

MONTHLY

FINANCIAL LETTER

JANUARY 2026

The start of 2026 was marked by the appointment of Kevin Warsh as chair of the U.S. Federal Reserve, a move that triggered a correction in precious metals, particularly gold. Mr. Warsh's view of the economy, which focuses on AI and deregulation as deflationary forces, prompted markets to reassess their expectations regarding interest rates.

ANNOUNCEMENT OF NEW FED CHAIRMAN SHAKES PRECIOUS METALS MARKET

"As we anticipated in our December review, each day brings new inflammatory statements: threats of tariffs, annexation of Canada as the 51st state, renaming the Gulf of Mexico, control of Greenland, to name just a few. President Trump's statements never go unnoticed and create volatility in financial markets. In such a context, it's crucial for investors to avoid panic and maintain a long-term investment perspective."

This is how we began our monthly review in January 2025. Clearly, one year later, the situation remains much the same. In fact, as we begin 2026, we could add to this list the military intervention led by the United States in Venezuela to capture President Nicolás Maduro.

Fortunately, investors adapted to President Trump's management style throughout 2025, and his comments are causing increasingly less volatility in the financial markets.

However, one event rocked the markets at the end of the month: the appointment of Kevin Warsh as chairman of the U.S. Federal Reserve. Warsh long had a reputation as a "hawk," a term used to describe those in favour of fighting inflation through high interest rates. Recently, however, his views appeared to be more in line with those of President Trump, who has

been calling for lower interest rates. Mr. Warsh's economic thinking is now based on the belief that artificial intelligence and deregulation will act as deflationary forces. In other words, increased productivity could allow the economy to grow faster without generating more inflation.

Financial markets are therefore anticipating a decline in short-term interest rates and an increase in rates at the longer end of the curve. In this context, precious metals (particularly gold and silver) suffered a sharp correction, as Mr. Warsh's profile suggests a less favorable environment for assets that do not generate returns if real long-term interest rates remain high.

Positive returns despite end-of-month volatility

The Warsh effect took effect quickly, with gold falling 9% in a single trading session. After ranking among the best-performing stock markets year-to-date until January 29, Canada quickly became one of the weaker performers. The S&P/TSX index ended January up 0.8%. The United States posted more robust returns, with the S&P 500 up 1.5% and the Dow Jones up 1.7%. European markets also performed well overall, with the FTSE 100 (United Kingdom) up 2.9%, the DAX 30 (Germany) up 0.2%, and the CAC 40 (France) down 0.3%.

We have rarely reported on Japanese stock market returns, but with more and more investors flocking to the market, it kicked off the year with a 5.9% gain. After decades of battling deflation, Japan is now experiencing inflation and record wage growth. Against this backdrop, the Bank of Japan has abandoned its negative interest rate policy, offering increasingly attractive rates. Furthermore, Japan looks like a safe market in Asia, while geopolitical tensions continue to pit China against the United States.

In the bond market, the FTSE Canada Universe Bond Index rose 0.6% in January, mainly due to a decline in the risk premiums demanded by investors.

Central banks maintain status quo amid divergent labour markets

The Bank of Canada and the U.S. Federal Reserve each announced that they would maintain their key interest rates. These announcements were widely anticipated by forecasters, but the statements issued by both central banks contained no surprise either.

Inflation and labour market data will continue to influence financial markets in 2026. Inflation in Canada accelerated slightly in December, reaching 2.4% year-over-year.

However, a slight increase in inflation is no cause for concern at this stage, as the Canadian economy remains vulnerable to tensions with the United States. Inflationary risks are more skewed to the downside for Canada. Across the border, inflation remained stable at 2.6%. Over the next year, we believe that the U.S. Federal Reserve's monetary policy and tariffs are two of the main factors that could further accelerate inflation.

On the labour market front, the rebound observed at the end of the year led to the creation of 303,000 jobs in Canada in 2025, a result similar to 2024, when 382,000 jobs were created. In the United States,

however, the situation is different, with only 584,000 jobs created, compared to 2,012,000 in 2024 and 2,594,000 in 2023. What stands out is low job creation but also few layoffs, suggesting that the U.S. labour market appears to be in neutral.



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KEY TAKEAWAYS

- The economic outlook of the next Fed chair, who is banking on the deflationary effects of AI and deregulation, suggests lower short-term rates but higher long-term rates.
- Stock markets posted positive returns in January: S&P 500 (+1.5%), Dow Jones (+1.7%), S&P/TSX (+0.8%), FTSE 100 (+2.9%) and Nikkei (+5.9%).
- As expected, the Bank of Canada and the Fed kept their key rates unchanged, while inflation rose slightly in Canada (2.4%) and remained stable in the United States (2.6%).
- The Canadian labour market created 303,000 jobs in 2025, a result similar to 2024, while the United States added only 584,000 jobs, a marked slowdown compared to previous years.

ECONOMIC DATA AND CURRENCIES

| STATISTICS AS OF JANUARY 31, 2026 | | | | | | | | |
|-----------------------------------|--------|---|------------------------|--------|---|---|--------|---|
| CANADA | | | UNITED STATES | | | CURRENCIES | | |
| Unemployment (Dec.) | 6.8 % | ↓ | Unemployment (Dec.) | 4.4 % | ↓ | USD / CAD | 0.73 | ↓ |
| IPC (Dec.) | 2.4 % | ↑ | IPC (Dec.) | 2.7 % | - | USD / EUR | 1.19 | ↓ |
| 3-month T-Bills | 2.20 % | - | 3-month T-Bills | 3.65 % | ↑ | JPY / USD | 154.78 | ↑ |
| 5-year bonds | 2.92 % | ↓ | 5-year bonds | 3.79 % | ↑ | The arrow indicates the trend since the publication of the last monthly data or end of the month. | | |
| 10-year bonds | 3.42 % | ↓ | 10-year bonds | 4.24 % | ↑ | | | |
| S&P/TSX | 31,924 | ↑ | Dow Jones - Industrial | 48,892 | ↑ | | | |
| | | | S&P 500 | 6,939 | ↑ | | | |

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF JANUARY 31, 2026

| | YTD | 3 months | 1 year | 3 years | 5 years |
|--|--------|----------|--------|---------|---------|
| FTSE Canada 91 Day TBill Index | 0.18% | 0.55% | 2.68% | 4.09% | 2.91% |
| BONDS | | | | | |
| FTSE Canada Universe Bond Index | 0.58% | -0.43% | 2.02% | 3.65% | -0.02% |
| FTSE Canada Short Term Overall Bond Index | 0.45% | 0.37% | 3.43% | 4.55% | 1.92% |
| Eterna Adapted Private Wealth Index ¹ | 0.51% | 0.09% | 3.33% | 4.35% | 1.32% |
| FTSE Canada Mid Term Overall Bond Index | 0.60% | -0.32% | 3.16% | 4.02% | 0.39% |
| FTSE Canada Long Term Overall Bond Index | 0.80% | -1.83% | -1.30% | 1.74% | -3.07% |
| NORTH AMERICAN STOCK MARKETS | | | | | |
| Canada - S&P/TSX Composite | 0.84% | 6.12% | 28.32% | 18.89% | 16.36% |
| United States - Standard & Poor's 500 | 0.43% | -1.41% | 9.74% | 21.90% | 16.36% |
| United States - Dow Jones Industrial Average | 0.78% | 0.01% | 5.31% | 15.69% | 13.76% |
| INTERNATIONAL STOCK MARKETS | | | | | |
| United Kingdom - FTSE-100 | 3.90% | 6.93% | 26.68% | 18.56% | 15.26% |
| France - CAC-40 | -0.14% | -0.12% | 9.85% | 8.53% | 9.34% |
| Germany - DAX | 0.42% | 2.23% | 21.34% | 21.80% | 13.66% |
| Japan – Nikkei-225 | 6.42% | -1.66% | 27.35% | 18.81% | 6.75% |
| Hong Kong – Hang Seng | 5.42% | 1.92% | 27.40% | 8.66% | 0.39% |
| Australia - S&P/ASX 200 | 5.28% | 3.17% | 9.26% | 6.16% | 5.37% |
| CURRENCIES | | | | | |
| USD versus CAD | -0.81% | -2.83% | -6.38% | 0.76% | 1.28% |

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

¹The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.



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