



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 benefiting 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.

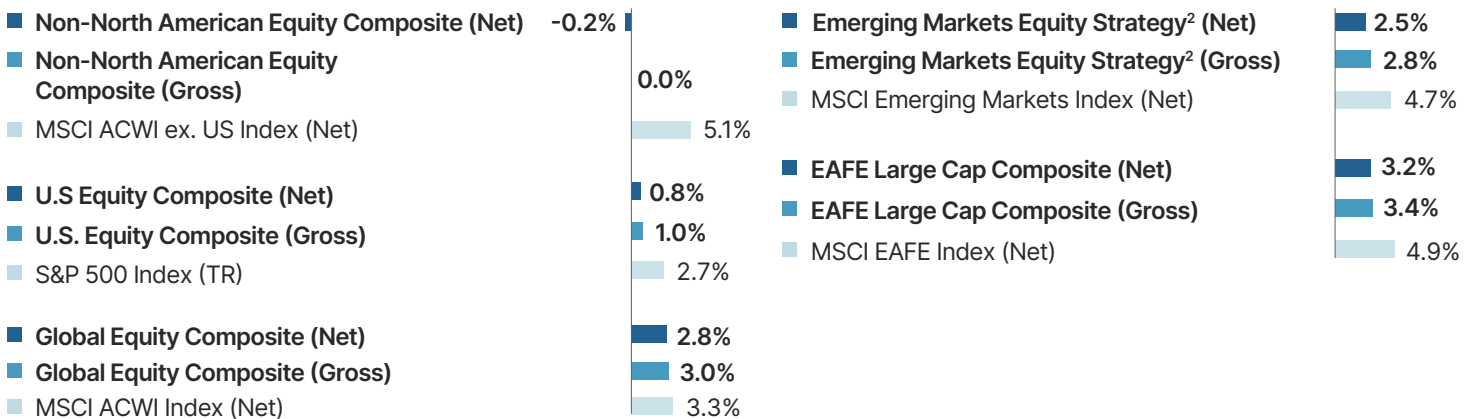
Bond markets continued to adjust to this new regime. Intermediate and longer-term government yields in most developed markets drifted higher as investors reassessed the trade-off between persistent inflation pressures and ongoing monetary accommodation, while shorter-dated U.S. yields moved lower following the latest Fed cut. 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.

Chart A: Q4 2025¹

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



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 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, 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.

¹ Past performance does not guarantee or indicate future results. Performance is in U.S. 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.

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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)	23.9	-0.2	23.9	15.3	5.5	7.9	6.0
Non-North American Equity Composite (Gross)	25.1	0.0	25.1	16.4	6.5	8.9	7.0
MSCI ACWI ex-USA Index (Net)**	32.4	5.1	32.4	17.3	7.9	8.0	4.5
U.S. Equity Composite (Net)	11.3	0.8	11.3	13.9	9.0	12.6	10.9
U.S. Equity Composite (Gross)	11.9	1.0	11.9	14.5	9.5	13.2	11.5
S&P 500 Index (TR)	17.9	2.7	17.9	23.0	14.4	14.8	12.3
Global Equity Composite (Net)	4.6	2.8	4.6	9.1	5.9	9.3	10.0
Global Equity Composite (Gross)	5.3	3.0	5.3	9.9	6.7	10.1	10.7
MSCI ACWI Index (Net)***	22.3	3.3	22.3	20.7	11.2	11.6	10.4
Emerging Markets Equity Strategy (Net)****	31.9	2.5	31.9	21.8	4.0	-	7.0
Emerging Markets Equity Strategy (Gross)****	33.7	2.8	33.7	23.5	5.5	-	8.6
MSCI Emerging Markets Index (Net)	33.6	4.7	33.6	16.4	4.2	-	7.5
EAFE Large Cap Composite (Net)	22.2	3.2	22.2	13.8	5.7	-	7.5
EAFE Large Cap Composite (Gross)	23.0	3.4	23.0	14.6	6.4	-	8.2
MSCI EAFE Index (Net)	31.2	4.9	31.2	17.2	8.9	-	9.2

*Inception Dates:

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

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

Global Equity Composite: November 30, 2009.

Emerging Markets Equity Strategy: January 31, 2017.

EAFE Large Cap Composite: June 30, 2019.

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

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

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