



# WATERMARK PRIVATE PORTFOLIOS

DECEMBER 2025 COMMENTARY

TRUE INDEPENDENCE™

# Market Review in Minutes

## Equities

- The US equity market ended the month essentially flat; however, the S&P (in CAD) ended lower due to the US Dollar depreciation.
- The S&P 500 (in CAD) fell 1.82% and the S&P/TSX Composite increased by +1.23% in December.
- International equities (outside the US) also ended the month higher by 2.57%.
- **Leaders:** The tech-heavy S&P 500 underperformed the resource-heavy S&P/TSX Composite as metals, (gold, silver and copper) soared in December. On the other hand, natural gas and crude oil fell.
  - In the US, the cyclical sectors, such as the financial sector and materials, led the market.
  - In Canada, the financial sector, gold miners, and the materials lifted the S&P/TSX Composite higher.
- **Laggards:**
  - In the US, utilities were the biggest laggard, followed by real estate and consumer staples sectors.
  - In Canada, information technology, utilities, and energy were the largest laggards.

## Fixed Income

- Fixed income securities were mixed; the longer-term US government bonds were down for the month, but the shorter-term bond moved higher. Likewise, the investment grade corporate bonds (higher-quality corporate bonds) fell, but the high yield corporate bonds (riskier-rated bonds issued by companies with weaker fundamentals) moved slightly higher.
- The Canadian Universe Bond Index fell 1.28% this month due to a strong jobs report.

As at December 31, 2025	Monthly % Total Return	YTD % Total Return
<b>Canadian Bonds</b> <i>FTSE Canada Universe Bond Index</i>	<span style="color: red;">-1.28%</span>	<span style="color: green;">+2.64%</span>
<b>Canadian Equities</b> <i>S&amp;P/TSX Composite Index</i>	<span style="color: green;">+1.23%</span>	<span style="color: green;">+31.53%</span>
<b>US Equities</b> <i>S&amp;P 500, in C\$</i>	<span style="color: red;">-1.82%</span>	<span style="color: green;">+12.19%</span>
<b>Intl Equities (ex USA)</b> <i>iShares MSCI ACWI ex US</i>	<span style="color: green;">+2.57%</span>	<span style="color: green;">+32.59%</span>
<b>Gold</b>	<span style="color: green;">+2.48%</span>	<span style="color: green;">+64.71%</span>
<b>Oil</b> <i>West Texas Intermediate Crude</i>	<span style="color: red;">-1.93%</span>	<span style="color: red;">-19.94%</span>
<b>Canadian Dollar</b>	<span style="color: green;">+1.86%</span>	<span style="color: green;">+4.96%</span>

# Market Review in Minutes (Continued)

## Commodities

- Oil (WTIC) continued its slump falling 1.93% in December and closing below \$58 as oil inventories continue to rise, hopes for a cease-fire between Russia and Ukraine improve, and as China's demand fall.
- Gold ended the year just above \$4,300 and posted a monthly gain of +2.48%.
- The US Dollar fell significantly by 1.86% this month.

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# Notable Monthly Highlights

## USA – The US Federal Reserve (FED) delivered another 0.25% rate cut in December

- Though the decision was not unanimous and three members voted “no” against an interest rate cut, the US Federal Reserve (FED) delivered its third rate cut in 2025, lowering the interest rate by 0.25% and setting the target range between 3.5% to 3.75%.
- Market participants continued to digest the delayed economic data. Reports show persistent inflation and a cooling labour market.
  - Inflation slowed to 2.7% YoY in November, the lowest level since July and it came below the forecasted level of 3.1%. Moreover, the core inflation rate fell to 2.6% and came below market expectations of 3%. However, inflation was still above the target of 2% and remains persistent.
  - Retail sales remained unchanged in October from September, which was below the forecasted growth of 0.1%.
  - Despite no growth in retail sales, the GDP in US grew an annualized 4.3% in Q3 2025, which was higher than the expected forecast of 3.3% Q3 growth.
  - The unemployment rate for November ticked up slightly from 4.4% to 4.6%, coming in higher than the market expectations of 4.4%.
  - Business confidence fell from 48.7 in October to 48.2 in November. On the other hand, consumer confidence increased from 51.0 in November to 52.9 in December.

# Notable Monthly Highlights (Continued)

## Canada – Bank of Canada held its key policy interest rate in December at 2.25%

- The Bank of Canada kept its key policy interest rate constant at 2.25% during its final meeting in December 2025.
- It appears that inflation is still persistent and business confidence has weakened. However, there were some signs of improvement in the labour market as unemployment fell to its lowest level in 16 months and consumer confidence and retail sales picked up.
  - Inflation remained constant at 2.2% in November and came in slightly below market expectations of 2.3%. Core inflation also remained at the same levels at 2.9% in November, holding 2023-highs.
  - According to preliminary estimates, retail sales have spiked from a decline of 0.2% MoM in October to 1.2% MoM in November, which was the largest gain in five months.
  - Canada's unemployment rate came in lower at 6.5% in November from 6.9% in October, which was also significantly below the expected 7% unemployment rate.
  - Business confidence fell from 52.4 in October to 48.4 in November, which was way below the expectations of 53.6. On the other hand, consumer confidence has improved from 46 in October to 47.4 in November.

## World – Chinese central bank held interest rates

- Chinese equity markets ended negative in December as China's economy remains weak.
  - The People's Bank of China held its benchmark lending rates at 3.0%.
  - Industrial production slowed slightly from 4.9% to 4.8% YoY in November and came in below market expectations of 5%.
  - The Manufacturing PMI (Purchasing Manager's Index) fell to 49.9 in November from 50.6 in October, marking this the lowest level since July.
  - Retail sales slowed to 1.3% YoY in November from 2.9% YoY the prior month and came in below consensus expectations.

# Watermark Private Portfolios Outlook and Positioning

Outside of the US, the equity markets ended the year strong. However, as uncertainty with global trade remains and equity valuations are on the high end, we continue to seek out opportunities to take profits on market upswings and then reallocate those proceeds into sectors and companies that appear to have a better risk-to-reward potential.

	Underweight	Target	Overweight	December 2025 Highlights
Equities			●	<ul style="list-style-type: none"><li>With North American central banks expected to continue cutting interest rates in the first quarter of next year, we continue to favour North American equities.</li><li>The equity investments in the portfolios on the US side focus on companies that are growing their revenue and dividends.</li><li>While on the Canadian side, Canadian companies have relatively lower valuations compared to the US. The TD Canadian Dividend ETF focuses on holding companies that have strong dividends and that are expected to grow their dividends in the future.</li></ul>
Fixed Income	●			<ul style="list-style-type: none"><li>We remain underweight fixed income, holding Brandsen Global Income Opportunities Pool, which offers several fixed income strategies that focus on achieving positive returns in all investment environments, thereby providing more diversification than traditional fixed income.</li></ul>
Private Credit		●		<ul style="list-style-type: none"><li>No change, we maintain our long-term allocation to private credit as it adds asset class diversification and reduced volatility to your portfolios.</li></ul>
Private Real Estate		●		<ul style="list-style-type: none"><li>No changes. Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class.</li><li>Private Infrastructure has a massive tailwind with AI data centers and green energy projects needing to be built.</li></ul>

# Changes in Portfolio Positioning Over the Past Month

## In the Enhanced Conservative, Balanced, Growth, & Maximum Growth Plus:

- Sold Harvest Healthcare Leaders Income ETF in the Enhanced Conservative, Balanced, Growth, & Maximum Growth Plus portfolios.
- Bought iShares Core MSCI All Country World ex Canada Index ETF in the Enhanced Conservative, Balanced, Growth, & Maximum Growth Plus portfolios.

# Did You Know?

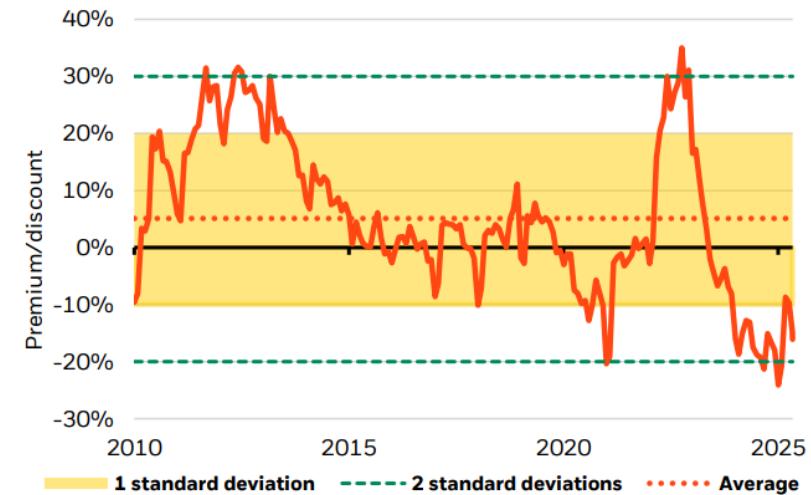
Global Infrastructure trades at much cheaper valuations than Global Equity markets. As seen in the chart, the lower the orange line (the listed infrastructure valuation vs MSCI World valuation) is, the cheaper global infrastructure is compared to global equities.

## Our opinion:

We believe there is a large need for Infrastructure Assets, as money moves into cleaner energy and AI. Infrastructure (whether its transport, energy, digital, and utility systems) will be a key component for providing power, data networks, and storages to support AI. In your portfolios, we are continuing to add on the margin to these assets, as we believe there is a long-term trend for money to flow into this asset class. Furthermore, it is a great diversifier, historically performs better on the downside than equities, and offers an attractive opportunity for your portfolios.

## A valuation discount

Listed infrastructure vs. MSCI World valuations, 2010-25



**Chart takeaway:** Market pricing does not reflect the opportunity in infrastructure from mega forces driving multi-decade investment needs, creating an attractive entry point.

The figures shown relate to past performance. Past performance is not a guarantee of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, with data from FTSE, MSCI, December 2025. Notes: The chart shows the relative difference between the EV/EBITDA ratio of the FTSE World Core Infrastructure 50/50 index and MSCI World indices. The orange dotted line shows the average, the shaded yellow area show the range of 1 standard deviation from the average and the green dashed lines show the range of 2 standard deviations from the average.

# Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	2.70%	⬇️	3.75%	⬇️	4.60%	⬆️	2.30%	⬆️	22.5	⬇️
Canada	2.20%	➡️	2.25%	➡️	6.50%	⬇️	1.40%	⬇️	17.2	⬆️
China	0.70%	⬆️	3.00%	➡️	5.10%	➡️	4.80%	⬇️	12.6	⬇️
Japan	2.90%	⬇️	0.75%	⬆️	2.60%	➡️	1.10%	⬇️	16.2	⬇️
United Kingdom	3.20%	⬇️	3.75%	⬇️	5.10%	⬆️	1.30%	⬇️	13.4	⬆️

Source: Trading Economics

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