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Canadian Equity Outlook: Finding Opportunity Beyond the Headlines

November 21, 2025

Key Takeaways

- ▶ We continue to find value in high-quality companies temporarily out of favor due to macroeconomic or sector-specific challenges in areas such as materials, energy and financials, as well as select industrials and IT names facing perceived risks due to AI.
- ▶ We like the setup for dividend investing in 2026, most notably in areas with quality of cash flows and attractive valuations such as utilities, and we believe opportunities will depend on where we see market inefficiencies emerge.
- ▶ Gold, which now constitutes over 12% of the S&P/TSX after a strong rally in 2025, could exert considerable influence on overall market performance should gold prices or sentiment shift materially.

As we look toward 2026, the Canadian equity environment is marked by both significant risks and promising opportunities. While some areas of the stock market appear vulnerable, we continue to discover compelling prospects, especially within sectors and securities that have lagged more buoyant parts of the market. To get a detailed overview of the year ahead, we recently spoke with Head of Canadian Equities Garey Aitken and Portfolio Manager Ryan Crowther.

Let's start with a broad look at the Canadian economy. What key risks are you watching on the macro front?

Garey Aitken: Given the heightened volatility since the new U.S. administration took office in January, risk management for the year ahead demands vigilant attention. Global geopolitical and economic tensions, including persistent conflicts and evolving trade relationships, continue to create instability. Chief among these is the upcoming renegotiation of the United States-Mexico-Canada Agreement (USMCA), which introduces considerable uncertainty for Canadian equities. The eventual terms of this crucial trade deal will impact cross-border commerce, corporate earnings and investor sentiment given Canada's close economic relationship with the U.S. and Mexico.

Monetary policy is another area of focus: although the Federal Reserve has joined the Bank of Canada in easing, the timing and magnitude of further rate cuts remain unclear, especially if inflationary pressures resurface.

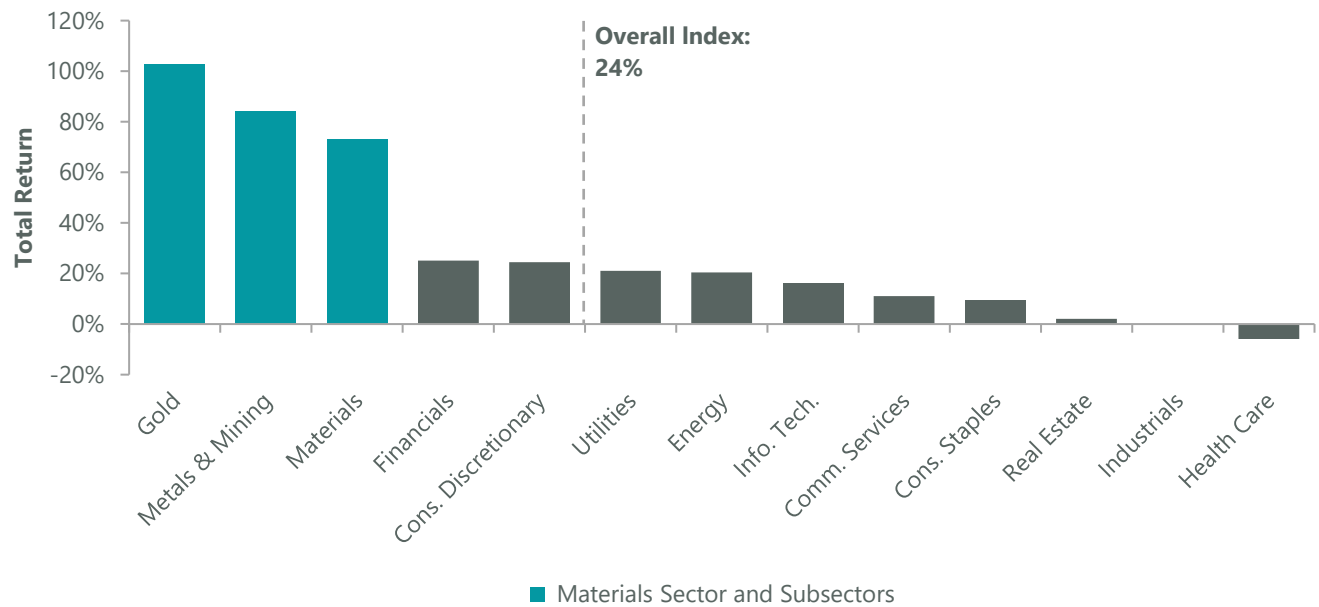
How are consumers holding up?

Garey Aitken: Canadians contend with high living costs and a cooling labor market, conditions made more challenging by the U.S. administration's "strategic uncertainty," which has crushed business investment in Canada. We often say, however, that the Canadian economy is not the Canadian equity market — with a substantial portion of many Canadian equities' underlying assets and operations beyond our borders — and global economic growth is expected to surpass domestic momentum.

Let’s turn to the equity market. What key risks are you managing in a market that has been making new highs through much of 2025?

Garey Aitken: The robust rise in equity prices throughout 2025 increases the risk of valuation-driven volatility and possible market corrections if earnings do not meet expectations. Performance has also been highly concentrated in a few sectors. As of this writing on November 21, the materials sector is up over 70% year to date, while the next best performers, financials and consumer discretionary, are up more than 24%, generally in line with the overall return of the S&P/ TSX Composite Index. The other eight sectors are underperforming.

Exhibit 1: Materials Dominate Market Performance



Bar chart shows 2025 YTD performance through Nov. 20, 2025. Source: FactSet. Note: Gold is included in the Metals & Mining sub-sector.

The gold sub-industry within materials, which now constitutes over 12% of the S&P/TSX after soaring more than 100% in 2025, could exert considerable influence on overall market performance should gold prices or sentiment shift materially. We have seen this before (and have been diligently managing our gold exposure) as big gold rallies in the Canadian market reflect the precious metal’s unique attributes.

Despite the surge in gold prices, does this area of the market still offer opportunity?

Ryan Crowther: With the unprecedented move in gold prices, we expect to see a shareholder-friendly response from producers. Those that pay dividends already are likely to bump them up, and some non-dividend-paying companies may now find the capacity to initiate dividends. We would also expect to see, and already have seen, companies pledge more free cash flow to share buybacks. Despite these developments, we remain focused on quality of cash flows through the cycle, and of course on valuation. Our exposure to the gold sector remains through what we view as the very highest-quality businesses.

We like the setup for dividend investing in 2026 and believe opportunities will present themselves as always, but will be entirely dependent on where we see market inefficiencies emerge. We continue to emphasize qualitative factors such as demonstrated capital allocation, strong financial positioning, secular growth and profitability, all through a lens of valuation.

Utilities remain a consistent overweight in both ClearBridge’s core and dividend equity portfolios. What do you like about the sector currently?

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Ryan Crowther: Utilities offer great visibility to cash flows and have recently benefited from favorable macro trends such as rising power demand fueled by growth of AI data centers. Our holdings in this sector have demonstrated strong operational execution under supportive regulatory oversight. Some of our utilities holdings are also positioned to capitalize on energy egress opportunities as Canadian producers seek to broaden their market reach, while others are global players exposed to improving growth trends outside Canada. Utilities also tend to dampen volatility in our portfolios through the market cycle.

We have seen a significant bifurcation in 2025 between momentum-driven growth and AI-related winners versus the rest of the equity market. As active managers, how can you take advantage of this dispersion going forward?

Ryan Crowther: While AI does not exert as large an influence on the Canadian market as in the U.S., the AI boom has created perceived AI winners and AI losers. Shopify, the second-largest component of the index, is seen as a winner, and cloud and AI infrastructure stocks have also outperformed. Meanwhile, a lot of names in software and IT services are on the other side due to negative sentiment over AI risks.

In addition to these parts of IT, sectors that have trailed during recent rallies — such as select industrials, materials, energy and financials — offer appealing entry points thanks to current valuations and the potential for sentiment to improve as these businesses demonstrate their resilience. Our team continues to find value in high-quality companies with strong fundamentals that are temporarily out of favor due to macroeconomic or sector-specific challenges. Additionally, ongoing innovation and structural changes in technology, renewable energy and infrastructure signal long-term growth potential.

The newly released Canadian budget is targeting investments in some of these areas. How much of a catalyst do you expect from new spending?

Garey Aitken: The largest investment commitment in the budget is for infrastructure improvements. Revitalization of core public water systems, transportation, land development and health care facilities would serve as tailwinds for engineering and consulting companies. Funds meant to improve global trade through investment in ports, rail and trade routes signal a focus on economic resilience through increased access to overseas markets. This commitment should directly benefit Canada's rail operators by supporting volume growth and long-term network efficiency.

Other large outlays are geared to enhancing the productivity and competitiveness of Canadian companies as well as the country's defense commitment to NATO. The new productivity super-deduction is designed to spur capital investment by allowing accelerated write-offs for advanced manufacturing equipment, clean energy and automation technologies. Increased spending on military readiness, cybersecurity and sovereignty protection should benefit defense and security-related companies.

Conclusion

Given the substantial appreciation in equity prices during 2025 and enduring global uncertainties, we are entering 2026 with a more defensive orientation. We maintain higher allocations to resilient, cash-generating businesses in sectors like consumer staples and utilities, while selectively increasing exposure to mispriced cyclical and growth-oriented names. This defensive stance provides flexibility to deploy capital opportunistically should increased volatility or market corrections create opportunities.

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About the Authors



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- 33 years of investment industry experience
- Joined firm in 1998
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Ryan Crowther, CFA

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