



**UPPER CANADA CAPITAL**  
PRIVATE WEALTH MANAGEMENT



**Market News**

Q1 2026



**1. Economic Club of Canada Chief Economist Forecasts 2026**

From the Desk of Kurt Rosentreter  
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The six Canadian bank Chief Economists once again got together and we are back with our annual January tradition of presenting their viewpoints for year ahead.

The economists were:

- Frances Donald (RBC)
- Douglas Porter (BMO)
- Avery Shenfield (CIBC)
- Jean-François Perrault (Scotiabank)
- Beata Caranci (TD)
- Stefane Marion (National Bank)

Here are the main takeaways:

- Canada’s economy is lagging, even though the Toronto stock market reached record highs in 2025. One economist joked that Canada might already be in a recession if not for the Blue Jays’ success.
- U.S. tariffs on steel, aluminum, and autos are still hurting manufacturing, especially in Ontario and Quebec.
- Alberta is growing about twice as fast as the national average.
- There was general agreement that the federal government is moving in the right direction but not doing enough yet to boost business investment or improve Canada’s long-term productivity.
- Several economists said Canada cannot achieve strong growth without rethinking personal and corporate income taxes.
- No further interest rate cuts are expected in 2026 from the Bank of Canada. Some economists even warned rates could rise later this year if inflation picks up again.
- Inflation remains stubborn, sitting just above 2%, but low oil prices should help keep it under control.
- Housing prices are not expected to rebound soon, although results will vary by region.
- Canada, the U.S., and Mexico will renegotiate the USMCA trade agreement this summer. While no one could predict the outcome, all agreed that a collapse of the agreement would be very disruptive.



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## 2. Our View for 2026

The Canadian stock market had an exceptional year in 2025, finishing up 31.68% (TSX Composite, source: YCharts). This was driven by a perfect mix of:

- Multiple interest rate cuts
- Limited impact from tariffs
- New federal policies
- Strong demand for metals
- Growth in artificial intelligence boosting technology stocks

We do not believe this level of momentum can continue into 2026.

In the U.S., markets also rebounded strongly in 2025, ending the year up 17.88% (S&P 500, source: YCharts). Trade fears eased, corporate profits held up better than expected, and the U.S. Federal Reserve began cutting rates later in the year.

Looking ahead, we are concerned about the renewal of the North American free trade agreement. A full cancellation of the agreement would remove Canada's preferred access to the U.S. market and could lead to:

- A weaker economy
- Higher unemployment
- Pressure on real estate values
- Lower stock prices

While Canada's new federal policies are encouraging, meaningful change takes time. New pipelines, infrastructure, and global trade relationships can take years or decades to develop. Unfortunately, tariffs can be imposed overnight, creating short-term pain for Canadian households and businesses.

We are much more positive on the U.S. stock market in 2026. The U.S. is likely to see additional interest rate cuts, which typically:

- Increase corporate profits
- Lower borrowing costs
- Support consumer spending

Regardless of political views, the U.S. remains one of the most business-friendly environments in the world, with lower taxes and lighter regulation. If tariffs remain manageable, U.S. markets are well positioned for another strong year.

We remain underweight Europe and Asia, as they face many of the same economic challenges as Canada.



After three strong years in a row (2023–2025), we believe 2026 is a year to be more cautious:

- Retirees should keep at least one year of spending in cash
- Working Canadians should focus on paying down debt and keeping cash available for future opportunities
- Anyone planning a major purchase in 2026 should set aside the cash now, even if the expense comes later

As always, we continue to watch markets closely and manage your portfolio with your goals in mind. Please don't hesitate to reach out with questions.



### 3. Key Investment Themes and sectors for 2026

From the Desk of Gerdi Lito, CFA

- Portfolio Manager, Manulife Wealth Inc.
- Life Insurance Advisor, Upper Canada Capital Inc.

#### Artificial Intelligence and Technology

Artificial intelligence remains one of the most talked-about areas in the market. Concerns about whether we are in an AI “bubble” have increased, especially toward the end of 2025.

So far, the biggest winners have been large technology companies and firms that build AI infrastructure, such as chips and data centers. This phase is similar to building highways before cars become widely used.

This heavy spending will eventually slow. Over time, we expect clear winners and losers to emerge, and spending levels to better reflect actual profits.

The next phase is AI adoption, where businesses use AI software and tools to improve productivity and reduce costs. This will take time, and results will appear gradually in company profits.

We remain positive on large technology companies, which we believe offer the most stable way to benefit from both the building and adoption phases of AI. Lower interest rates would further support growth stocks like technology.

#### Defense Spending

Global tensions continue to rise, with recent events in places like Venezuela and Iran. As a result, defense spending remains a priority for many countries.

We see this as a long-term trend, driven not only by current conflicts but also by modernizing military equipment, investing in cybersecurity and developing more advanced defense systems.

#### Electrification

Demand for electricity is rising quickly, largely due to the growth of data centers that support AI and technology. This benefits utility companies, power grid operators and companies that build and install electrical equipment

#### A Shift Toward Defensive Sectors

After several strong market years, investors often become more cautious. Recently, we’ve seen money move into more stable, “defensive” sectors such as:

- Healthcare
- Consumer staples
- Utilities

Many large research firms expect this trend to continue in early 2026 as investors rebalance and reduce risk.

We favor maintaining meaningful exposure to these sectors, as they tend to be less volatile than growth areas like technology.

#### Banks

Canadian banks are likely to have a more normal year after strong gains in 2024 and 2025. This should be the final year when higher-rate mortgages from 2021 renew.

With interest rates likely stabilizing, bank profits should rely more on growth and less on widening profit margins.

In the U.S., banks continue to benefit from deregulation and stronger economic growth. Overall, we see a more favorable environment for U.S. banks compared to Canadian banks in 2026.

As always, thank you for your trust. We look forward to navigating the year ahead together.



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