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Canadian Equity Strategy

Key Takeaways

- ▶ Canadian equities delivered strong quarterly gains to end the year near all-time highs, led by gold stocks. Current enthusiasm for commodities and AI-indexed companies highlights the importance of selectivity in a market where we see elevated valuations as the top risk.
- ▶ The Strategy underperformed for the quarter due to differentiated exposure to the top-heavy materials and technology sectors compared to the benchmark.
- ▶ Trading activity added higher-beta exposure on weakness and reduced lower-beta holdings on strength, intentionally tilting the portfolio toward incremental risk at more attractive valuations.

Market Overview

Despite ongoing uncertainty around global trade, Canadian equities continued to push higher through the fourth quarter. The S&P/TSX Composite Total Return Index (TRI) rose 6.3% and reached an all-time high. Market participation was solid with six of the 11 GICS sectors — energy, materials, consumer discretionary, consumer staples, financials and utilities — reaching new highs. The U.S. S&P 500 TRI gained 1.2% in Canadian dollar terms, lagging Canada over the quarter. Canada remains a highly concentrated market, with index performance heavily influenced by a small group of large constituents, particularly the major banks, Shopify and gold-related names.

Ongoing U.S. tariffs continued to cloud the outlook for growth. The trajectory for economic activity will largely depend on both the scale and the duration of the dispute. The macro environment entering year-end reflected uneven momentum, leaving the equity backdrop supportive but not straightforward. Rates moved higher 25 basis points in Canada to 3.43% but remain below their October 2023 peaks. Monetary policy, however, tilted more constructive. The Bank of Canada reduced rates in the quarter and has now cut nine times this cycle, bringing its policy rate to 2.25%, a level intended to support housing activity and consumption.

Exhibit 1: Strong Year for Canadian Equities

Total Returns	Jan. 30, 2025 Peak to April 8, 2025 Trough	April 8, 2025 Trough to Dec. 31, 2025	Full Year 2025
Energy	-14.0%	35.5%	19.2%
Materials	-4.4%	87.8%	100.6%
Industrials	-12.7%	12.9%	3.1%
Consumer Discretionary	-9.9%	42.6%	31.0%
Consumer Staples	-1.3%	16.6%	12.8%
Health Care	-20.3%	28.2%	0.4%
Financials	-12.2%	49.1%	35.3%
Information Technology	-27.7%	53.4%	23.1%
Communication Services	-8.0%	17.4%	11.0%
Utilities	-0.4%	21.0%	19.7%
Real Estate	-10.6%	16.0%	4.6%
S&P/TSX Composite TRI	-12.3%	43.6%	31.7%

Source: FactSet.

In materials (+11.9%), surging commodity prices drove strong gains for gold producers, with additional support coming from solid performance in copper producers. Consumer discretionary (+11.0%) saw a strong rebound as trade-related uncertainties, including proposed tariffs and counter-tariffs, started to subside. Financials (+10.5%) outperformed as Canadian banks delivered strong quarterly results, supported by constructive capital markets activity (M&A/advisory, trading and underwriting) and an easing rate backdrop that helped underpin credit conditions. Real estate (-5.8%) underperformed as long-term bond yields remained elevated and rose into year end, pressuring financing costs and cap rates and weighing on rate-sensitive REIT valuations. Communication services (-1.7%) underperformed as the telecom-heavy group faced intense price competition that compressed growth and heightened investors' focus on leverage and dividend sustainability.

Performance Overview

The ClearBridge Canadian Equity Strategy underperformed the S&P/TSX Composite TRI in the fourth quarter driven by both negative security selection and weak sector allocation.

In materials, gold's "safe haven" status continued to shine in an uncertain environment with further commodity price strength leading to strong returns from gold equities. Gold bullion continued its ascent, finishing at US\$4,341 per ounce, up 13.0% in the quarter and 64.4% for the year. We have historically struggled to find gold-related equities with the requisite fundamentals and/or valuations; as such, the Strategy is meaningfully underweight the gold sub-industry, which ended the quarter with a 13.3% weight in the index. At current gold prices, producers are generating substantial free cash

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flow, but it remains difficult to find opportunities that are attractive from a valuation and risk-adjusted return standpoint. Wheaton Precious Metals and Agnico Eagle Mines were top contributors in the quarter, offset by not owning Barrick Mining.

In industrials, Boyd Group was the largest detractor, with shares under pressure in recent quarters due to lower customer volumes, as concurrently investors focus on near-term integration risks tied to absorbing a large acquisition. Canadian National Railway and Canadian Pacific Kansas City together account for roughly 35% of the sector benchmark; both continue to face softer shipping volumes, trade uncertainty and lingering macroeconomic headwinds.

In IT, the largest detractor was the Strategy's overweight stance in OpenText, which saw a pullback following its results, with concerns arising around organic growth targets. Additionally, not owning Celestica weighed on performance.

Portfolio Positioning

Trading activity was elevated as market dislocations created opportunities to both add to and trim positions. We selectively increased exposure to several out-of-favor cyclical names and durable high-quality businesses that have come under significant pressure while paring back areas that proved more resilient, including defensive sectors such as consumer staples and utilities.

We initiated a position in Thomson Reuters following meaningful share price weakness, as investor concerns around AI pressured the stock and raised questions about the durability of its competitive moat. The company is a content- and technology-driven provider of professional information, software and workflow solutions serving legal, tax, audit, accounting, compliance, government and corporate customers. Its core profit engine, the "Big 3" businesses (legal professionals, tax and accounting professionals and corporates), accounts for most of its revenue and earnings and it benefits from specialized content and workflow integration that create meaningful switching costs. We believe the market is underappreciating the value of Thomson Reuters' trusted content, distribution and workflow footprint, as well as its ability to incorporate AI to enhance user productivity and insight.

We exited MEG Energy through the closing of its acquisition by Cenovus Energy (CVE). From our perspective as shareholders of both companies going into the transaction, we view the outcome as constructive. MEG's Christina Lake asset is a high-quality, long-life thermal oil sands project that sits adjacent to CVE's existing Christina Lake operations. Consolidating these assets under a

single operator with a larger balance sheet and broader portfolio creates a clearer and longer runway for coordinated development and value creation.

In materials, we added Wheaton Precious Metals. This is a business we have owned in the past, and one where we know the business and management team well. Our decision to re-establish the position reflects a reassessment of valuation and reflects the underlying business quality in a more robust gold price environment. The company's streaming model provides meaningful optionality: higher gold prices not only support near-term cash flow, but also materially extend the economic life and effective reserves of many of its assets. We also exited Nutrien, as we believe the company's current share price fully reflects its underlying fundamentals.

We also added to FirstService, Constellation Software, Descartes Systems and CGI, all durable, high-quality businesses with strong competitive positions and resilient cash flow profiles. We also trimmed select bank positions on strength and redeployed capital toward higher-conviction opportunities. Overall, by adding higher-beta exposure on weakness and reducing lower-beta holdings on strength, we intentionally tilted the portfolio toward incremental risk at more attractive valuations, maintaining the Strategy's ex-ante beta above the midpoint of the 0.8 to 0.9 target range.

At quarter end, the Strategy's largest sector exposures were financials, industrials and energy. Relative to the benchmark, the Strategy is overweight the industrials and generally defensive/non-cyclical utilities and consumer staples. The Strategy is most underweight the typically value/cyclical oriented materials and financials sectors.

Strategy and Outlook

Canadian equities closed the year on a constructive footing, supported by steady fundamentals and a meaningful shift in the macro narrative and the impact of U.S. tariffs. Through much of the rate cycle, markets have anchored to a "higher for longer" rate backdrop, sentiment has increasingly moved toward cautious easing as inflation pressures moderated and growth has proved more resilient than feared. Importantly, the yield curve has also normalized relative to years prior. While policy uncertainty and global trade dynamics continue to influence day-to-day volatility, the overall environment is supportive for risk assets, particularly where earnings durability and balance-sheet strength remain intact.

The Canadian equity market delivered what many would characterize as a “golden year,” with commodities playing a central role in index leadership. Strength across gold, copper and silver reinforced the market’s sensitivity to real asset cycles and global demand trends. The materials sector rose more than 100% over the year as gold continued to benefit from a combination of macro uncertainty, diversification demand and ongoing investor interest in hedges against geopolitical and policy risk. Industrial metals, including copper, were supported by structural themes tied to electrification and infrastructure spending, alongside expectations for sustained long-term demand. While commodity strength has clearly been a tailwind for Canadian equities, it also highlights the importance of selectivity, as valuations can re-rate quickly when commodity prices move and leadership becomes increasingly narrow.

Looking into 2026, an important debate will center on whether the AI theme can continue to “defy gravity” or whether investor enthusiasm is beginning to outpace realistic near-term outcomes. The opportunity remains substantial, but concerns around concentration, valuation and the potential for pockets of speculative behavior have become more pronounced. At the same time, the investment conversation is broadening beyond software narratives and into the “real economy” buildout that underpins AI adoption. Capital spending on data centers, semiconductors, networking and power infrastructure remains a defining trend, with utilities, grid investment and broader industrial supply chains increasingly central to the AI ecosystem. We are also monitoring the disruptive implications for certain areas of software and IT services, where automation could compress pricing or margins, shift competitive dynamics or structurally alter business models. In this environment, disciplined underwriting matters, with a focus on durability of demand, barriers to entry and valuation support rather than momentum alone.

Within energy, we are attentive to price risk, particularly as supply dynamics evolve and market participants assess demand sensitivity in a slowing global growth environment. Volatility was seen in crude oil and natural gas prices that ended the quarter at US\$57.42/bbl (West Texas Intermediate) and US\$3.13/mmbtu (NYMEX). At the same time, activity levels across the Canadian basin remain robust, and that has constructive implications for infrastructure-oriented businesses. We are also encouraged by signs of a pragmatic shift in policy direction in Canada, including recent government actions that suggest a more constructive tone toward the sector’s role in growth, employment and national competitiveness.

Portfolio Highlights

During the fourth quarter, the ClearBridge Canadian Equity Strategy underperformed its S&P/TSX Composite TRI benchmark. On an absolute basis, the Strategy delivered positive contributions across six of the 10 sectors in which it was invested (out of 11 sectors total). Financials was the primary contributor while industrials, IT and communication services were the main detractors.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, an underweight to materials, an overweight to industrials and stock selection in materials and IT had negative impacts. These were partially offset by positive selection in the utilities and energy sectors.

On an individual stock basis, top relative detractors included Barrick Mining, Open Text, Franco-Nevada, Telus and FirstService. Top relative contributors included Headwater Exploration, Enbridge (underweight), WSP Global (not owned), Wheaton Precious Metals and Bank of Nova Scotia. In addition to the transactions mentioned above, we exited Saputo in the consumer staples sector.

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