

RJL PCS: INSIGHTS & STRATEGIES

FEBRUARY 9, 2026 | 1:22 PM EST

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February 2026 Insights & Strategies: Volatility remains high while our overall positive outlook remains intact

Macro Highlights for January

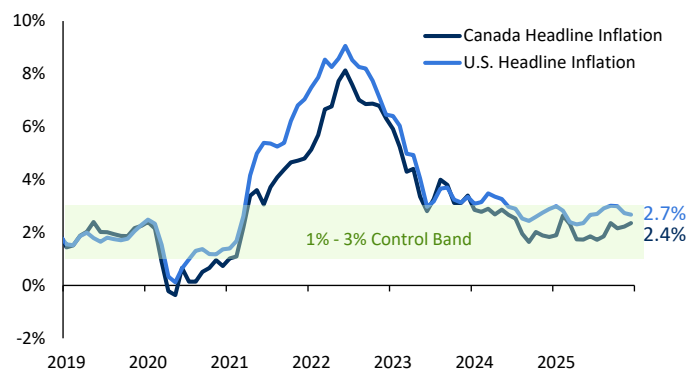
- Canada's unemployment rate dropped slightly to 6.5% in January, from 6.8% at the end of December, despite the loss of 25k jobs. The rate declined as fewer people were actively looking for work, as the participation rate (employed + actively looking for work) declined from 65.4% to 65.0% of the eligible population (15 yrs+). Publishing of the U.S. unemployment rate has been delayed due to another government shutdown, but was last reported falling slightly to 4.4% in December, as that economy added 50,000 jobs.
- The Bank of Canada (BoC) held its policy rate at 2.25%, which is at the low end of its neutral range, as inflation seems under control at 2.4%, close to the 2% target, and within the 1-3% comfort range. The U.S. Fed rate was also held at 3.75%, with inflation holding steady at 2.7%.
- The BoC's economic projections were revised to 1.1% growth in 2026 and 1.5% in 2027, versus forecasts of 1.4% for both in the October outlook, impacted by slow population growth and volatile trade. Our U.S. team is forecasting U.S. GDP growth of 2.4% in 2026 and 2.3% in 2027.

Financial Markets in January

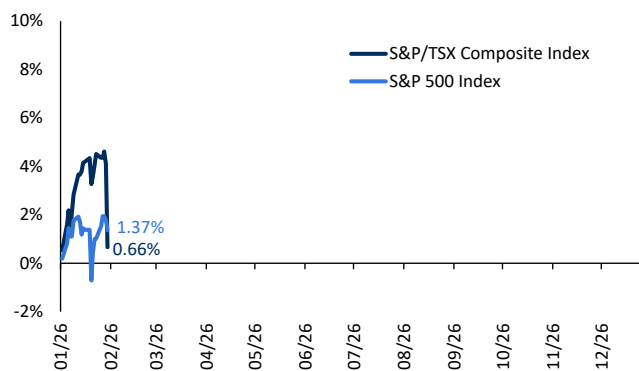
- In January, the S&P/TSX Composite posted price and total returns of 0.7% and 0.8%, respectively; excluding January 30, the final trading day of the month, when gold sold off by roughly 9%, price and total returns would have been 4.1% and 4.2%. The S&P 500 recorded price and total returns of 1.4% for the month.
- Energy was the best sector on the TSX in January as geopolitical risks helped to push crude higher. Materials dropped to the second-best sector due to the gold selloff at the very end of the month, and Communication Services ranked third as investors shifted towards this more defensive sector. Health Care, Consumer Discretionary, and Information Technology were the weakest performers in January.
- Somewhat similarly, in the U.S. markets, the best S&P 500 sectors were Energy, Materials, and then Consumer Staples. Health Care, Technology, and Financials were the laggards.

Upcoming

- The joint review of the USMCA, including the July 1 deadline to confirm if the agreement will be extended for 16 more years, will likely be the most consequential event for Canada this year. While we are optimistic of a reasonably good outcome for Canada, we are also braced for high-priority demands from the U.S. related to rules of origin, digital services, and the dairy industry.
- We continue to await the U.S. Supreme Court's ruling on the legality of the IEEPA-based tariffs. While the ruling may cause volatility and uncertainty, we see minimal impact on Canada with the USMCA currently shielding the vast majority of Canadian exports to the U.S., and those industries that are most impacted are subject to tariffs from other authorizations that are not in question.
- As Canadian 4Q25 earnings season ramps up, we are watching for guidance confirming consensus EPS forecasts that currently price in an almost 16% improvement into 2026, after an almost 12% increase in 2025.

Chart 1 - Canada and U.S. Headline Inflation

Source: FactSet, Raymond James Ltd.; Data as of December 31, 2025. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 YTD Performance

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026. Price return in local currency.

Executive Summary

Although 2026 has only just started we have had an abundance of market volatility and news flow, including the U.S. invasion of Venezuela, U.S. threats against Greenland, a fresh round of U.S. tariff threats, the deaths of two U.S. citizens at the hands of ICE agents, a Fed Chair announcement, a massive free trade deal between the E.U. and India, extreme weather events, the thawing of trade relations between Canada and China, and a new strategy to transform Canada's automotive industry, to name just a few. While our hopes for a calmer 2026 were likely too optimistic, our overall tenets remain for a positive 2026 in the markets helped by tailwinds from tax reforms in the U.S., fiscal policy initiatives in Canada, A.I. efficiencies and productivity gains, contained inflation, and easing monetary outlook. That said, and as 2026 has aptly delivered so far, we should be prepared for a high level of volatility along the way.

A.I. still a hot topic

Artificial Intelligence continues to be a top topic in 2026, as we expected, but the dynamics of the discussion are shifting. Ultimately, we expect the A.I. story to evolve over the coming years. The story so far has been all about the hardware and access to processing chips, most notably those designed by Nvidia. As hyperscalers have scrambled to outdo each other with more and more investments in data centres and processing capacity, questions have arisen about payback on these investments, or perhaps ROAI (return on artificial intelligence), a play on the usual ROI (return on investment). Can all these investments be monetized, specifically without becoming obsolete, as was the initial concern when DeepSeek-R1 was announced in January 2025, casting doubts as to the investments necessary to deliver A.I. breakthroughs? Those initial concerns have eased somewhat, although the question of monetization and potential impacts of A.I. remain. Most recently, Anthropic rolled out an advanced A.I. tool that has further raised concerns that workflow automation functionality could eliminate the need for other software applications, helping to ignite a selloff in SaaS (Software-as-a-Service) stocks. This will likely not be the last A.I. disruption impact in the markets, and so we would advise investors trying to invest around the A.I. theme to consider diversification, which could include hardware, software, infrastructure, and energy requirements. Ultimately, we think that every business will be impacted by A.I., but that the effects will roll out over an extended period of time.

Economic growth despite weakness in the labour market

Job openings are coming down, which implies that the labour market is cooling. Mostly, we are in a low-hire/low-fire environment. At the same time, population growth is slow, which is keeping unemployment rates from increasing. The relative weakness in the labour market seems unusual against a backdrop of apparent solid GDP growth in the U.S. and muted, but still positive, growth in Canada. One question circulating is whether the economy, specifically in the U.S., is already showing increased productivity from A.I., which can be achieved without increased hiring. Overall, while the U.S. economy stays strong, in Canada we are looking for further stimulus from the federal government and a favourable outcome from the USMCA renegotiation to give a boost to the economy, but more towards the end of 2026 and into 2027. The BoC's economic projections were revised to 1.1% growth in 2026 and 1.5% in 2027, versus forecasts of 1.4% for both in the October outlook, impacted by slow population growth and volatile trade. Our U.S. team is forecasting U.S. GDP growth of 2.4% in 2026 and 2.3% in 2027.

Still positive outlook for equity markets in 2026

In January, the S&P/TSX Composite posted price and total returns of 0.7% and 0.8%, respectively; excluding January 30, the final trading day of the month, when gold prices sold off by roughly 9%, price and total returns would have been 4.1% and 4.2%. The S&P 500 recorded price and

total returns of 1.4% for the month. While short-term volatility can be nerve wracking, the overall backdrop for 2026, with improving corporate earnings, contained inflation, fiscal stimulus, and an easing bias to monetary policy, all play towards our still positive outlook for equity markets.

Tariffs

Tariffs are still a concern for some industries (think automotive, steel & aluminum in Canada specifically), but they have mostly lost their shock value and both companies and investors are factoring them into decision-making as the environment seems to be stabilizing. However, there remain two important considerations that could impact 2026. The first is a Supreme Court ruling that could declare some or all IEEPA-based tariffs as illegal. The second is the USMCA renegotiation that could affect the tariff-exempt status of the majority of Canadian exports to the U.S.

Tariffs collected by the U.S. government were well over US\$250 billion in 2025, with over US\$135 billion being from IEEPA-based tariffs. Overall, the average effective tariff rate was estimated to be ~11.7% as of November slightly up from ~11.4% in October. According to the Yale Budget Lab, once all announced tariffs are implemented, the average effective tariff rate is estimated to increase to 16.9% before substitutions, but could eventually settle at roughly 14.3% after substitution, as businesses adjust by switching suppliers. Canada is faring relatively better than most countries, with an expected rate of 5-6% based on the vast majority of goods (~85%) continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, we include brief updates on key tariff-related items.

IEEPA as a basis of tariffs under threat

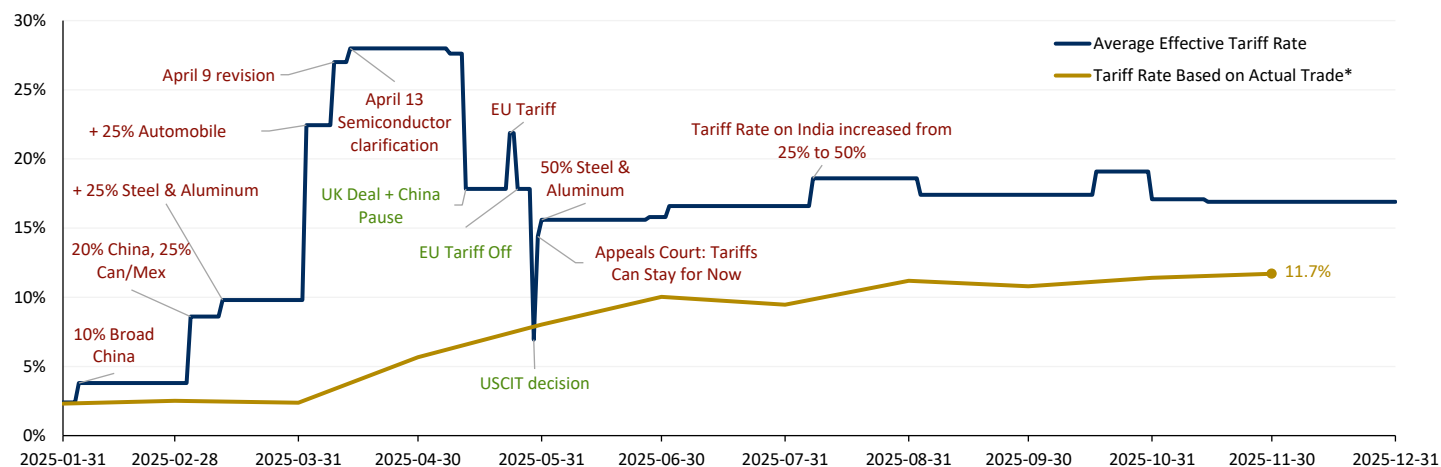
The International Emergency Economic Power Act (IEEPA) was used as the basis of President Trump's initial fentanyl-justified tariffs against Canada, Mexico, and China, as well as the broad Liberation Day / 'reciprocal' tariffs and baseline tariffs that affected almost every country in the world. Early in 2026, we are expecting a ruling from the U.S. Supreme Court as to the legality of using IEEPA, which could strike down some or all of these tariffs. If that occurs, there could be a question as to the reimbursement of some or all of the tariffs collected so far. Any kind of ruling against IEEPA-based tariffs could create additional uncertainty for a period of time, as the U.S. administration would undoubtedly seek other mechanisms in order to replace that revenue and maintain similar pressure on various countries and industries. One potentially short-term tactic could be to use Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits.

Other country-specific (Section 301) and sector-specific (Section 232) tariffs, such as against China, or the automotive industry, steel, and aluminum tariffs, would be unaffected by the IEEPA ruling. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

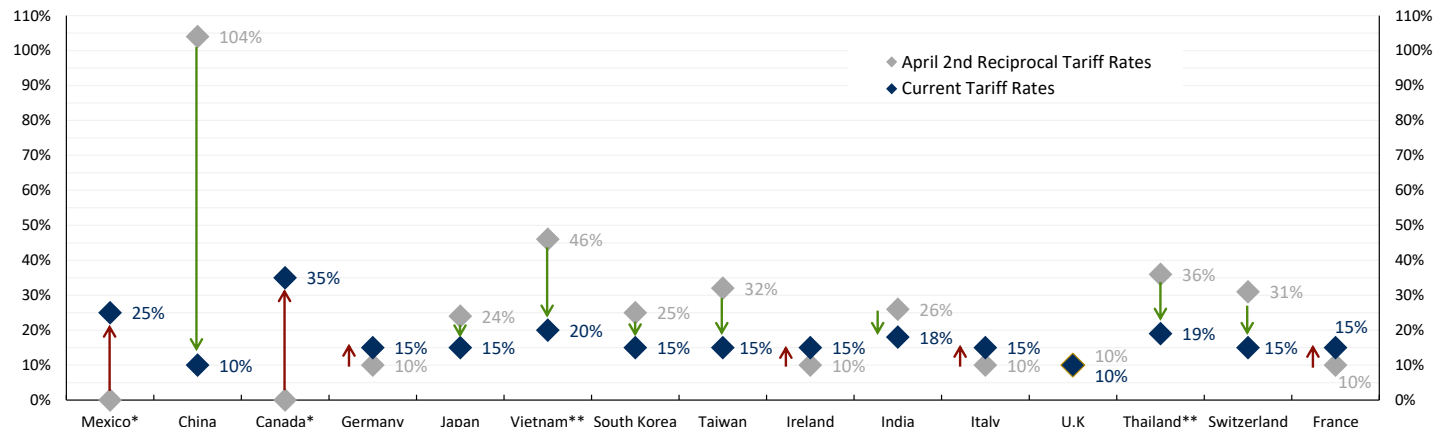
Table 1 - Section 232 Tariffs Summary, as of February 6, 2026

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Pharmaceuticals	Effective October 1	100%
Softwood timber and lumber	Effective October 14	10%
Wooden furniture	Effective October 14	25-30%
Kitchen cabinets and vanities	Effective October 14	25-50%
Medium/heavy duty trucks & buses	Effective November 1	25% on trucks/parts; 10% on buses
Semiconductors and chip making equipment	Investigation initiated April 1	Threatened 100%
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind turbines	Investigation initiated August 13	-
Robotics and industrial machinery	Investigation initiated September 2	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2	-

Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate

Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates, as of February 6, 2026

Source: U.S. Census Bureau, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Economics

Canada — growth momentum softened toward year-end

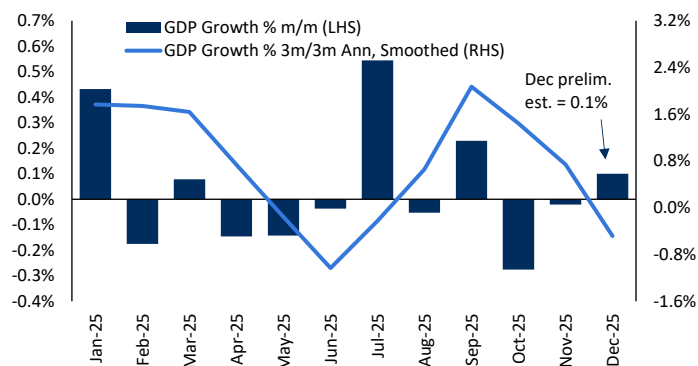
Real GDP was essentially unchanged in November, following a decline of 0.3% m/m in October (Chart 5). Contractions in goods-producing industries broadly offset modest gains in services-producing sectors, leaving aggregate activity flat on the month. Notably, manufacturing continued to weaken, with output falling on declines across both durable and non-durable goods. Meanwhile, services-producing industries recorded a slight increase, supported in part by expansions in retail trade, education, and transportation and warehousing. Overall, 10 of 20 industrial sectors grew in November. The advance estimate for December 2025 points to a marginal 0.1% gain, suggesting only limited improvement in monthly activity by the end of the year.

In terms of consumer spending, November showed encouraging data. Retail sales rose 1.3% m/m in November, with increases reported in 8 of 9 subsectors. Core retail sales, which exclude motor vehicles, parts, and gasoline, were up 1.6% on the month, with broad-based strength across categories. In volume terms, retail sales also increased by 1.1% m/m. However, momentum appears to have softened toward year-end. The advance indicator points to a decline of 0.5% m/m in retail sales in December, suggesting a moderation in consumer spending following November's strong rebound. Part of this pullback likely reflects payback from elevated November activity, which appears to have been influenced by temporary factors such as Black Friday promotions and holiday shopping.

Overall, in 4Q25, growth momentum remained muted, with negative and flat monthly GDP readings through October and November, and only a marginal pickup expected for December. Looking ahead, the Bank of Canada's January Monetary Policy Report projects a modest growth

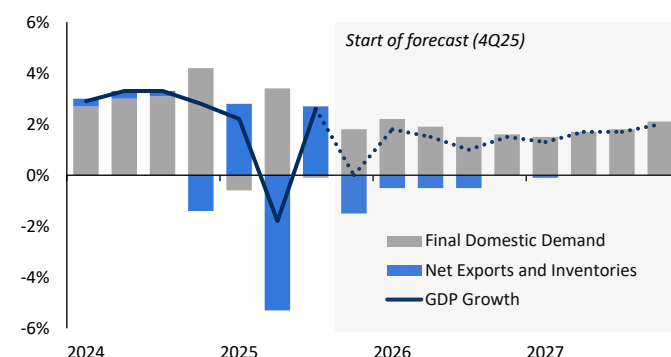
profile through 2026, with final domestic demand (which includes household consumption, government spending, and investment) expected to strengthen and become the primary driver of activity (Chart 6). However, trade-related pressures are expected to persist, continuing to weigh on net exports and constrain the overall pace of expansion.

Chart 5 - GDP Growth Slows Toward Year-End



Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Chart 6 - Modest Growth Outlook for the Year Ahead



Source: Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025.

Headline inflation edges higher as core measures continue to ease

Headline Consumer Price Index (CPI) inflation rose to 2.4% y/y in December, up from 2.2% in November (Chart 7). As expected, the increase primarily reflects base effects associated with the temporary GST/HST break that began in mid-December 2024. These base effects pushed food inflation sharply higher on a year-over-year basis, lifting the headline CPI reading. A similar impact is expected to be evident in the January data, although the effect should unwind relatively quickly once the base effects fall out of the annual comparison.

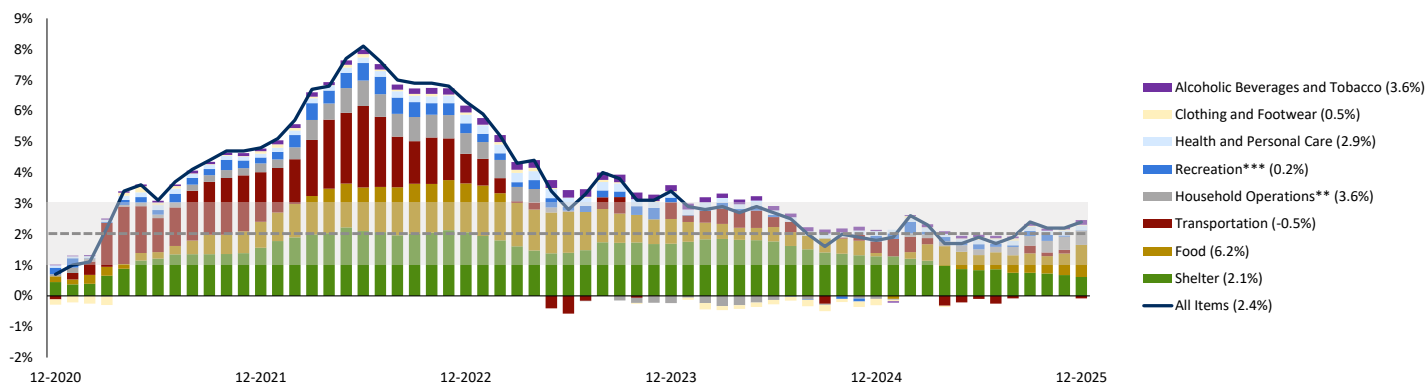
Measures of underlying inflation continued to soften. The Bank of Canada's preferred core measures, CPI-trim and CPI-median, rose by an average of just 0.07% m/m in December, marking a second consecutive month below the target-consistent pace of roughly 0.17%. As a result, the 3-month annualized rate slowed further, to 1.5% for CPI-median and 1.9% for CPI-trim (Chart 8).

Overall, recent inflation data point to underlying price pressures cooling further, even as headline CPI remains subject to temporary distortions. The continued deceleration in the Bank's core measures suggests inflation dynamics are increasingly consistent with the Bank of Canada's 2% target.

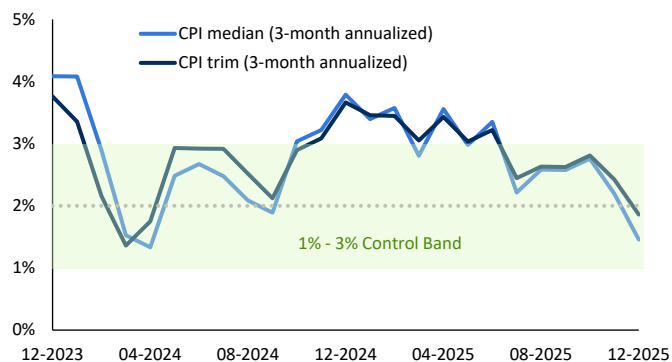
Bank of Canada holds policy rate at 2.25%

At its January meeting, the Bank of Canada kept its policy rate unchanged at 2.25%, as widely expected. Alongside the decision, the Bank released its updated Monetary Policy Report (MPR), revising its GDP growth forecasts to 1.1% for 2026 and 1.5% for 2027, versus 1.4% for both in the October outlook, impacted by slow population growth and volatile trade. The outlook reflects the Bank's assessment that earlier interest rate cuts will gradually support the economy, while increased government infrastructure spending is seen as an additional source of support for growth. However, Governor Macklem emphasized that elevated uncertainty is making it difficult to predict both the timing and direction of the next policy move. This uncertainty continues to be closely tied to trade-related risks, including the upcoming USMCA review, which remain a drag on business investment and hiring plans.

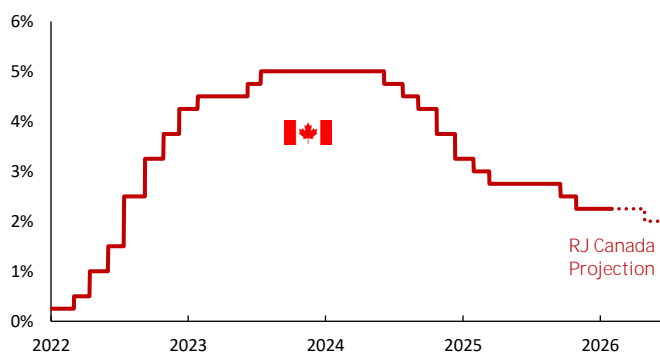
With growth expected to remain weak early in the year, reflecting subdued investment, slow hiring, and ongoing weakness in trade-exposed sectors, the Bank may ultimately need to lean toward a more accommodative stance. Under these conditions, an additional rate cut in the first half of this year remains a possibility as the economy continues to adjust to persistent structural and external challenges (Chart 9).

Chart 7 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)

Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025. **Household operations, furnishing and equipment; ***Recreation, education and reading.

Chart 8 - Core Measures Show Easing Price Pressures

Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

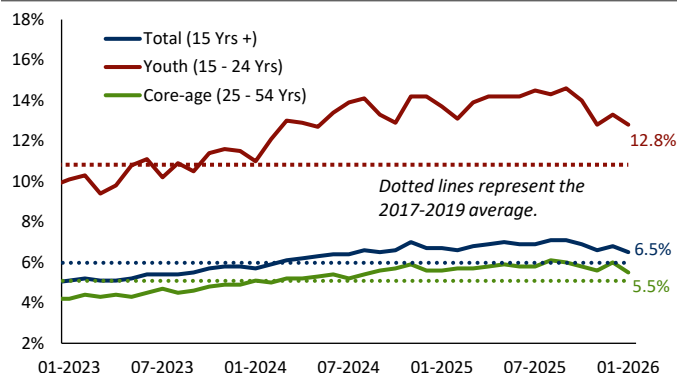
Chart 9 - Additional Rate Cut in 2026 Remains a Possibility

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

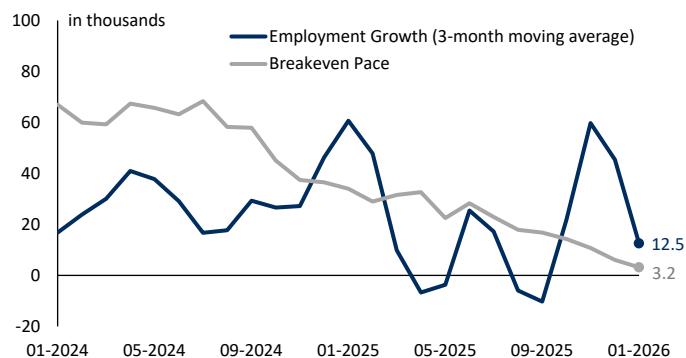
Weak hiring persists amid slowing labour force growth

Labour market conditions weakened in January, with employment falling by 25k, as losses were broadly distributed across sectors and particularly pronounced in manufacturing (-28k). One additional positive aspect was that despite the 70k decline in part-time jobs, full-time employment increased by 45k. Despite weaker job growth, the unemployment rate moved lower from 6.8% in December to 6.5% in January, with the improvement observed across all major age groups (Chart 10). However, the drop in the headline unemployment rate was driven by a 119k m/m contraction in the labour force, the largest monthly decline in nearly five years, rather than an uptick in hiring.

Slowing population growth, linked to tighter immigration policies, continues to feed through to labour supply, exerting downward pressure on the unemployment rate even as employment growth remains weak. Our estimates suggest the break-even rate of job creation has fallen to roughly 3.2k jobs per month, while the three-month moving average of employment growth has slowed to approximately 12.5k as of January (Chart 11). Looking ahead, labour market conditions are likely to remain soft in the near term. Hiring intentions among businesses remain subdued, reflecting weak demand conditions and ongoing trade uncertainty. While job creation is expected to remain weak, the slowdown in labour force growth should help keep the unemployment rate broadly contained.

Chart 10 - Unemployment Rates Drop Across Age Groups in January

Source: Statistics Canada, Raymond James Ltd.; Data as of January 31, 2026.

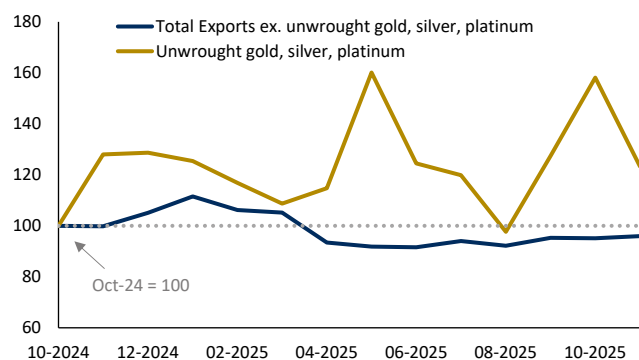
Chart 11 - Break-Even Job Growth Trending Lower as Population Growth Slows

Source: Statistics Canada, Raymond James Ltd.; Data as of January 31, 2026.

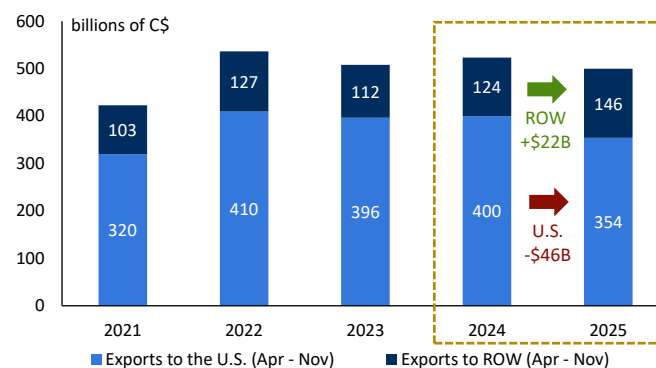
Trade deficit widens as gold-driven volatility continues

Canada's merchandise trade deficit widened to \$2.2B in November, from \$0.4B in October. The deterioration reflected a 2.8% m/m decline in exports, while imports edged down only modestly by 0.1% m/m. As in recent months, monthly export performance was heavily influenced by volatility in gold exports. Following sharp increases in September and October, exports of unwrought gold, silver, and platinum group metals, a category dominated by unwrought gold, declined in November and accounted for the bulk of the pullback in total exports. More broadly, exports excluding gold have remained consistently weak in recent months (Chart 12). While swings in gold shipments have driven much of the volatility in headline export figures, non-gold exports have remained muted after the front-loading phase, reflecting ongoing challenges tied to soft external demand and trade uncertainty.

Looking beyond monthly fluctuations, there continue to be tentative signs of trade diversification. While the U.S. remains Canada's dominant trading partner, exports to non-U.S. markets increased in 2025 relative to previous years. Following the implementation of U.S. tariffs in early April, export patterns began to shift. Over the April-November period, exports to the U.S. were \$46B lower in 2025 compared to the same period in 2024, while exports to non-U.S. destinations were \$22B higher (Chart 13). That said, establishing new trade relationships with customers and suppliers outside the U.S. is inherently gradual, and the rebalancing of trade flows is expected to unfold over time.

Chart 12 - Exports of Goods Excluding Precious Metals are Weak

Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

Chart 13 - Some Signs of Trade Diversification

Source: Statistics Canada, Raymond James Ltd.; Data as of November 30, 2025.

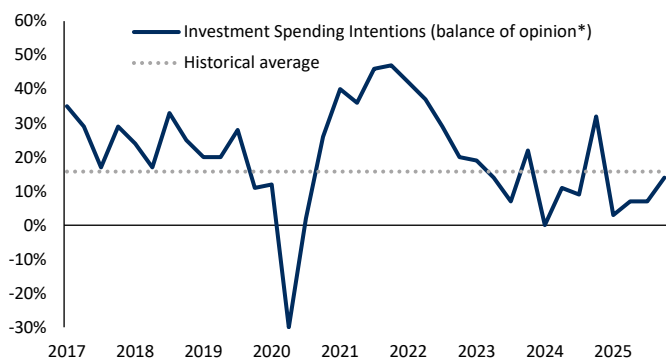
Business sentiment remains cautious

The Bank of Canada's fourth-quarter Business Outlook Survey shows that business sentiment remains subdued but above the survey low reached in the second quarter of 2025. While trade-related uncertainty continues to weigh heavily on confidence, there are signs that firms are gradually adapting to the evolving environment. In particular, a small but growing share of businesses reported stronger sales to non-U.S. markets, suggesting early efforts to diversify demand and reduce exposure to U.S. trade-policy risks. Despite some improvement in sentiment, firms remained reluctant to expand operations. Investment intentions improved modestly (Chart 14), but firms are prioritizing spending on routine

maintenance rather than expansion. Soft demand conditions, alongside persistent trade uncertainty, remain the primary factors limiting capital spending plans.

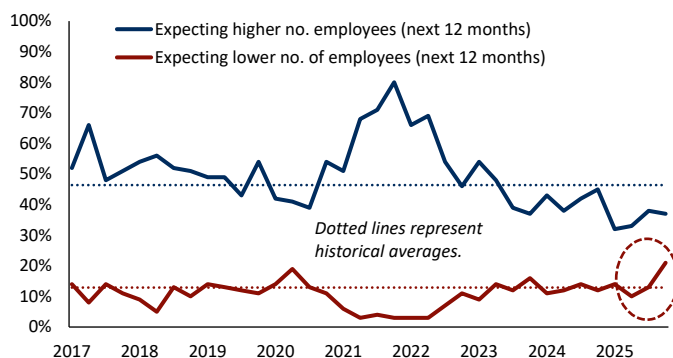
Meanwhile, labour market sentiment deteriorated further. Hiring intentions weakened, with the share of firms planning to reduce their workforce rising to its highest level in nearly a decade, driven by soft demand conditions and an uncertain trade environment (Chart 15). Overall, the survey indicates that while business sentiment has stabilized from earlier lows, firms remain cautious and focused on managing uncertainty rather than pursuing growth.

Chart 14 - Investment Intentions Improve Over the Next 12 Months



Source: Business Outlook Survey - 4Q25, Bank of Canada, Raymond James Ltd.; Data as of December 31, 2025. *% of firms expecting higher investment spending minus the % expecting lower.

Chart 15 - Greater Share of Firms Planning Workforce Reductions



Source: Business Outlook Survey - 4Q25, Bank of Canada, Raymond James Ltd.; Data as of December 31, 2025.

The U.S. — growth remains resilient

U.S. real GDP growth in 3Q25 was revised slightly higher to an annualized rate of 4.4% q/q, from an initial estimate of 4.3%, and up from the still-robust pace of 3.8% in 2Q25. The strength was driven primarily by robust consumer spending, as personal consumption expenditures (PCE) rose 3.5% (q/q annualized), accelerating from 2.5% in 2Q25. Consumer spending on services led the charge as it contributed nearly 1.7 percentage points to overall GDP growth (Chart 16).

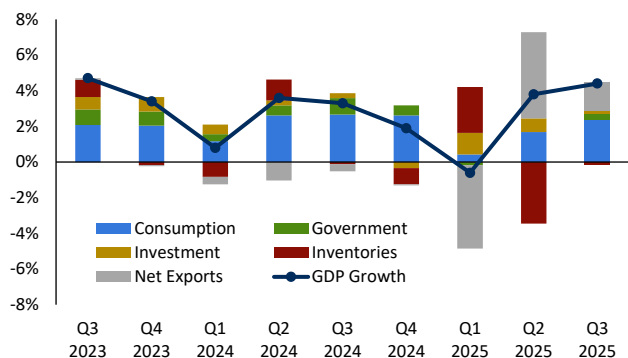
Net exports made a slightly larger positive contribution than initially reported, as exports of goods and services rose 9.6% (q/q annualized), revised up from 8.8%, while imports declined 4.4% (q/q annualized), marginally less than the 4.7% decline previously estimated. Private domestic investment was also revised modestly higher, now reported as flat in 3Q25 rather than the 0.3% decline estimated in the preliminary release. Overall, the revisions reinforce the picture of solid underlying momentum in the U.S. economy during the third quarter, led by resilient household demand and supported by external trade.

Consumer spending continues to provide support

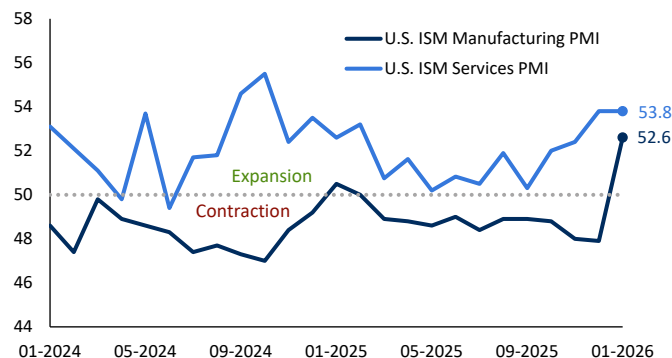
Recent personal consumption expenditures (PCE) data suggest that consumer spending has remained resilient toward year-end. Nominal personal consumption expenditures increased by 0.5% m/m in both October and November, while real consumption posted a solid 0.3% m/m gain in each month. However, consumption growth has continued to outpace income growth, leading to a further drawdown in household savings. The personal savings rate fell from 5.5% in April to 3.5% in November, indicating that recent spending strength has been supported in part by lower saving. That said, near-term support to household finances should come from larger than usual tax refunds tied to last year's OBBA-related fiscal measures, which should help cushion consumer spending.

PMIs show positive signs

The ISM Manufacturing Purchasing Managers' Index (PMI) surprised to the upside in January, rising to 52.6 (from 47.9 in December) and moving into expansion (above the 50 level) for the first time in the past 12 months (Chart 17). Activity was supported by strong increases in new orders (57.1) and production (55.9), signaling an improvement in underlying demand and output. The employment index also improved to 48.1, although it remained in contraction. On the services side, the ISM Services PMI held unchanged at 53.8 in January, remaining firmly in expansionary territory and reflecting continued strength in services activity.

Chart 16 - Strong Consumption Drives Q3 GDP Growth

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Q/Q Annualized Data.

Chart 17 - Manufacturing PMI Returns to Expansion

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

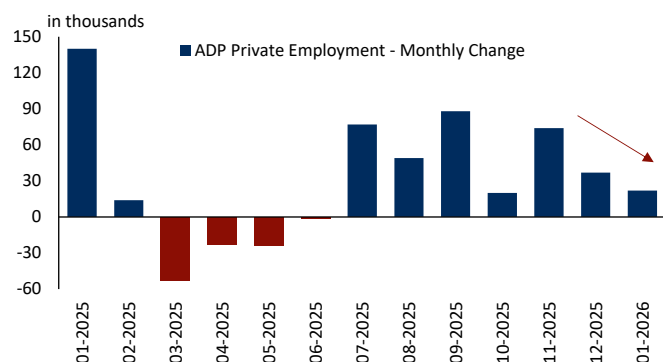
U.S. labour market remains fragile

U.S. nonfarm payrolls increased by 50k in December, extending a pattern of only modest job gains that characterized much of 2025. While hiring momentum remained subdued, the unemployment rate edged down to 4.4% at year-end, reflecting slower growth in the labour force rather than stronger employment gains. For January, the nonfarm payrolls report has been delayed, as the Bureau of Labor Statistics (BLS) was unable to publish its scheduled release on February 6 due to the recent partial government shutdown. In the absence of the official data, the ADP employment report provides insight into private-sector labour market conditions.

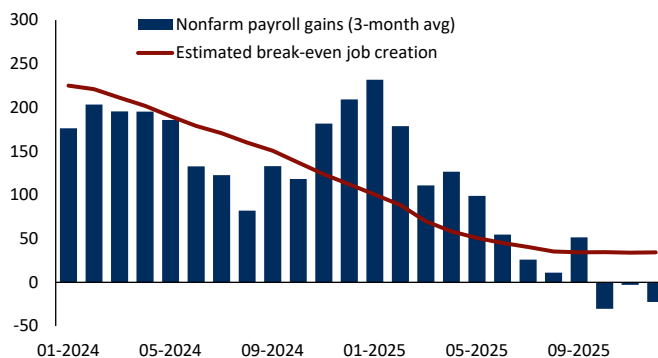
Private-sector employment rose by 22k in January (Chart 18), falling short of expectations. Job gains were concentrated in education and health services, which once again led employment growth, while professional and business services recorded the largest decline. Manufacturing employment continued to weaken, in line with the contractionary signal from the ISM Manufacturing PMI employment index in January, pointing to ongoing softness in manufacturing labour demand. However, revisions to prior months altered the recent overall employment picture. The revisions back to September eliminated two previously reported declines, with September revised from a 29k loss to a 88k gain and November revised from a 29k loss to a 74k gain. In total, employment gains from September through December were revised higher by 189k.

Additionally, broader labour market indicators point to continued softening in labour demand. JOLTS job openings fell to 6.54 million in December, their lowest level since September 2020. Meanwhile, outplacement firm Challenger reported that employers announced approximately 108k job cuts in January, the highest total for the month since January 2009. To date, however, these elevated layoff announcements have not translated into a material increase in initial claims for employment insurance.

While the labour market appears fragile, the overall weakness in job gains has been partially offset by a contraction in the labour force, reflecting slower population growth. As a result, although monthly employment gains have moderated, they have remained close to their breakeven pace, which is the estimated rate required to absorb new labour force entrants while keeping the unemployment rate broadly stable (Chart 19).

Chart 18 - Moderate Job Gains in the Private Sector

Source: ADP, Raymond James Ltd.; Data as of January 31, 2026.

Chart 19 - Lower Break-Even Job Growth Threshold

Source: FactSet, Dallas Fed, Raymond James Ltd.; Data as of December 31, 2025.

U.S. inflation remains moderate but uneven

U.S. inflation readings toward the end of 2025 remained moderate. Headline CPI rose 0.3% m/m in December, while core CPI increased 0.2% m/m. Shelter costs continued to be the largest contributor to monthly inflation, rising 0.4% m/m in December. On a year-over-year basis, headline CPI held at 2.7%, while core CPI remained at 2.6% (Chart 21). However, inflation readings remain somewhat noisy following the earlier government shutdown, as combined estimates for October and November relied on partial data and statistical assumptions. As a result, near-term month-to-month comparisons should be interpreted with caution.

In contrast, the PCE price index for October and November, covering the same period as the shutdown-affected CPI releases, showed firmer underlying price pressures. Both headline and core PCE prices rose 0.2% m/m in each month, with year-over-year inflation edging up from 2.7% in October to 2.8% in November, moving modestly further away from the Fed's 2% target. The divergence between CPI and PCE inflation over this period largely reflects methodological differences. CPI assigns a significantly higher weight to shelter costs, and the absence of a meaningful increase in shelter prices in October of last year lowered the year-over-year CPI comparison. By contrast, the PCE price index places less weight on shelter and captures a broader measure of consumption across the economy. Overall, recent data point to inflation remaining contained but uneven across measures.

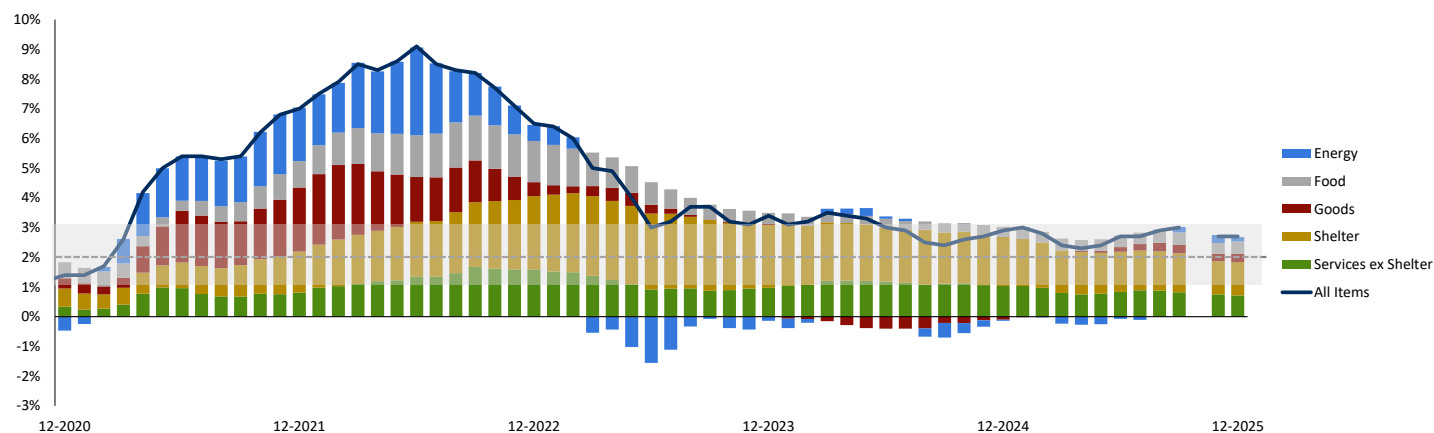
Fed maintains policy rate

At its most recent meeting, the Federal Open Market Committee left the federal funds target range unchanged at 3.50–3.75%, following December's 25 bp rate cut. The decision included two dissenting votes in favour of a 25 bp reduction, from Governors Stephen Miran and Christopher Waller.

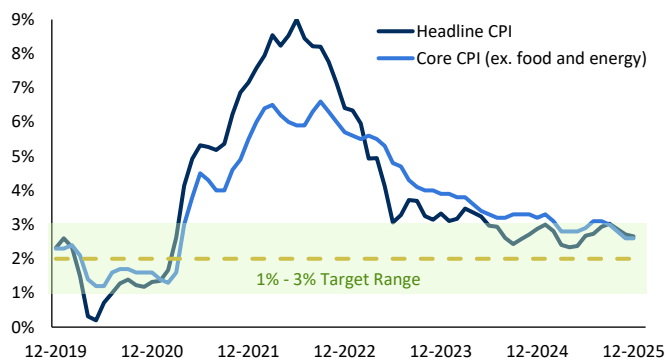
The FOMC made modest but notable adjustments to its policy statement. Economic activity was described as expanding at a "solid" pace, rather than "moderate", while the unemployment rate was noted to have "shown some signs of stabilization". Despite this more constructive assessment of current conditions, Chair Powell continued to emphasize lingering downside risks to the labour market and inflation being somewhat elevated. In the press conference, he noted that if goods inflation begins to ease later in the year as expected, this could create scope to loosen policy further. Our U.S. team continues to expect one additional rate cut in 2026 (Chart 22).

Additionally, President Trump nominated Kevin Warsh as the next Chair of the Federal Reserve. While all candidates expressed support for lower interest rates, Warsh also explicitly voiced his preference of a reduction in the Fed's balance sheet.

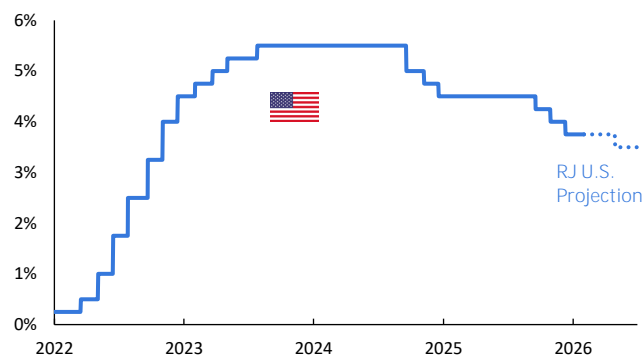
Chart 20 - Major Components' Contributions to U.S. CPI



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of December 31, 2025.

Chart 21 - U.S. Inflation Slows in Recent Months

Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of December 31, 2025.

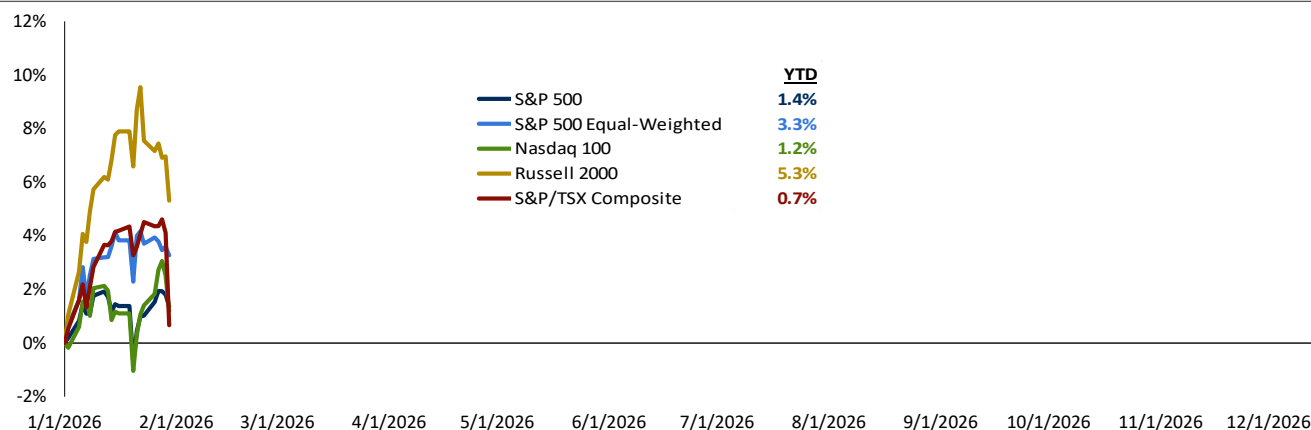
Chart 22 - Fed Expected to Deliver One More Cut

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

Financial Markets

The opening of 2026 has borne notable similarities to the start of 2025. Geopolitical uncertainties have resurfaced, market concerns around A.I. have re-emerged while focusing more on the software side rather than last year's emphasis on semiconductors, double-digit earnings growth is expected for the ongoing reporting season across both the S&P 500 and the S&P/TSX Composite, relatively choppy and muted index performance, and market breadth either improving or remaining at a healthy level. In January, the S&P/TSX Composite posted price and total returns of 0.7% and 0.8%, respectively; excluding January 30, the final trading day of the month, when gold prices sold off by roughly 9%, price and total returns would have been 4.1% and 4.2%. The S&P 500 recorded price and total returns of 1.4% for the month.

Among major U.S. equity indices, January performance provided clearer evidence of a broadening market. The Russell 2000, a proxy for U.S. small-cap equities, led the group with a strong 5.3% price return, followed by the equal-weighted S&P 500, which gained 3.3%. In contrast, the mega-cap-heavy NASDAQ 100 and the capitalization-weighted S&P 500 lagged, reflecting notable sell-offs in several large software-as-a-service (SaaS) names.

Chart 23 - Selected Indices Price Returns

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026. Price return in local currency.

Performance Dispersion Within the A.I. Cycle

The current U.S. bull market cycle, which began in late 2022, has been primarily driven by A.I.-related equities. However, more than three years into the cycle, performance dispersion within the technology complex has become increasingly pronounced. At a high level, the semiconductor industry, the most upstream beneficiary of the A.I. value chain, has been the clear outperformer, delivering returns in excess of 340% since November 2022, when ChatGPT was initially released. By contrast, the S&P 500 Software industry has generated returns of just over 40% over the same period. The more concentrated S&P/TSX Composite Software & Services industry has fared somewhat better, with returns exceeding 70%, supported by an industry leader that has been among the early adopters of A.I. to drive meaningful profitability improvements (Chart 24).

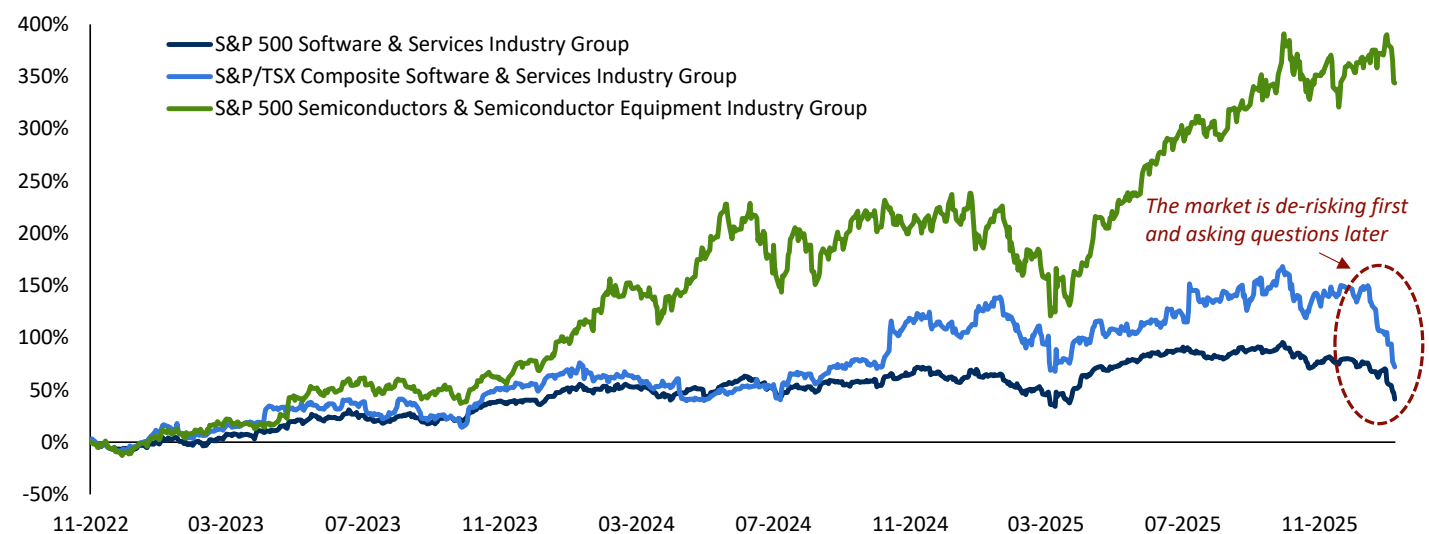
Recent sell-offs across Software-as-a-Service (SaaS) names have further widened this performance gap. As discussed in our September 2025 Insights & Strategies report, while multiple factors influence Information Technology performance during a tech-driven expansion, application-layer companies face an additional layer of uncertainty relative to hardware and infrastructure providers. Success requires not only robust underlying technology, but also market validation that applications deliver tangible value and sustained demand. In the context of the A.I. cycle, software and application companies must also assess whether their core competencies or business models are vulnerable to creative destruction, particularly from generative or agentic A.I.

One of Wall Street's key concerns around SaaS companies relates to pricing structures, notably seat-based pricing, which may come under pressure as A.I.-driven productivity gains reduce headcount requirements. While we believe it is premature to conclude that "A.I. eats software," or to adopt an overly pessimistic view on the software sector, 2026 is likely to be a challenging transition year for many SaaS companies as they experiment with new pricing models (such as usage-based pricing) and integrate A.I. more deeply into their products and services. Selectivity will therefore be critical. A key analytical lens is whether a given SaaS platform ultimately benefits from, or is displaced by, rising enterprise A.I. budgets. While overall technology spending continues to grow, A.I. investment is expanding at a much faster pace, effectively crowding out non-A.I. technology budgets.

By contrast, upstream A.I. beneficiaries, particularly those involved in chip design and manufacturing, data centre infrastructure, and related enablement layers, are better positioned to weather near-term volatility and deliver more resilient returns, supported by strong earnings visibility. Competitive dynamics also remain more favourable at this level of the stack, with only two to three dominant players in most critical technology runways, compared with a rapidly expanding and fragmented application layer. These upstream leaders benefit from scale, vertical integration, entrenched ecosystems, and greater control over supply chains and cost structures, positioning them to capture value as A.I. diffuses across industries. As such, they remain our preferred exposure at this stage of the cycle.

Finally, history offers an important reminder: as demonstrated during the dot-com era, many of the most successful application-layer outcomes tend to emerge years after the underlying technology becomes widely available. There remains ample time for differentiation, validation, and consolidation.

Chart 24 - Software-as-a-Service (SaaS) vs. Semiconductor Industry



Source: Bloomberg, Raymond James Ltd.; Data as of February 5, 2026. Price return in local currency.

U.S. Equity Markets

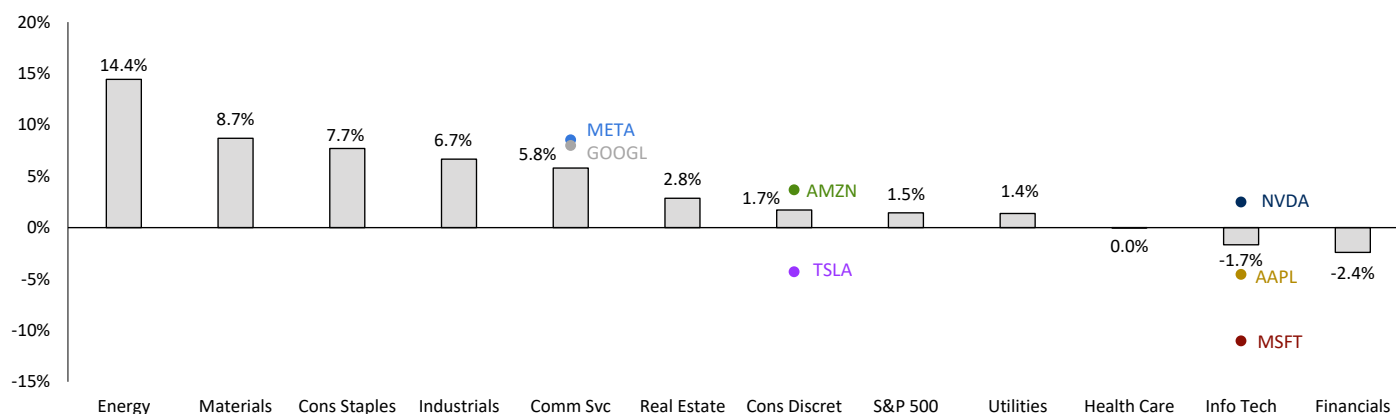
U.S. equity markets continued to broaden in January, with participation improving meaningfully. The number of S&P 500 constituents trading above their 50-day moving average rose from 283 at the end of December to 323 by month-end, while the equal-weighted S&P 500, along with mid-cap and small-cap indices, outperformed their cap-weighted large-cap counterparts.

At the sector level, Financials, Health Care, and Information Technology were the weakest performers. Ongoing policy and regulatory overhangs weighed on Financials and Health Care, while a shift in market narrative, particularly around software, pressured Information Technology. In

contrast, Energy was the top-performing sector for the month, supported by heightened geopolitical tensions and favourable policy tailwinds that helped lift sector valuation multiples. Materials also outperformed, driven primarily by a recovery in chemical companies following last year's period of exceptionally weak demand. Consumer Staples rounded out the group of outperformers, reflecting a more risk-off tone in markets.

The macro backdrop has been less supportive for U.S. equities so far this year, placing greater emphasis on earnings growth as the key stabilizing force for both market performance and investor confidence, ahead of additional fiscal stimulus expected later in the year. With roughly half of S&P 500 constituents having reported, earnings growth remains on track for approximately 12% year-over-year. Looking through near-term uncertainties, such as, trade negotiations and upcoming midterm elections, we believe the core tailwinds remain intact. A.I.-driven productivity and profitability gains continue to support the earnings outlook, while prospective fiscal measures aimed at households should help keep consumer spending resilience through the remainder of the year.

Chart 25 - S&P 500 Sector and "Magnificent Seven" YTD Total Returns



Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

Canadian Equity Markets

Following a cumulative gain of more than 110% in gold prices over the past two years, the weight of gold miners in the S&P/TSX Composite has increased materially, rising from 6.5% at the end of 2023 to 14.3% by the end of January. At the intramonth peak on January 28, when gold reached a record high of US\$5,417 per ounce, the gold mining sector briefly accounted for approximately 16% of the index. For context, this exceeded the entire Energy sector's weight at the time, making gold miners larger than the TSX Composite's third-largest sector. This shift in index composition implies that gold price movements now have a significantly greater influence on overall TSX Composite performance, particularly given that gold miner equities typically exhibit a beta of roughly 1.5–2.0 to changes in the underlying metal. The sensitivity was evident in January: excluding January 30, when gold prices declined by roughly 9%, the TSX Composite would have delivered price and total returns of approximately 4.1% and 4.2%, respectively.

More recently, precious metals, including gold and silver, have taken on a more speculative tone. Heightened geopolitical tensions, uncertainty around the incoming Federal Reserve Chair, and CME margin adjustments have all contributed to increased volatility. While gold has retreated meaningfully from its recent peak, it remains one of the best-performing asset classes year-to-date. A period of consolidation would not be surprising, but we believe the structural forces supporting gold prices remain intact over the medium to long term. Silver, by contrast, tends to exhibit greater volatility and less predictable price behaviour. Its dual role as both an industrial and precious metal introduces additional transmission channels from global growth and risk sentiment, resulting in more pronounced spillover effects rather than a direct, single-driver relationship.

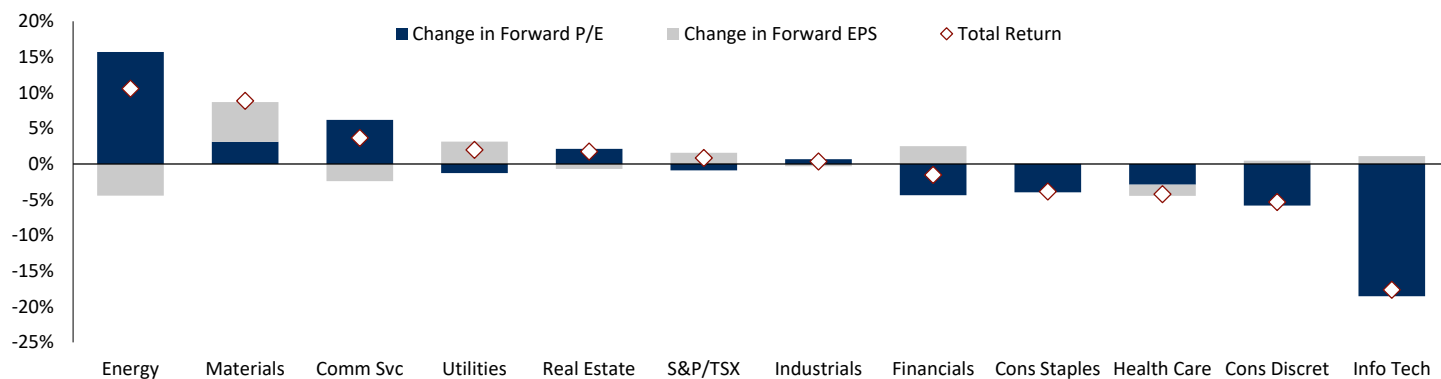
Looking across other sectors, January performance in the S&P/TSX Composite, similar to the S&P 500, reflected a more risk-off tone. Beyond Energy, which advanced on valuation multiple expansion amid heightened geopolitical tensions, and Materials, where performance was largely driven by gold, Communication Services and Utilities also outperformed. This reflected capital rotation away from more highly cyclical sectors such as Information Technology and Consumer Discretionary. The underperformance of Information Technology in Canada was particularly pronounced, as the TSX Composite's technology exposure is heavily concentrated in software. This contrasts with the S&P 500, where the Information Technology sector is more diversified across hardware, semiconductors, and software, providing greater insulation during the recent pullback in application-focused names.

Top 3 Sectors (Jan 2026):

- **Energy:** WTI crude prices moved higher from mid-month as markets repriced geopolitical risk, particularly around potential Iranian supply disruptions tied to escalating U.S.–Iran tensions. This supported broad gains across the Energy sector. However, we would be cautious about extrapolating that strength, as geopolitical risk premia can fade quickly without a sustained disruption to physical supply, and the broader supply-demand balance remains capable of absorbing short-term shocks. Importantly, the Energy sector's relative performance need not rely solely on near-term oil price upside. As a key pillar of Canada's trade-diversification strategy, the sector is positioned to benefit from new pipeline capacity and expanding export access to Indo-Pacific markets. Greater diversification of end markets should also help narrow the WTI–WCS differential, supporting the relative profitability of Canadian producers.
- **Materials:** The sector experienced exceptionally high volatility over the month. While the final two trading days erased nearly two-thirds of the gains accumulated earlier in January, the sector still finished up a solid 8.9%, an impressive outcome given the late-month reversal. Gold miners now account for roughly 75% of the sector's weight and were the primary driver of performance. The remaining, much smaller components, including copper, silver, chemicals, and lumber, also delivered strong returns, while Containers & Packaging was the sole notable laggard. We remain constructive on the Materials sector. The potential emergence of a new commodity supercycle would position Materials as a key beneficiary, particularly as Canada's Critical Minerals Strategy mobilizes both public and private capital to secure a strategic role in the global A.I. supply chain.
- **Communication Services:** The sector benefited from a more risk-off market environment, as capital rotated away from highly cyclical areas and into more defensive segments, while also seeing some catch-up following last year's underperformance. With sector performance dominated by a handful of large names, returns were uneven at the constituent level. While macro headwinds such as flat population growth and sector-specific challenges from intensifying competitive pressures continue to weigh on performance, Communication Services can offer defensive characteristics during periods of elevated uncertainty. Should USMCA renewal negotiations deteriorate, or broader geopolitical or economic risks trigger a sustained risk-off backdrop, the sector could benefit from defensive rotation.

Bottom 3 Sectors (Jan 2026):

- **Info Tech:** As discussed above, the TSX Composite's Information Technology sector is heavily skewed toward software, which left it particularly exposed to the recent sell-off across SaaS names. In our view, the market is still in the process of reassessing the risks and opportunities that A.I. introduces at the company level. Near term, this has resulted in largely indiscriminate pressure across the sector, driven more by valuation compression and sentiment than by fundamentals. That said, the sector's dominant constituent remains one of the earliest and clearest examples of successful A.I. monetization at the application level. We believe this positions the name to recover and continue compounding over time, which could once again provide meaningful support to overall sector returns. In addition, the index's sole exposure to the Electronic Equipment & Instruments industry is a best-in-class electronics manufacturing services provider, whose performance has been relatively resilient and should help partially offset broader sector weakness.
- **Consumer Discretionary:** After a strong rally since last October, the sector has underperformed in recent weeks amid a more risk-off market environment. Some of the earlier gains have been given back, largely through valuation multiple compression rather than a deterioration in fundamentals. Despite the recent pullback in dollar stores, value-oriented consumer behaviour should continue to provide support for this segment. For companies with meaningful exposure to the U.S. market, a potential catalyst for renewed outperformance could emerge from improved household cash flow, particularly if higher tax refunds translate into incremental discretionary spending.
- **Consumer Staples:** The sector gave back a portion of its late-2024 gains as the earnings season progressed. Macro headwinds for grocers remain in place, with continued shifts in consumer behaviour toward discounts and promotions weighing on pricing power and margins, although industry leaders are better positioned to manage these pressures. As a result, selectivity remains critical. In addition, uncertainty around food pricing is likely to persist until the USMCA renewal process is completed without material changes. Together, these factors have limited the sector's ability to benefit from the recent rotation out of cyclical areas and into more defensive segments.

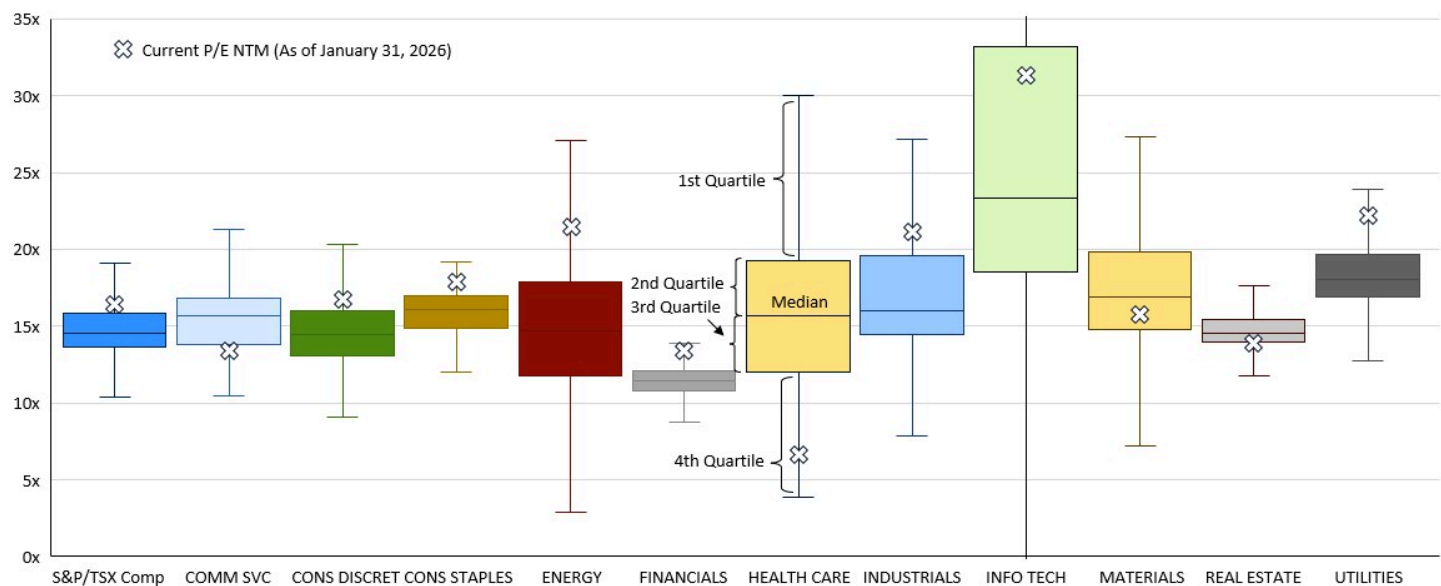
Chart 26 - S&P/TSX Composite Sector January 2026 Total Return Breakdown

Source: Bloomberg, Raymond James Ltd.; Data as of January 31, 2026.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Energy	16.0%	10.6%	10.6%	10.6%	21.6	14.7
Materials	19.5%	8.9%	8.9%	8.9%	15.2	16.9
Communication Services	2.0%	3.7%	3.7%	3.7%	13.2	15.6
Utilities	3.4%	2.0%	2.0%	2.0%	22.4	18.1
Real Estate	1.5%	1.7%	1.7%	1.7%	13.9	14.6
S&P/TSX Composite	--	0.8%	0.8%	0.8%	16.6	14.6
Industrials	10.5%	0.4%	0.4%	0.4%	21.3	16.0
Financials	32.5%	-1.5%	-1.5%	-1.5%	13.2	11.4
Consumer Staples	3.3%	-3.9%	-3.9%	-3.9%	17.8	16.0
Health Care	0.3%	-4.2%	-4.2%	-4.2%	6.7	15.6
Consumer Discretionary	3.2%	-5.3%	-5.3%	-5.3%	16.8	14.5
Information Technology	7.9%	-17.6%	-17.6%	-17.6%	31.2	23.3

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 27 - S&P/TSX Composite Sector Current vs. Historical P/E NTM

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026. Historical P/E: 1/1/2000 – 1/31/2026. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	Jan (in LCL)	Jan (in USD)	Jan (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	2.2	2.2	0.9	3.3	3.3	-0.2	2.2	2.2	0.9	19.9	16.1	3.8
EAFE (DM ex U.S. & Canada)*	5.1	5.1	3.8	8.6	8.6	5.0	5.1	5.1	3.8	15.8	13.6	2.2
EM (Emerging Markets)*	8.1	8.1	6.7	8.6	8.6	5.0	8.1	8.1	6.7	13.0	11.8	1.2
Selected Developed Markets												
Nikkei 225 (Japan)	5.9	7.4	6.2	1.9	1.7	-1.7	5.9	7.4	6.2	20.5	16.9	3.7
Euro STOXX 50 (Europe)	2.8	4.0	2.8	5.4	8.3	4.6	2.8	4.0	2.8	16.5	13.4	3.2
FTSE 100 (U.K.)	3.0	5.0	3.8	5.7	9.9	6.2	3.0	5.0	3.8	13.7	13.0	0.6
CAC 40 (France)	-0.3	1.0	-0.2	0.3	3.4	-0.1	-0.3	1.0	-0.2	16.0	13.5	2.5
DAX (Germany)	0.2	1.4	0.3	2.4	5.6	2.0	0.2	1.4	0.3	15.1	12.7	2.4
Hang Seng (Hong Kong)	6.9	6.5	5.2	6.2	5.7	2.1	6.9	6.5	5.2	12.1	11.7	0.4
Selected Emerging Markets												
CSI 300 (China)	1.8	2.3	1.3	1.8	4.3	1.0	1.8	2.3	1.3	16.9	13.8	3.1
Nifty 50 (India)	-3.0	-4.9	-5.9	-1.4	-4.5	-7.5	-3.0	-4.9	-5.9	22.9	18.6	4.3

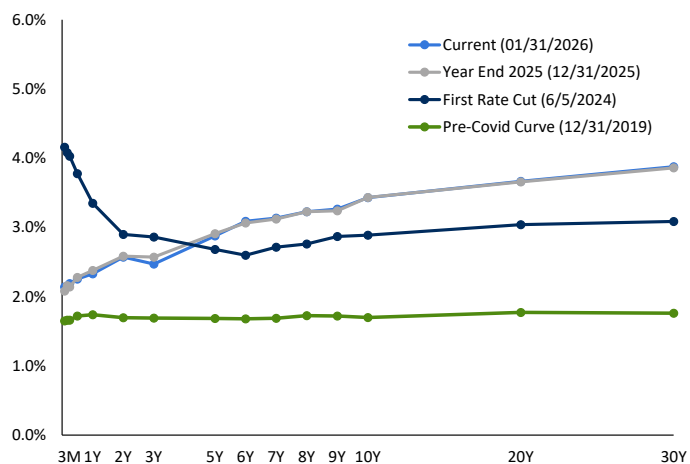
Source: FactSet, Raymond James Ltd; Total returns, data as of January 31, 2026. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 01/31/2026. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

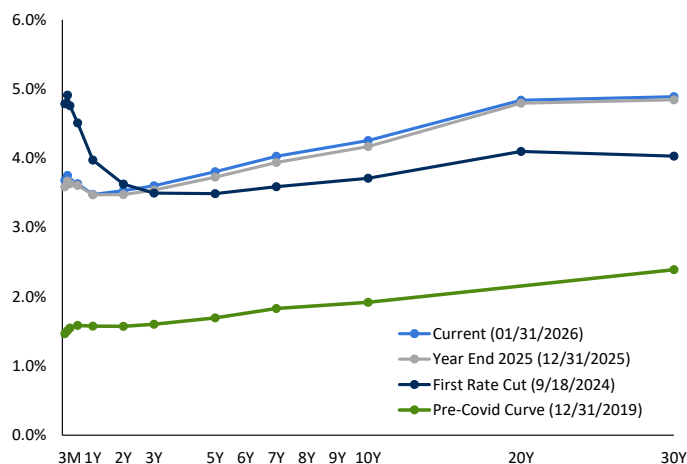
Both the U.S. Treasury curve and the Government of Canada yield curve were broadly unchanged over the course of January, with limited movement across maturities. The more consequential development for rates markets was the official nomination of Kevin Warsh as the next Federal Reserve Chair, with his term scheduled to begin in May, succeeding Jerome Powell. Initial bond market reaction has been muted, reflecting the perception that Warsh represents a credible and market-friendly choice. His long-standing hawkish credentials and institutional experience have helped alleviate concerns around Federal Reserve independence, and he has generally been viewed favourably by market participants.

Like other recent candidates, Warsh has signalled openness to lower policy rates, arguing that the recent strength in U.S. growth largely reflects A.I.-driven productivity gains rather than excess demand. Under this framework, he does not view the current stance of monetary policy as inherently inflationary. What distinguishes Warsh, however, is his emphasis on pairing lower policy rates with a smaller Fed's balance sheet as a means of containing inflation.

A reduction in the Fed's balance sheet would imply fewer purchases of long-dated Treasuries, or a faster pace of runoff, increasing the net supply of duration that the private sector must absorb. All else equal, this would raise the term premium and exert upward pressure on long-end yields. If implemented, Warsh's preferred policy mix would likely result in a steeper yield curve, with lower front-end rates easing financing conditions for small and medium-sized enterprises, while moderately higher long-term yields could increase borrowing costs for large corporates and other duration-sensitive borrowers.

Chart 28 - Canada Government Yield Curves

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

Chart 29 - U.S. Treasury Yield Curves

Source: FactSet, Raymond James Ltd.; Data as of January 31, 2026.

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