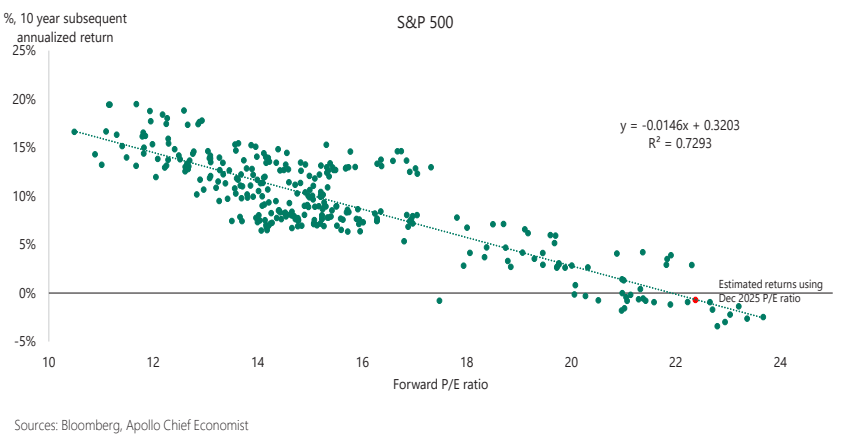
Financial Monitor

For the week ending December 12th, 2025

Chart of the Week: S&P 500 Forward P/E Ratio

The chart of the week is courtesy of Apollo and plots the forward Price-to-Earnings ratio of the S&P 500 against the historical 10-year subsequent annualized return on the index. Indeed, the key and well-known message from this chart is that your starting valuation matters for your future returns...

More on pages 2 & 3...



Sources: Bloomberg, Apollo Chief Economist

Headlines

- The Federal Open Market Committee (FOMC) announced a widely anticipated 25-basis-point reduction in the target range for the overnight rate.
- The Bank of Canada left the policy rate unchanged at 2.25% during their December 10th meeting.
- Canadian Capacity utilization declined 90 basis-points to 78.5% for Q3 2025.
- Canada's merchandise trade balance surprised on the upside, registering a September trade surplus of $0.15 billion.
- The U.S. trade deficit narrowed from -$59.6 billion to -$52.8 billion, a contraction of 10.9% in September.

Equity Indexes	**Last**	**1W%**	**YTD %**
S&P 500	6,827.41	- 0.63	+ 16.08
S&P/TSX Composite	31,527.39	+ 0.69	+ 27.50
Dow Jones	48,458.05	+ 1.05	+ 13.90
NASDAQ	23,195.17	- 1.62	+ 20.12
FTSE 1000 (UK)	9,649.03	- 0.19	+ 18.06
CSI 300 (China)	4,580.95	- 0.08	+ 16.42
Sensex Index (India)	85,267.66	- 0.52	+ 9.12
Bonds Yields	**Last**	**1W**	**YTD**
Canada 10 Year Bond	3.437%	+ 0.018	+ 0.202
Canada 30 Year Bond	3.853%	- 0.001	+ 0.514
US 10 Year Bond	4.141%	+ 0.002	- 0.432
US 30 Year Bond	4.790%	- 0.002	+ 0.004

Currency	**Last**	**1W**	**YTD**
US Dollar Index	98.37	-0.63%	**-9.33%**
Currencies to the Loonie			
US Dollar	$0.726	+ $0.003	+ $0.031
Euro	$0.619	-$0.003	- $0.053
British Pound	$0.543	+ $0.000	- $0.012
Chinese Yuan	$5.125	+ $0.008	+ $0.051
Bitcoin	$90,273	+ 1.23%	- 3.64%
Commodities	**Last**	**1W %**	**YTD%**
Gold *(USD/Troy Ounce)*	$4,302.59	+ 2.53	+ 63.98
ICE Brent Crude*(USD/bbl)*	$61.17	- 4.21	- 18.25
WTI Light *(USD/bbl)*	$57.47	- 4.44	- 20.04

Data as of: December 12, 2025 1:22 PM PT

Source: LSEG Datastream, Convexity Economics

North American Equity Markets

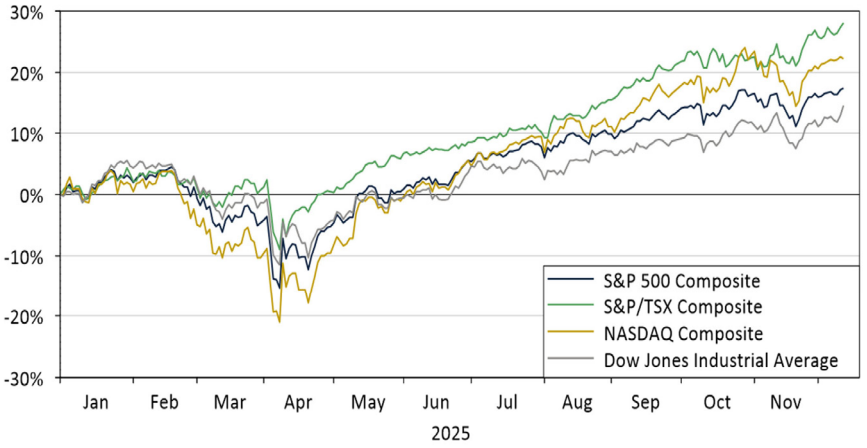
	Daily Changes						
Equity Indexes	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**1 Week %**	**YTD%**
S&P 500	-0.35%	-0.09%	0.67%	0.21%	-1.07%	▼ 0.63%	▲ 16.08%
S&P/TSX Composite	-0.45%	0.24%	0.79%	0.54%	-0.42%	▲ 0.69%	▲ 27.50%
Dow Jones	-0.45%	-0.38%	1.05%	1.34%	-0.51%	▲ 1.05%	▲ 13.90%
NASDAQ	-0.14%	0.13%	0.33%	-0.25%	-1.69%	▼ 1.62%	▲ 20.12%
Russell 3000	-0.34%	-0.09%	0.76%	0.29%	-1.10%	▼ 0.48%	▲ 15.66%
S&P 600 Small Cap Index	-0.44%	0.49%	1.95%	1.13%	-1.09%	▲ 2.02%	▲ 7.21%

Data as of: December 12, 2025 1:22 PM PT *Source: LSEG Datastream, Convexity Economics*

North American equity markets behaved similarly to how they've behaved in recent weeks with days of choppy trading and mixed results as competing narratives continue to struggle for dominance and we saw a continued rotation out of high price technology names into other sectors, most notably the Materials and Financial sectors. The summary tables herewith provide the details for the major North American indices and sub-indices we follow.

North American Equities, YTD %

As of December 11, 2025.



Source: LSEG Datastream, Convexity Economics

The main event of the week for financial markets was the two-day meeting of the Federal Reserve Open Market Committee (FOMC) on Dec 9/10, with markets eager not only for an anticipated 25-basis point cut in the target range for the overnight rate (which they received, the new range is 3.5% - 3.75%), but also to digest all the details of Chairman Powell's remarks and the Summary of Economic Projections to inform them on the expected path of interest rates (see US Interest Rates for more details).

Equity markets reacted positively to the FOMC meeting as Chairman Powell's remarks balanced several competing priorities and pressures quite well, we thought, while providing some rate relief and maintaining a strong focus on anchoring future policy decisions to the incoming economic data in a balanced fashion as it relates to the Fed's dual mandates – stable inflation (1%-3%) and maximum employment.

As longer-term US bond yields initially fell on Wednesday and Thursday, it indicated to us the Chairman's remarks did not exacerbate concerns about a lack of Federal Reserve independence stoking future inflation – not an easy task in this political environment and with growing division amongst FOMC members. However, yields did rise on Friday, and we continue to monitor longer-term interest rates as a risk factor for equity markets.

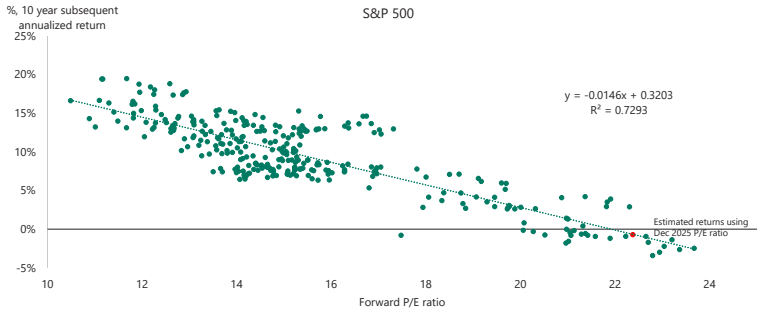
Shortly after market close on Wednesday, Oracle (a key figure in the AI space), reported earnings that not only disappointed analyst expectations for top-line revenue (despite a large earnings per share beat), but also served to reignite concerns about how much capital expenditure is being undertaken by technology companies engaged in the AI race – and correspondingly how these planned investments far outstrip (at least for now) the free cash flows available for these companies to fund them – requiring significant external funding in the form of corporate bond issuance to make up the difference.

The two charts herewith highlight two of the main concerns about the US Technology sector as investors remain concerned about the implications of an AI bubble:

The first chart from Apollo plots the forward Price-to-Earnings ratio of the S&P 500 against the historical 10-year subsequent annualized return on the index. Indeed, the key and well-known message from this chart is that your starting valuation matters for your future returns, and based on the historical record, buying the S&P500 index at today's valuations does not suggest pleasing future returns over the subsequent 10 years.

APOLLO

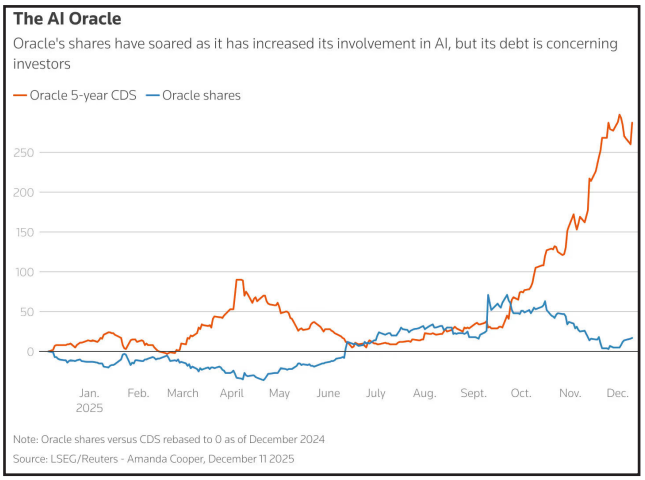
S&P 500 forward P/E ratio vs subsequent 10-year annualized returns



Sources: Bloomberg, Apollo Chief Economist

(We would caution the reader about using this chart to make too general of statements about US equities as the way the S&P 500 index is constructed, the Mag 7 (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, Tesla) make up almost 40% of the index, leaving only 60% for the remaining 493 names. Indeed, had we used the equal weighted S&P 500 instead index instead for this chart, it would show a forward P/E ratio of about 17.7, implying positive, albeit not spectacular anticipated 10-year forward returns.)

The second chart comes from a Reuters article and shows the price of 5-year credit default swaps (CDS) on Oracle's debt, as well as its recent share price performance.



As AI ambitions and capital expenditure plans at Oracle and other hyperscalers continue to expand rapidly, equity investors are quickly realizing the costs will vastly outstrip the capacity of these companies to fund them (at least in the near-term) with current cash and future free cash flows, requiring large scale borrowings in debt markets, and introducing an element of risk into these names that previously was not there.

If the anticipated revenues fail to materialize or take longer than anticipated to arrive – considering their rich valuations – these companies appear vulnerable to near-term disappointments and are likely to be more impacted by changes in interest rates as their debt loads increase.

As is becoming clearer, competition is fierce in the AI race, and like the "dot com" bubble, there will be winners and losers. The introduction of rapidly expanding leverage on company balance sheets could leave the AI losers, or even the underperformers vulnerable to the drag of debt repayment on cash flows unless the expected revenue growth comes to fruition, the expectation of which we believe is currently baked into lofty valuations.

Overall, the level of risk in US Technology names has risen relative to their potential upside and we have some concerns this risk is not reflected in current valuations, unless the most optimistic of scenarios comes to pass – which we cannot rule out of course.

Accordingly, after realizing significant gains in past years in this sector, the current landscape suggests reducing overall exposure and remaining very discerning in the remaining exposure to the sector.

We continue to have great confidence in the technology sector, and in AI specifically to generate tremendous opportunities over the medium-to-long term, but we believe valuations may have become too stretched in the near-term relative to the risks emerging in the sector and that exposures should be reviewed with this lens and adjusted accordingly.

Central Bank Rates

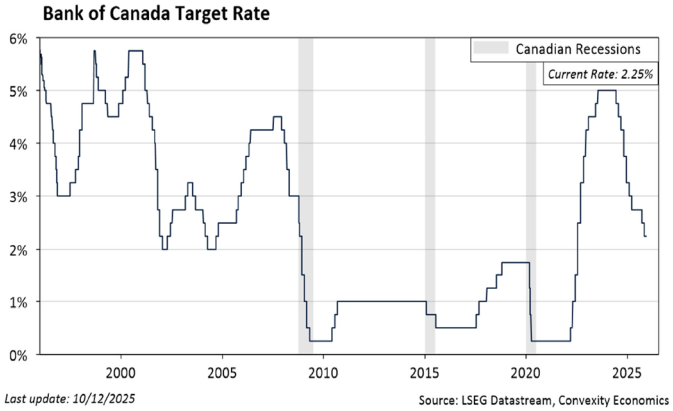
Current Key Interest Rates		Next Meeting	Last Decision	Last Meeting
Canada	2.25%	Jan 28, 2026	—	Dec 10, 2025
United States*	3.75%	Jan 28, 2026	▼ 0.25	Dec 10, 2025
Mexico	7.25%	**Dec 18, 2025**	▼ 0.25	Nov 6, 2025
European Union	2.15%	**Dec 18, 2025**	—	Oct 30, 2025
India	5.25%	Feb 5, 2026	▼ 0.25	Dec 5, 2025
China	3.00%	Dec 21, 2025	—	Nov 19, 2025
Japan	0.50%	**Dec 18, 2025**	—	Oct 30, 2025

**Upper Limit*

Data as of: December 12, 2025

Source: LSEG Datastream, Convexity Economics

Bank of Canada Meeting December 10th, 2025

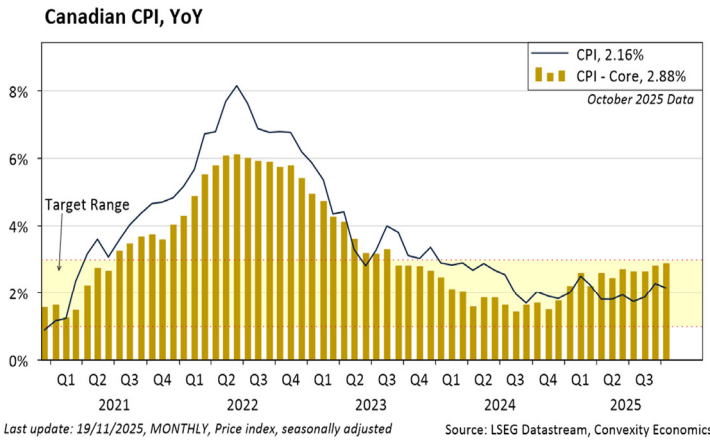


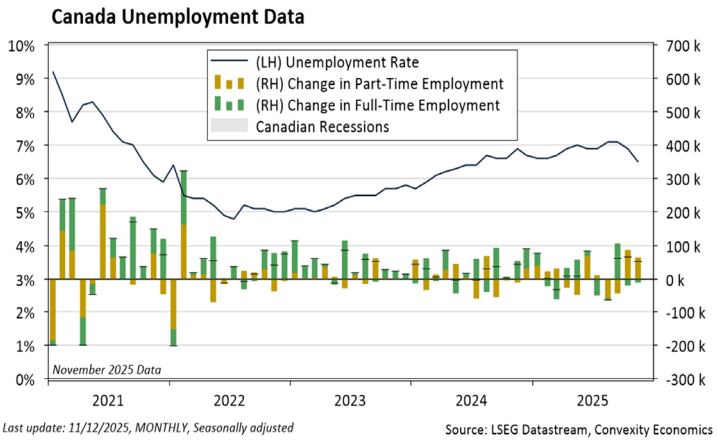
The Bank of Canada (the Bank) left the policy rate unchanged at 2.25% during their December 10th meeting, citing relatively unchanged economic conditions since their October Monetary Policy Report and suggested interest rates are neutral (neither stimulative nor restrictive), suggesting interest rates, absent a major economic development, are apt to stay at current levels for the foreseeable future.

Uncertainty surrounding the global economy remains high due to the unpredictability of U.S. trade policy. The Bank is expecting a decline in net exports, which will weigh negatively on GDP growth, and despite a forecasted increase in domestic demand, Q4 GDP growth is expected to be weak.

The job market has seen some slight improvement, with the unemployment rate falling to 6.5%, but underlying labour market conditions remain weak in trade-sensitive markets. Expected hiring remains low across all sectors as well, indicating a slack labour market.

Headline inflation remains near the target rate and the Consumer Price Index (CPI) slowed to 2.2% in October. Core inflation remains elevated, and the Bank of Canada estimates underlying inflation to be around 2.5%. With short-term inflation expected to rise because of the GST/HST holiday earlier in the year, the Bank maintains a long-term inflation expectation of around 2%.





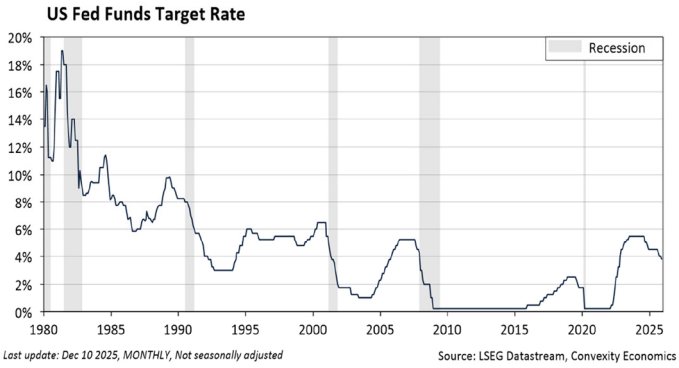
FOMC Meeting
December 9th-10th, 2025

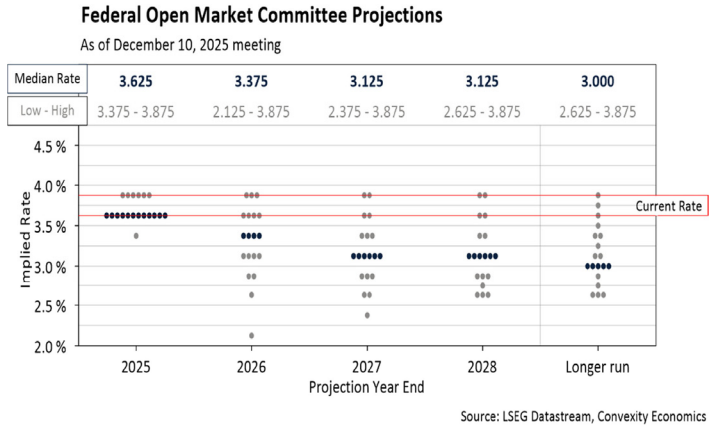
The Federal Open Market Committee (FOMC) met over the course of Tuesday and Wednesday and announced a widely anticipated 25-basis-point reduction in the target range for the overnight rate. Less expected was the FOMC announcement that they would be purchasing $40 billion of short-term (4 weeks – 1 year) Treasury bills after stopping their quantitative tightening program on December 1st.

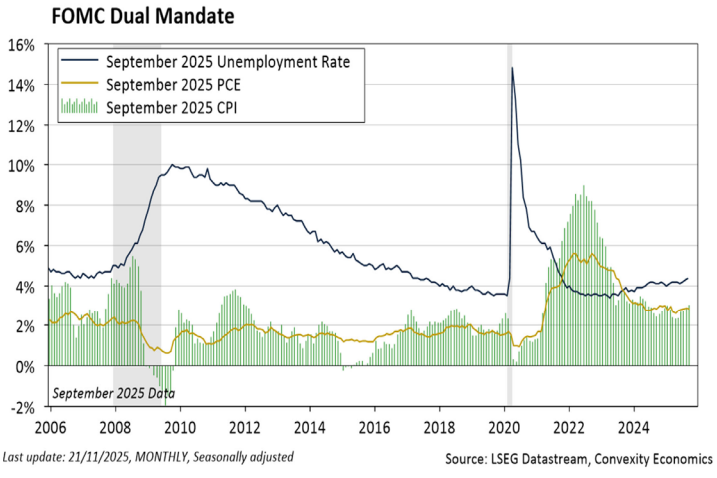
The Federal Reserve was careful to call the program a "Reserve Management" operation, or "not QE", but as the Fed's balance sheet will be expanding again, we and many others view this announcement as the resumption of the Quantitative Easing program, designed to inject liquidity into the market – in this case to reduce stress in short-term funding markets and bring short-term borrowing rates more in line with the FOMC overnight target range policy rate. Deviation in short-term rates from the overnight target range suggest funding stress (a shortage of reserves) in overnight borrowing markets which risks financial stability.

The rate reduction was not unanimous, with three voting members dissenting, and four additional "soft dissents" (dissenting opinions from non-voting members). Two of the voting members, Jeffrey Schmid from the Kansas City Federal Reserve and Austan Goolsbee from the Chicago Federal Reserve, were both in favour of leaving interest rates unchanged. Stephen Miran was the third dissenting vote, once again in favour of a 50-basis-point cut, as expected.

In a somewhat under the radar manner, the Federal Reserve also announced the reappointment of the regional Federal Reserve Bank presidents. This followed a review by the board of directors of the regional Reserve Banks and unanimous concurrence from the Federal Reserve Board members. The regional reserve bank presidents' terms were set to finish February 28th, 2026, and the new terms will start March1st, 2026. This review process happens every five years, but with the increased concern around the Fed's independence, the five-year review was seen as potential opportunity for President Trump to indirectly influence the FOMC.





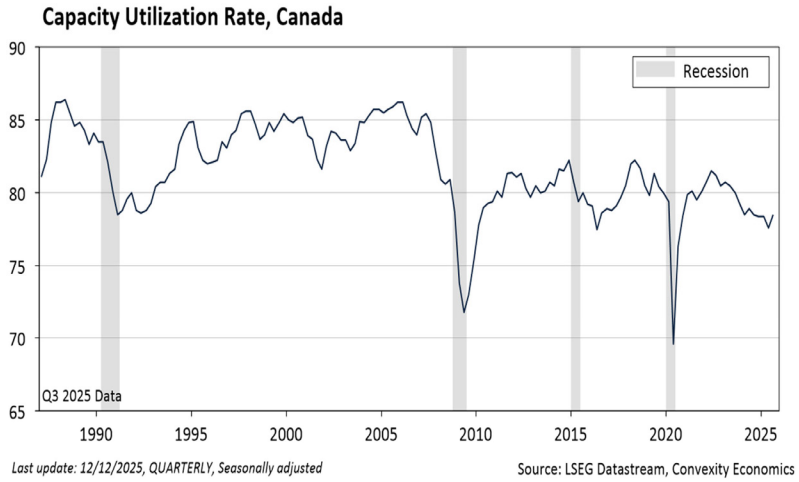


Although the administration cannot appoint regional Federal Reserve presidents, they can appoint members to the Federal Reserve Board of Governors (who form seven of the twelve voting members). By completing the review early (which began in December 2024) the Federal Reserve got ahead of any pressure the administration could have on the review of regional President appointments.

We believe this was a salient move by the Board to help quell growing concerns around the Federal Reserve independence and the ability of the administration to exert pressure on the FOMC to suppress interest rates below what an otherwise independent Fed would do based on the incoming data and commitment to achieving its dual mandate.

Canadian Capacity Utilization

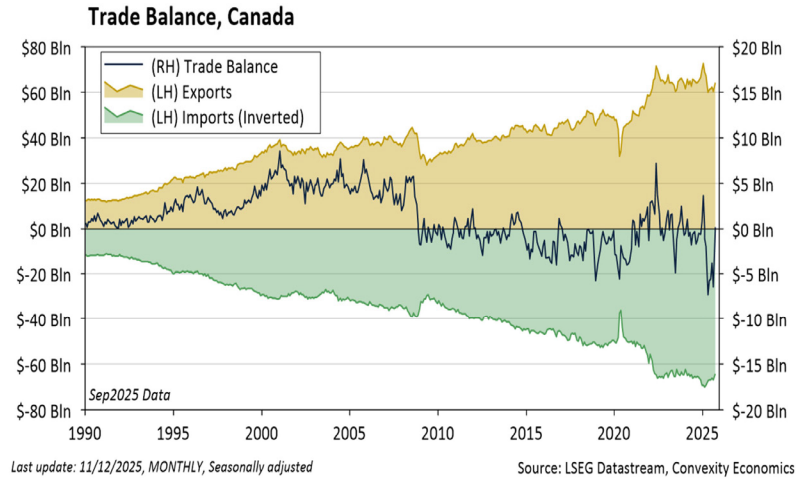
Canadian Capacity utilization declined by 90 basis-points to 78.5% in Q3 2025. Three of the five non-manufacturing industries saw an increase in capacity utilization, notably forestry & logging (+300 bps to 82.0%) and Oil & gas extraction (+210 bps to 80.6%). Manufacturing's capacity utilization increased by 120 basis points to 77.8%, largely due to an increase of 1,008 bps (10.8 percentage points) in petroleum & coal product manufacturing.



Canadian Trade Balance

Canada's merchandise trade balance surprised on the upside, registering a September trade surplus of $0.15 billion, compared to an expected deficit of $4.5 billion. This is the first surplus since January of this year, and only the fourth monthly surplus since January 2024.

The surplus was driven in large part by a $2.83 billion (4.1%) decrease in imports compared to August. Exports rose as well, increasing by $3.65 billion in September, primarily due to continued global demand for precious metals. Precious metals now account for 7.8% of total exports, compared to 5.6% a year ago.

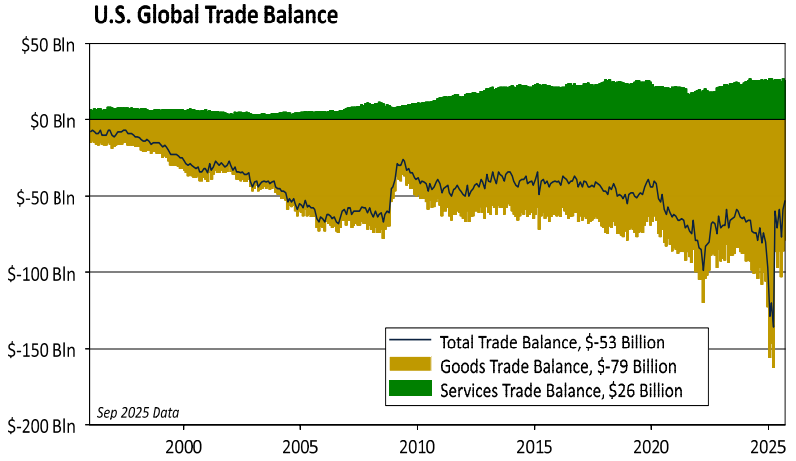


U.S. Trade Balance

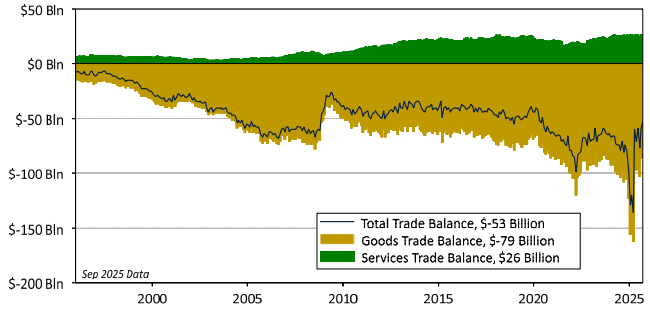
The U.S. trade deficit narrowed from $59.6 billion to $52.8 billion, a contraction of 10.9% in September. This surprised economists, who were expecting a $63.3 billion deficit. The September trade deficit marked the smallest deficit since June 2020.

Exports increased 3% to $289.3 billion in September, with exports of consumer goods increasing 4.9% to record highs. Imports fell 0.6% to $342.1 billion in September.

Despite the global trade deficit narrowing in September, the U.S trade deficit with both neighbouring countries widened in September. The goods trade deficit with Mexico widened 9.3% to $17.38 billion, while the deficit with Canada more than doubled, increasing from $2.31 billion to $4.98 billion.



U.S. Global Trade Balance



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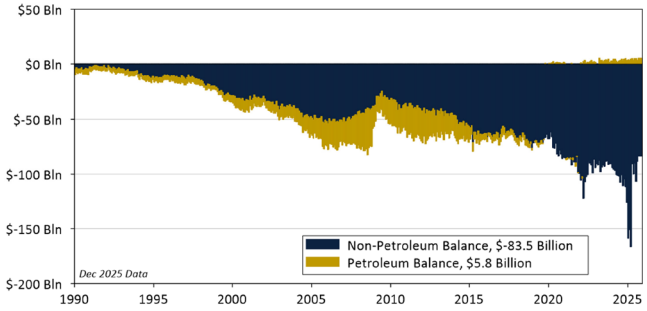
US Goods Global Trade Balance



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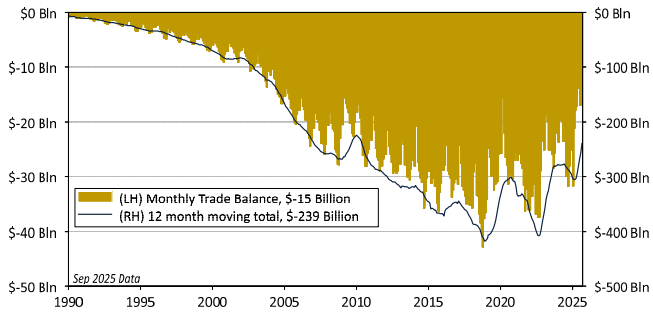
U.S. Goods Trade Balance With China



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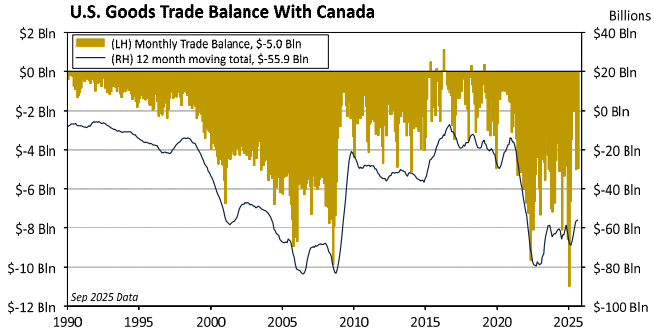
U.S. Goods Trade Balance With Canada



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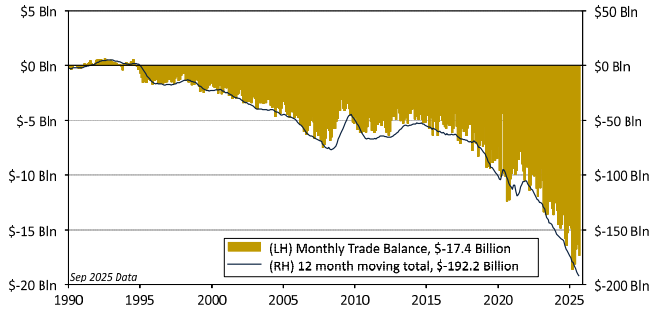
U.S. Goods Trade Balance With Mexico



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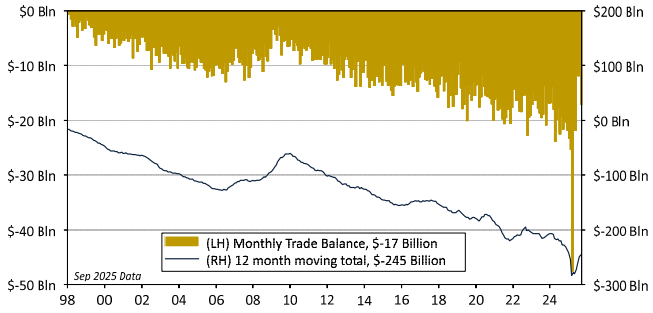
U.S. Goods Trade Balance With European Union



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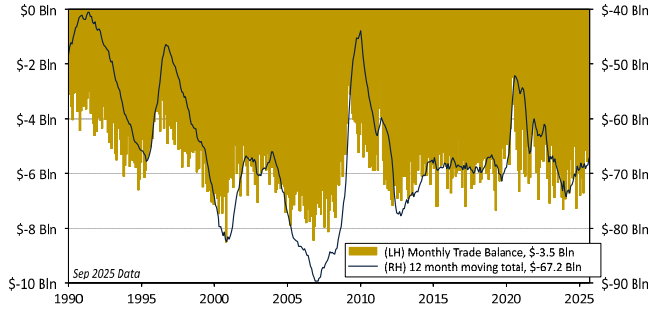
U.S. Goods Trade Balance With Japan



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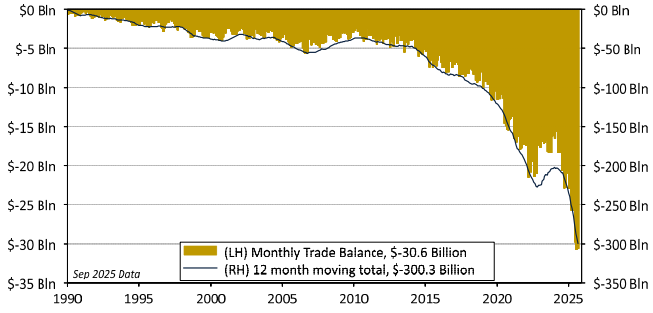
U.S. Goods Trade Balance With ASEAN



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S&P 600 Small Cap Index	1,509.74	+ 2.02	+ 7.21
VIX Volatility Index	15.74	+ 2.14	- 9.28
Bonds Yields	**Last**	**1W**	**YTD**
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British Pound	$0.543	+ 0.000	- 0.012
Japanese Yen	$113.000	+ 2.250	+ 3.390
Chinese Yuan	$5.125	+ 4.929	+ 4.928
Aussie Dollar	$1.091	+ 0.175	+ 0.202
GDP	**YoY %**	**Change**	**Quarter**
Canada	+ 2.60	+ 4.40	*Q3*
United States	+ 2.08	+ 0.06	*Q2*
Mexico	- 0.19	- 1.20	*Q3*
Euro Zone**	+ 1.31	- 0.02	*Q3*
China**	+ 4.83	- 0.41	*Q3*
Japan	+ 0.66	- 1.26	*Q3*
India	+ 8.23	+ 0.42	*Q3*
Inflation	**YoY %**	**Change**	**Month**
Canada	+ 2.16	- 0.13	*Oct*
United States	+ 3.02	+ 0.08	*Sep*
Mexico	+ 3.80	+ 0.23	*Nov*
Euro Zone**	+ 2.14	+ 0.03	*Nov*
China**	+ 0.50	+ 0.60	*Nov*
Japan**	+ 3.01	+ 0.17	*Oct*
India	+ 0.71	+ 0.46	*Nov*

Canadian Sectors	Last	1W%	YTD %
Energy	303.36	- 2.58	+ 13.56
Industrials	465.30	+ 0.17	+ 1.50
Consumer Staples	1,217.04	- 1.57	+ 14.56
Financials	619.93	+ 1.53	+ 29.20
Communication Services	154.38	- 1.99	+ 12.16
Real Estate	310.14	+ 0.07	- 1.41
Materials	739.47	+ 3.63	+ 95.51
Consumer Discretionary	380.81	+ 0.12	+ 27.59
Health Care	24.21	+ 7.84	- 5.91
Information Tech	332.49	- 1.81	+ 17.98
Utilities	349.28	- 0.97	+ 13.89
S&P/TSX Composite	31,527.39	+ 0.69	+ 27.50
US Sectors	**Last**	**1W%**	**YTD %**
Energy	692.03	- 0.61	+ 5.68
Industrials	1,323.34	+ 1.37	+ 18.62
Consumer Staples	879.34	+ 1.11	+ 3.01
Financials	911.66	+ 2.31	+ 13.33
Communication Services	446.19	- 3.20	+ 30.59
Real Estate	256.27	- 0.83	+ 0.13
Materials	568.07	+ 2.44	+ 7.23
Consumer Discretionary	1,936.82	+ 0.33	+ 5.77
Health Care	1,791.00	+ 0.43	+ 11.61
Information Tech	5,645.84	- 2.30	+ 22.48
Utilities	432.45	- 1.14	+ 12.34
S&P 500	6,827.41	- 0.63	+ 16.08
Commodities	**Last**	**1W %**	**YTD %**
Baltic Dry index	2,294.00	- 15.88	+ 130.09
Bloomberg Industrial Metals Index	154.84	- 1.35	+ 10.35
Gold	$4,302.59	+ 2.53	+ 63.98
Silver	$61.99	+ 6.38	+ 114.70
Copper	$5.33	+ 3.09	+ 32.48
Oil (ICE Brent Crude)	$61.17	- 4.15	- 18.25
Oil (WTI Light)	$57.47	- 4.41	- 20.01
Natural Gas	$4.12	- 22.08	+ 13.65
Corn	$431.50	- 0.92	- 5.84
Wheat	$534.50	+ 3.74	- 2.95
Cocoa	$6,297.00	+ 10.63	- 41.97
Coffee	$369.55	- 1.27	+ 16.98

Data as of: *December 12, 2025 1:22 PM PT*

Source: LSEG Datastream, Convexity Economics

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