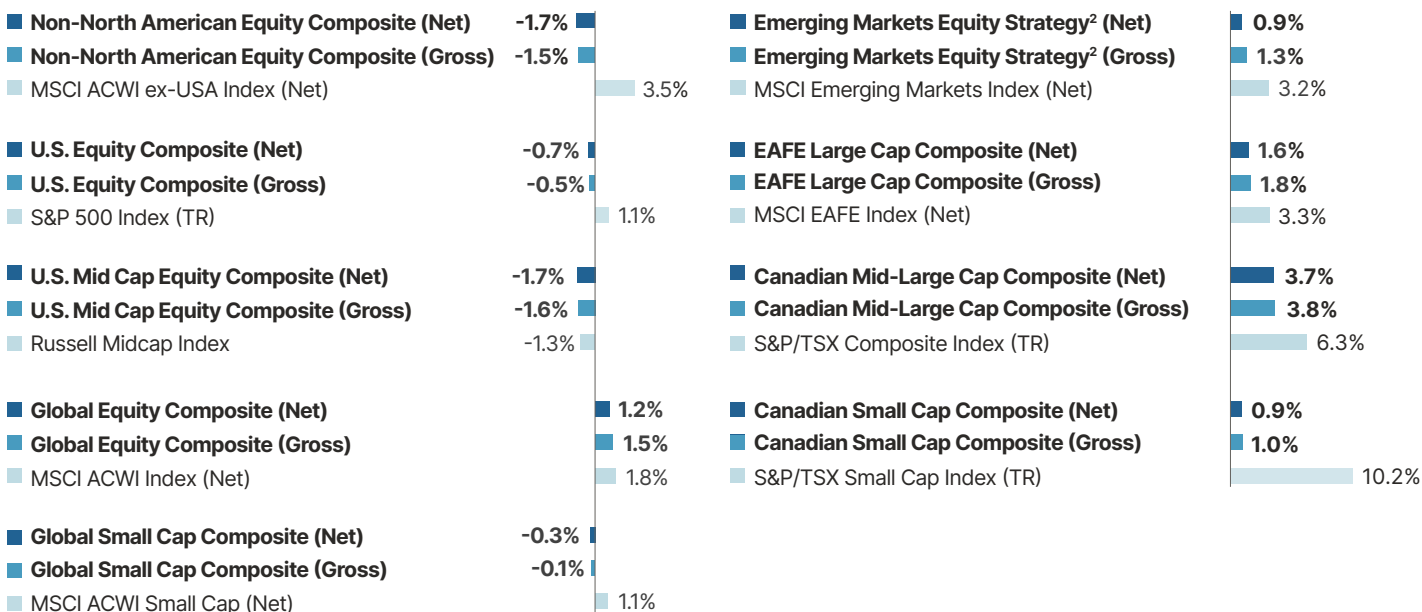
How Did We Do?

Our quality-oriented portfolios were, for the most part, unable to keep pace with their benchmarks during another strong quarter for equities. While an environment of rapidly rising, higher-risk stocks tends not to favour an approach focused on sustainable cash-flow generation, diversification, and downside risk management, this same discipline helped protect capital during the heightened volatility earlier in 2025.

Performance has been presented for the 3-month period ending December 31, 2025.

Equities

Chart A: Q4 2025¹



Given the strong relative and absolute performance of Canadian equities over the quarter and through most of 2025, our long-standing underweight to gold stocks, just as gold-related names became a key driver of the Canadian market, led to underperformance versus the benchmark this quarter. Over the year, we narrowed this underweight in a measured way as geopolitical uncertainty, de-dollarization, fiscal indiscipline, central bank gold purchases, and falling interest rates created a more supportive backdrop for gold. We have focused on gold-related companies with differentiated, relatively lower-risk business models than traditional producers, and the portfolio now holds four such stocks, which in our assessment provide useful diversification and the potential to remain highly profitable across a wide range of gold prices.

On the positive side for Canadian equities this quarter, four of our holdings in the financials sector (**TD**, **RBC**, **Scotiabank**, and **Manulife**) posted strong stock performance on the back of stronger-than-expected earnings due to solid net interest income, resilient credit quality, healthy capital markets, and wealth-management fees. Shares of global heavy equipment distributor **Finning** rose after reporting quarterly results that were well above expectations, while shares of autonomous underwater vehicle technology company **Kraken Robotics** also benefited from increased government defence spending. Detracting from performance were holdings of **Constellation Software** and spinoff **Topicus** despite strong underlying earnings amid concerns that AI could affect their software offerings.

In the U.S., **Alphabet**, the parent company of Google, continued its strong performance as concerns about search engine competition and the resolution of its antitrust case faded, reinforcing its position as a key contributor to the portfolio. Similarly, **Amphenol**, a leading manufacturer of electronic connectors and cables used in communications, data centers and industrial equipment, benefited from robust demand for AI-related interconnect products, which now account for over a third of its revenue making it another standout performer. Both companies, which were our largest positions at the start of the year, were top contributors to the portfolio's results. Elsewhere, **Waters** reported solid results supported by growth in Asia, and we increased the position

¹ Past performance does not guarantee or indicate future results. Performance is in Canadian dollars. This report is not complete without disclaimers.

² Based on the Mawer Emerging Markets Equity representative account and is supplemental information to the Emerging Markets Equity Composite GIPS report(s).

following its acquisition of **Becton Dickinson's** biosciences and diagnostics business. **Danaher**, a science and diagnostics company, delivered margin expansion and strong forward guidance following productivity initiatives, while **Cencora**, a pharmaceutical distributor, reported solid growth driven by improved sales of specialty and generic pharmaceuticals.

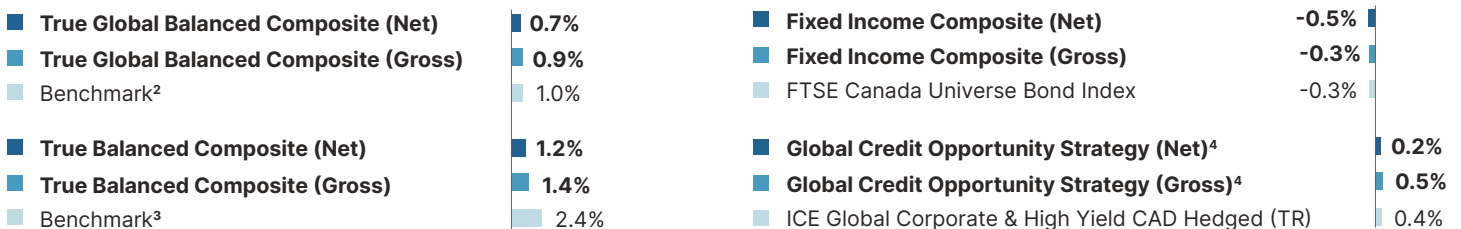
In contrast, insurance brokers **Marsh & McLennan** and **Arthur J. Gallagher** continued to face pressure amid a softer insurance market, despite renewal premiums holding in positive territory. **Microsoft** paused after a strong run as sentiment cooled and investors questioned the pace of AI spending, while **Aptar**, a specialist in drug-delivery and consumer-dispensing solutions, experienced reduced demand from pharmaceutical customers due to inventory normalization in nasal decongestants.

Within international equities, many of the full-year top performers experienced pullbacks this quarter, including defence contractors such as the UK's **BAE**, Italy's **Leonardo**, and France's **Thales**, which declined on the possibility of a diplomatic breakthrough in the Russia-Ukraine war. Geopolitical events early in the year have helped defence company shares more-than-offset the declines seen in the fourth quarter. Elsewhere in Asia, shares of **Tencent**, a leading Chinese internet and online services platform, and **Tencent Music**, a major digital music streaming and entertainment provider, surrendered part of their strong year-to-date advance amid a broader bout of weakness in Chinese stocks, even though Chinese equities, in Canadian-dollar terms, still ranked among the best-performing major markets in 2025.

Partially offsetting these negatives, high-bandwidth memory leader **SK Hynix** nearly doubled in the quarter thanks to explosive demand for its products. Other AI-linked companies were rewarded for continued fundamental strength too, such as **TSMC**, **Kokusai Electric**, rail kit manufacturer **King Slide**, and Japanese conglomerate **Hitachi**, which produces electrical grid equipment.

Balanced and Fixed Income

Chart B: Q4 2025¹



Within Canadian bonds, negative returns over the quarter were driven primarily by marginally higher government bond yields as investors remained cautious about increased government debt issuance. Like last quarter, those invested in our global credit opportunities strategy saw a positive return, benefiting from slightly lower short-dated government bond yields and slightly tighter credit spreads.

The balanced strategy maintains a neutral asset mix, reflecting rising valuation concerns amid lingering questions about the true health of the economy. Recent portfolio moves included a slight reduction in equity due to concerns on valuation. This was accompanied by a modest shift from Canadian small cap into larger-cap

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² 35% FTSE Canada Universe Bond, 5% FTSE Canada 91-day TBill, 60% MSCI ACWI (net).

³ 5.00% 91-Day TBill; 35.00% FTSE Canada Universe; 15.00% S&P/TSX Composite; 7.50% S&P/TSX SC; 7.50% MSCI ACWI SC (net); 15.00% S&P 500; 15.00% MSCI ACWI ex-USA (net)

⁴ Based on the Mawer Global Credit Opportunities representative account and is supplemental information to the GIPS report(s).

Canadian equities, consistent with a view that there is a broader opportunity set of high-quality businesses at the larger end of the market. We also made an increase in U.S. equities that we sourced from emerging markets, and to a lesser extent, our international equity allocations. The net effect of this being a slightly lower overall equity weight and, at the margin, less direct exposure to AI-related themes as a result of our underlying equity strategy exposures. Fixed income remains appealing as global central banks pivot toward easing, yields stay elevated versus history, and softer labour data increases the likelihood that interest rates will trend lower, all of which could be supportive for bond returns.

Looking Ahead

As 2025 closes, investors find themselves confronting a familiar blend of optimism and doubt. The powerful combination of AI innovation, continued fiscal largesse, and gradually easing monetary policy has sustained both growth and market confidence longer than many thought possible. Yet, beneath the surface, the contours of this expansion are shifting. It's increasingly clear that the world's economies are being rewired—by policy, by technology, and by the rise of populist politics.

Artificial intelligence remains central to productivity hopes and portfolio positioning, but the way that promise is being financed and valued is becoming more demanding. Debt funding is playing a larger role in the data center buildout, and while balance sheets remain solid overall, investors are paying closer attention to the growing amount of debt issued by some technology companies. The combination of industrial-scale spending, still-unproven economics, and higher valuations increases the risk that expectations get ahead of reality.

On the policy front, what began as emergency stimulus now defines the modern economic landscape. Fiscal measures once reserved for crises including direct transfers, industrial subsidies, and central bank balance sheet expansion, have all become standing features. Legislators continue to pair expansive spending with tax incentives, reinforcing the impression that growth can be engineered. The result is another wave of fiscal support heading into 2026, even as debt sustainability increasingly comes into question.

Monetary policy, rather than acting as a counterweight, continues to accommodate this fiscal momentum. Liquidity remains abundant, yet long-term yields stay elevated as investors price persistent deficits and the slow erosion of money's real value. If productivity gains from AI surprise to the upside, the challenge may not be stagnation but overheating.

For investors, the combination of political ambition and easy liquidity has kept markets buoyant, yet dependent on continued policy support. Credit spreads are tight and risk appetite strong, but loose conditions still reward speculation before discipline, as we've arguably seen over the last two years of the cycle. As the cycle matures, assets with genuine scarcity, resilient margins, and prudent capital allocation are likely to lead.

Our focus remains on quality, balance, and durability. Cycles will turn and policies will shift, but companies with steady cash flow and disciplined capital management tend to endure. In a world leaning on policy and promise, patience and perspective may prove the rarest and most valuable advantage.

Performance

For periods ending December 31, 2025

	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Non-North American Equity Composite (Net)	18.1	-1.7	18.1	15.4	6.9	7.7	6.8
Non-North American Equity Composite (Gross)	19.2	-1.5	19.2	16.6	8.0	8.7	7.9
MSCI ACWI ex-USA Index (Net) ¹	26.2	3.5	26.2	17.8	9.5	7.8	5.4
U.S. Equity Composite (Net)	5.8	-0.7	5.8	14.1	10.3	12.2	12.5
U.S. Equity Composite (Gross)	6.6	-0.5	6.6	14.9	11.1	13.0	13.3
S&P 500 Index (TR)	12.4	1.1	12.4	23.5	16.1	14.7	14.2
U.S. Mid Cap Equity Composite (Net)	1.6	-1.7	1.6	11.7	-	-	12.0
U.S. Mid Cap Equity Composite (Gross)	2.3	-1.6	2.3	12.4	-	-	12.7
Russell Midcap Index	5.4	-1.3	5.4	14.8	-	-	12.7
Global Equity Composite (Net)	-0.6	1.2	-0.6	9.1	7.1	8.8	11.5
Global Equity Composite (Gross)	0.3	1.5	0.3	10.1	8.1	9.9	12.5
MSCI ACWI Index (Net) ²	16.6	1.8	16.6	21.1	12.8	11.5	12.2
Global Small Cap Composite (Net)	10.9	-0.3	10.9	7.2	1.5	6.4	11.5
Global Small Cap Composite (Gross)	12.1	-0.1	12.1	8.4	2.6	7.5	12.6
MSCI ACWI Small Cap (Net) ³	14.1	1.1	14.1	15.1	8.9	9.2	9.4
Emerging Markets Equity Strategy (Net) ⁴	25.7	0.9	25.7	22.3	5.6	-	7.6
Emerging Markets Equity Strategy (Gross) ⁴	27.5	1.3	27.5	24.0	7.1	-	9.2
MSCI Emerging Markets Index (Net)	27.3	3.2	27.3	16.8	5.7	-	8.2
EAFE Large Cap Composite (Net)	15.9	1.6	15.9	13.7	6.8	-	7.9
EAFE Large Cap Composite (Gross)	17.0	1.8	17.0	14.8	7.8	-	8.9
MSCI EAFE Index (Net)	25.1	3.3	25.1	17.7	10.5	-	10.0
Canadian Mid-Large Cap Composite (Net)	18.7	3.7	18.7	15.4	12.6	10.1	9.3
Canadian Mid-Large Cap Composite (Gross)	19.2	3.8	19.2	16.1	13.4	10.9	10.1
S&P/TSX Composite Index (TR)	31.7	6.3	31.7	21.4	16.1	12.7	8.0
Canadian Small Cap Composite (Net)	12.5	0.9	12.5	13.1	7.2	9.8	11.2
Canadian Small Cap Composite (Gross)	13.0	1.0	13.0	13.7	7.7	10.3	11.8
S&P/TSX Small Cap Index (TR) ⁵	50.2	10.2	50.2	23.2	15.3	11.8	6.5
True Global Balanced Composite (Net)	1.2	0.7	1.2	7.7	4.8	6.7	8.4
True Global Balanced Composite (Gross)	2.1	0.9	2.1	8.6	5.7	7.5	9.2
Benchmark ⁶	11.1	1.0	11.1	14.4	7.5	7.6	8.8
True Balanced Composite (Net)	9.1	1.2	9.1	10.0	5.3	6.5	7.0
True Balanced Composite (Gross)	9.9	1.4	9.9	10.8	6.0	7.2	7.7
Benchmark ⁷	16.1	2.4	16.1	14.2	8.2	7.8	6.3
Fixed Income Composite (Net)	2.3	-0.5	2.3	4.3	-0.6	1.6	2.8
Fixed Income Composite (Gross)	2.8	-0.3	2.8	4.8	-0.1	2.1	3.3
FTSE Canada Universe Bond Index	2.6	-0.3	2.6	4.5	-0.4	1.9	3.3
Global Credit Opportunity Strategy (Net) ⁸	2.9	0.2	2.9	-	-	-	4.0
Global Credit Opportunity Strategy (Gross) ⁸	3.8	0.5	3.8	-	-	-	4.9
ICE Global Corporate & High Yield CAD Hedged (TR)	5.3	0.4	5.3	-	-	-	4.6

¹MSCI ACWI ex. US (Net); prior to October 2016, MSCI EAFE (Net)

²MSCI ACWI (Net); prior to October 2016, MSCI World (Net)

³As of 1 Oct 2016: MSCI ACWI Small Cap (net). From Inception to 30 Sep 2016: Russell Global Small Cap.

⁴Based on the Mawer Emerging Markets Equity representative account and is supplemental information to the Emerging Markets Equity Composite GIPS report(s).

⁵As of 1 Oct 2016: S&P/TSX Small Cap Index (TR). From Inception to 30 Sep 2016: BMO Small Cap Blended (Weighted) Index.

⁶As of 1 Jun 2021: 35% FTSE Canada Universe Bond, 5% FTSE Canada 91-day TBill, 60% MSCI ACWI (net). From 1 Oct 2016 to 31 May 2021: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net). From Inception to 30 Sep 2016: 5% FTSE Canada 91-day TBill; 35% FTSE Canada Universe Bond; 60% MSCI World (net).

⁷As of 1 Oct 2016: 5.00% 91-Day TBill; 35.00% FTSE Canada Universe; 15.00% S&P/TSX Composite; 7.50% S&P/TSX SC; 7.50% MSCI ACWI SC (net); 15.00% S&P 500; 15.00% MSCI ACWI ex-USA (net). As of 1 Jan 2012: 5.00% 91-Day TBill; 35.00% FTSE Canada Universe; 15.00% S&P/TSX Composite; 7.50% BMO SC; 7.50% Russell Global SC; 15.00% S&P 500; 15.00% MSCI EAFE (net). From inception to 31 Dec 2011: 5% 91-Day TBill; 35% FTSE Canada Universe; 22% S&P/TSX Composite; 19% S&P 500; 19% MSCI EAFE (net)

⁸Based on the Mawer Global Credit Opportunities representative account and is supplemental information to the GIPS report(s).

***Inception Dates:**

Non-North American Equity Composite: December 31, 2006.

U.S. Equity Composite: July 31, 2008.

U.S. Mid Cap Equity Composite: October 31, 2020

Global Equity Composite: November 30, 2009.

Emerging Markets Equity Strategy: January 31, 2017.

EAFE Large Cap Composite: June 30, 2019.

Global Small Cap Composite: July 31, 2008

Canadian Mid-Large Cap Composite: December 31, 2006

Canadian Small Cap Composite: December 31, 2006

True Balanced Composite: December 31, 2006

True Global Balanced Composite: August 31, 2013

Fixed Income Composite: December 31, 2006

Global Credit Opportunity Strategy: January 31, 2024

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