

PH&N LifeTime 2065 Fund



Commentary as at December 31, 2025

The global economy and financial markets largely withstood the impact of new U.S. trade barriers, as government stimulus and the impact of artificial intelligence (“AI”) underpinned returns. The announcement of higher tariffs in the first half of 2025 produced a temporary plunge in stocks and corporate bonds on concern that U.S. policy would curtail global growth. However, trade deals proved less punitive than had been feared, many central banks cut interest rates, and more companies began to benefit from AI’s cost savings.

Canadian bonds rose as central banks extended interest-rate cuts amid a slowdown in domestic growth. The Bank of Canada (the “BOC”) cut its benchmark interest rate by 1 percentage point to 2.25% in 2025, aiming to shield the economy from the threat of higher U.S. tariffs. The BOC also signalled the end of its current round of rate reductions. The U.S. Federal Reserve (the “Fed”) cut its benchmark interest rate by 0.75 percentage point in 2025 to stimulate growth and support a softer labour market.

Following a volatile start to 2025, equity markets ultimately found their footing and offered strong returns in most major markets. In the U.S., equities were driven by AI and technological advances that led to investment in data centres, semiconductors and energy farms. Canadian stocks outperformed most major international indexes, led by precious-metals companies and financial firms. Many European markets hit records as the rise in the euro and enhanced defence spending enabled regional stocks to outperform in Canadian- and U.S.-dollar terms. Emerging-market stocks had significant gains in 2025, beating developed markets for the first time in five years.

Economic growth should accelerate moderately in the year ahead, in the view of the portfolio manager, and may pleasantly surprise relative to consensus expectations. Tariff headwinds should fade, and important tailwinds are set to blow. Inflation may not fall by quite as much as consensus expectations for 2026 but should slowly ease after peaking in the spring.

Moderate economic growth should ease sufficiently for continued interest-rate cuts by the Fed and strong corporate profit growth. Stocks are expected to continue outperforming bonds, but the portfolio manager recognizes that the potential for outsized gains has diminished following this year’s strong performance that pushed some valuations to extreme levels. Against this backdrop, sovereign bonds should deliver cash-like returns and offer ballast against equity-market volatility should the economy disappoint.

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