Monthly Equity Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
CAPITAL MARKETS

December 2025

Highlights

By Stéfane Marion, Matthieu Arseneau and Alexandra Ducharme

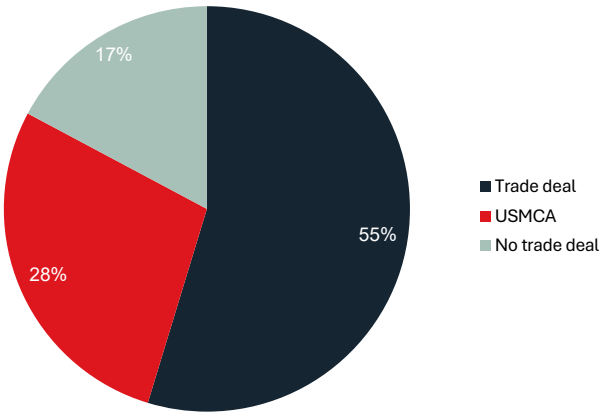
- Despite positive earnings revisions, global equities have bent in November, with the MSCI ACWI showing stagnation after 6 consecutive gains. In the U.S., tech investment as a share of GDP has surged in recent years, deviating from its long-term trend by the widest margin since 2000. The current enthusiasm surrounding artificial intelligence is understandable. The rapid diffusion of AI has the potential to reshape the economy and the labour market over the next two decades, much as the internet ultimately did. In the meantime, unit labour costs remain elevated. To justify the current negative equity risk premium, tangible and measurable productivity improvements will need to materialize in 2026.
- The S&P/TSX continued its ascent in November and now boasts a total return of 30% year-to-date. With just one month remaining, the Canadian benchmark is within striking distance of the record annual total return set in 2009. The November 4 federal budget finally provides a coherent framework to address Canada's chronic under-investment problem—streamlining permitting, reducing tax complexity, and strengthening capital formation—while signalling a more pragmatic stance toward conventional energy within the national industrial strategy. This policy shift crystallized on November 27 with the signing of a landmark Memorandum of Understanding (MOU) between Ottawa and Alberta. The fact that oil & gas sector is no longer treated as a stranded asset could meaningfully reignite investor interest in the S&P/TSX energy complex and, over time, foster a renewed wave of foreign direct investment into Canada.
- We are maintaining our asset allocation unchanged this month, with an underweight stance in equities—particularly in the United States. States. Investor expectations are very high, as evidenced by valuations reaching their highest levels in several years, based on expected strong earnings growth. In this context, exceeding those expectations will be difficult, and because we believe anticipated rate cuts may not materialize amid persistent inflation, the risk of equity market volatility is elevated. Meanwhile, the S&P/TSX has continued to deliver solid performance since our last publication. While valuations have moved above their long-term averages, we still see additional upside. Investors are increasingly acknowledging that the November 4 federal budget follows through on Ottawa's pro-business commitments. Further progress on Canada-U.S. trade negotiations—an outcome we consider likely in the months ahead—should provide another catalyst for domestic equities.

MSCI ACWI: Global earnings surprise

Since the so-called *Liberation Day* in April—when Washington unveiled an average effective tariff rate of 30%, a level without precedent in U.S. history—the perceived risks to the global economy have steadily diminished. What initially looked like the opening salvo of a full-blown trade war prompted fears of severe retaliation and supply-chain disruption. Instead, the U.S. administration has since struck multiple agreements, bringing the effective tariff rate down to 16.5% and securing deals with countries representing 55% of its imports (chart). The recent de-escalation with China, in particular, has been greeted with considerable relief by markets and policymakers alike.

U.S.: Washington came to an agreement with important trade partners

2024 imports by trade relationship situation

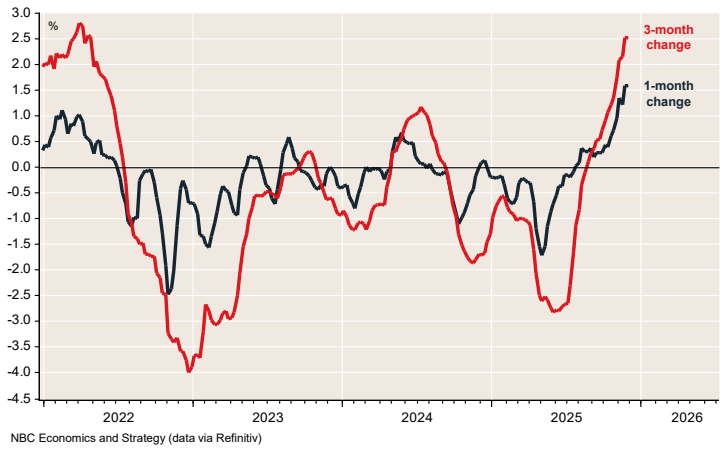


NBC Economics and Strategy (data via Bloomberg)

As retaliation against the United States has been contained, the damage to the global economy and corporate profits has also been limited. In this context, analysts have continued to revise their earnings per share (EPS) estimates upwards after significant downward revision in H1 2025. Over the past three months, these estimates have increased by 2.6%, marking the most significant rise since 2022 (chart).

World: Upward revisions to earnings

3-month change in 12-month forward EPS for the MSCI ACWI



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In the last month alone, EPS expectations have been revised up by a whopping 1.6%, with all major regions showing improvement. As a result, the bottom-up consensus of equity analysts now guides for a solid 13.3% increase in EPS over the next 12 months (table).

MSCI : Widespread earnings revisions
Change in 12-month forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	2.5	-0.2	1.6	-0.2	54%	45%
MSCI World	2.1	-0.2	1.3	-0.2	57%	47%
MSCI USA	2.8	-0.1	1.6	-0.1	57%	49%
MSCI Canada	4.4	-0.2	3.0	-0.2	70%	47%
MSCI Europe	-0.1	-0.4	0.3	-0.4	51%	46%
MSCI Pacific ex Jp	1.5	-0.3	0.5	-0.3	53%	42%
MSCI Japan	2.6	-0.1	1.6	-0.1	67%	49%
MSCI EM	4.6	-0.3	2.9	-0.3	49%	42%
MSCI EM EMEA	2.0	0.0	0.3	0.0	58%	47%
MSCI EM Latin America	1.9	-0.3	1.2	-0.3	47%	45%
MSCI EM Asia	5.5	-0.4	3.6	-0.4	48%	41%

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NBC Economics and Strategy (data via Refinitiv)

Despite the revisions, global equities have bent in November, with the MSCI ACWI showing stagnation after 6 consecutive gains (chart).

MSCI composite index: Stagnation in November
Price performance (%)

	Month to date	Quarter to date	Year to date
MSCI ACWI	-0.1	2.7	17.2
MSCI World	0.1	2.7	16.3
MSCI USA	-0.1	2.2	16.4
MSCI Canada	3.6	4.5	26.2
MSCI Europe	0.8	3.2	14.6
MSCI Pacific ex Jp	-2.2	-2.0	8.9
MSCI Japan	0.6	8.5	20.7
MSCI EM	-1.7	2.8	25.4
MSCI EM EMEA	-2.3	-0.8	16.8
MSCI EM Latin America	4.8	6.5	30.6
MSCI EM Asia	-2.2	3.0	26.3

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NBF Economics and Strategy (data via Refinitiv)

Consequently, the forward PE ratio fell slightly following a run that led it to hit a 5-year high (chart)

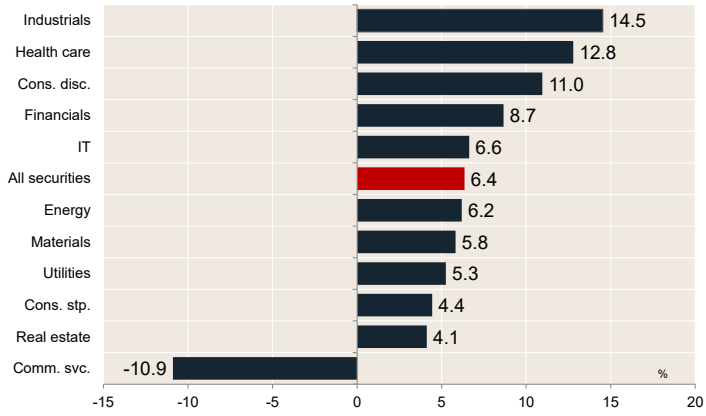
World: Highest valuations in 5 years in October
Price to 12-month earnings ratio

NBC Economics and Strategy (data via Refinitiv)

S&P500: AI productivity test in 2026

In the U.S., the lackluster performance of the S&P 500 in November occurred despite an impressive Q3 earnings season, which delivered a solid 6.7% upside surprise versus expectations—broadly distributed across 10 of the 11 major industry groups (chart).

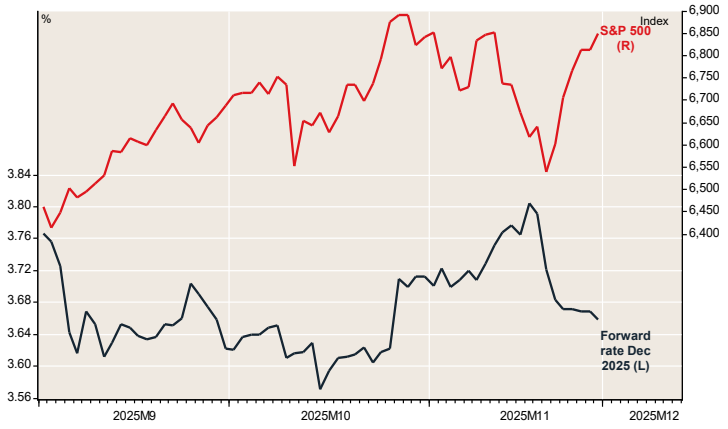
S&P 500: A good earnings season
Q3 average earnings surprise (as of December 1st)



NBC Economics and Strategy (data via Bloomberg)

The recent performance of U.S. equities has been heavily influenced by shifting expectations for monetary policy. The recent market's movements coincide with reassessments of the likelihood of a December rate cut. Although the Federal Reserve delivered a second consecutive rate reduction in October, Chairman Powell struck a hawkish tone, stressing that another cut in December was "far" from guaranteed. The challenge is the widening divide within the Fed. Some policymakers argue for a pause given persistent inflation, while others believe an immediate cut is warranted due to signs of labour market cooling.

U.S.: Equities heavily influenced by shifting expectations on rates
S&P 500 and forward rate in Dec 2025



NBC Economics and Strategy (data via Bloomberg)

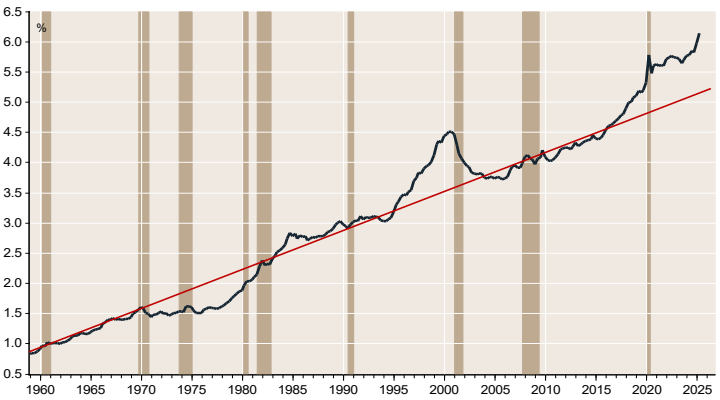
Our rate strategists still believe that a rate cut will be announced in December but anticipate a higher terminal rate (3.50%) than the markets (3%). We believe inflation will remain more resilient than expected, sustained by tariffs, fiscal stimulus, accommodative financial conditions, and rising wage pressures amplified by a more restrictive immigration policy. Should interest rates stay higher than markets anticipate, the repercussions would be more severe for technology companies whose valuations hinge on distant cash flows. The recent market action already reflects this vulnerability: The NASDAQ underperformed the S&P 500 when investors reduced their expectations of a rate cut in December (before subsequently changing their minds), dropping 7.8% from its peak during the latest sell-off (chart).

U.S.: Tech stocks underperformed during the latest sell-off
Maximum drawdown in the S&P500 and the NASDAQ

NBC Economics and Strategy (data via Refinitiv)

When such setbacks occur, it is normal for investors to wonder about the risks of an even greater decline after a spectacular boom. Tech investment as a share of GDP has surged in recent years, deviating from its long-term trend by the widest margin since 2000 (chart). In the current cycle, the risk is that companies have overallocated capital to artificial intelligence, and that these investments may ultimately fail to deliver the profits currently assumed in valuations.

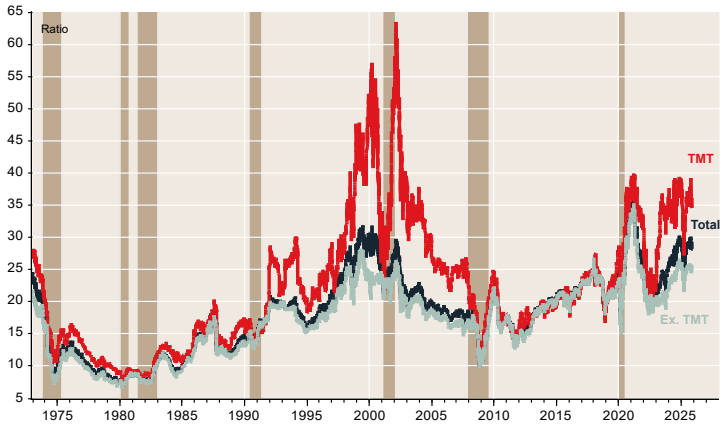
U.S.: Tech investment diverged from its trend
Categories most exposed to artificial intelligence* as a percentage of GDP



*Include private investment in software, computers and peripheral equipment and research and development as well as construction spending in data centers
NBC Economics and Strategy (data via BEA and Bloomberg)

It is true that valuations in this sector are not as extreme as they were during the tech bubble of the late 1990s. However, they remain very high compared to historical standards, as do those in other sectors, while many investors believe that ongoing technological innovations will improve the profitability of many companies.

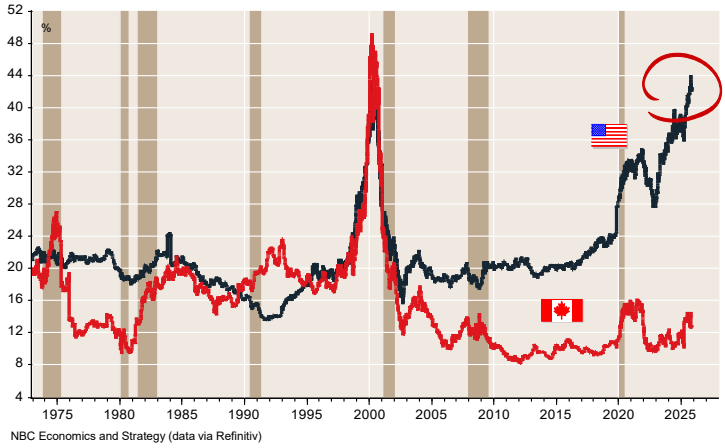
U.S.: Perspective on PEs of telecom, media and IT
PE ratio of total market, telecom, media and it (TMT), and ex. TMT, Datastream indices



NBC Economics and Strategy (data via Refinitiv)

While valuations are not what they were at the time of the internet bubble, the size in market capitalization of the technology companies in the index is comparable. This means that the market is vulnerable to a less favorable outcome than anticipated.

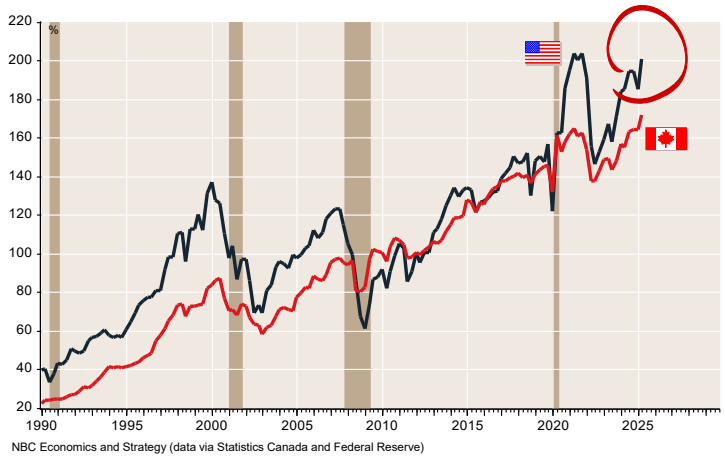
Perspective on market value of telecom, media and IT
Share of the market valuation of telecom, media and it as a share of total, %, Datastream indices



NBC Economics and Strategy (data via Refinitiv)

And the ramifications for the economy could be greater than they were at the time. The recession that followed the bursting of the tech bubble was caused by a drastic drop in investment, while consumption held up relatively well despite the negative wealth effect. This time around, things could be different as consumers hold a record share of stocks in their total financial assets. Market capitalization as a percentage of GDP is also 40% higher than it was at in the early 2000s.

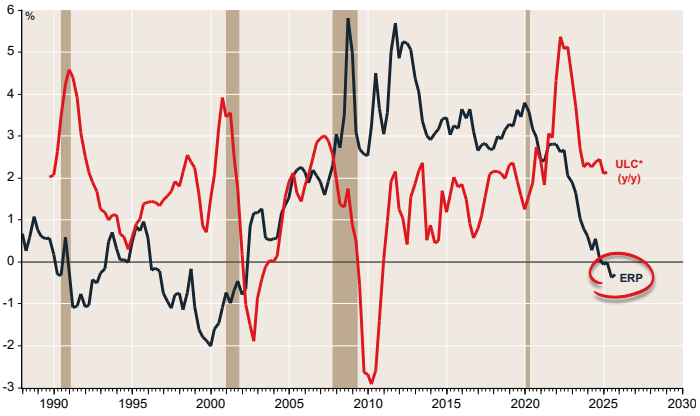
US: The economy highly exposed to stock market
Stock and investment fund shares as a percentage (%) of nominal GDP



NBC Economics and Strategy (data via Statistics Canada and Federal Reserve)

The current enthusiasm surrounding artificial intelligence is understandable. The rapid diffusion of AI has the potential to reshape the economy and the labour market over the next two decades, much as the Internet ultimately did. However, these lofty expectations are already embedded in equity valuations. The equity risk premium—defined as the inverse of the price-earnings ratio minus the yield on 30-year government bonds—has turned negative for the first time in a generation. The concern is that AI-related productivity gains remain largely hypothetical at this stage, with both their magnitude and timing uncertain. In the meantime, unit labour costs remain elevated. To justify a negative equity risk premium, tangible and measurable productivity improvements will need to materialize in 2026 (chart)

S&P 500: Equity risk premium turns negative
Earnings yield less 30-year government bond yield vs. unit labour costs for nonfarm business sector

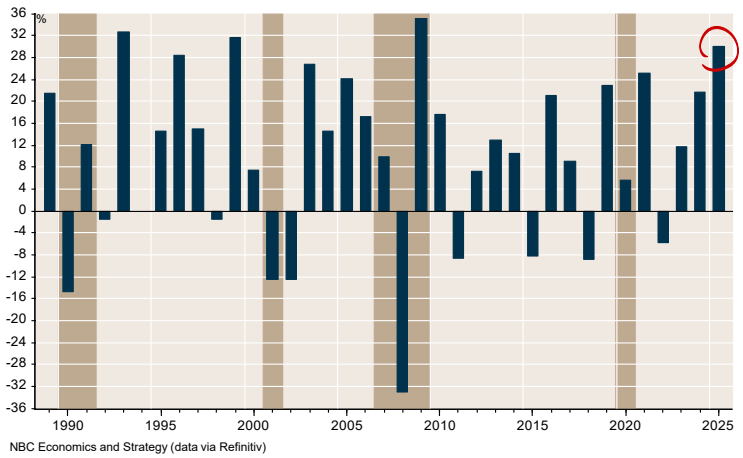


* 4-quarter moving average
NBC Economics and Strategy (data via Refinitiv)

S&P/TSX: Energy no longer stranded

The S&P/TSX continued its ascent in November and now boasts a total return of 30% year-to-date. With just one month remaining, the Canadian benchmark is within striking distance of the record annual total return of 35.1% set in 2009 (chart).

S&P/TSX: Chasing a historic finish
Calendar year total returns since 1989 (2025 YTD through November)



NBC Economics and Strategy (data via Refinitiv)

Only two of the major industries are outperforming the overall index in 2025: Banks and Materials. The latter remained in overdrive in November, delivering a 14.6% gain and pushing its cumulative total return to 95.3% year-to-date (table).

S&P/TSX: Materials still in overdrive
Total return performance (%)

	Month to date	Quarter to date	Year to date
S&P TSX	3.9	4.9	30.0
MATERIALS	14.6	8.9	95.3
CONS. STAP.	8.8	7.4	13.6
CONS. DISC.	7.5	9.2	28.9
ENERGY	4.4	3.5	21.2
FINANCIALS	4.1	5.8	29.6
BANKS	4.0	6.3	37.0
UTILITIES	0.2	4.4	22.7
INDUSTRIALS	-1.3	-1.9	2.6
TELECOM	-1.3	-1.1	11.7
REAL ESTATE	-1.8	-5.7	4.7
HEALTH CARE	-4.7	-0.6	-1.6
IT	-7.1	5.8	26.6

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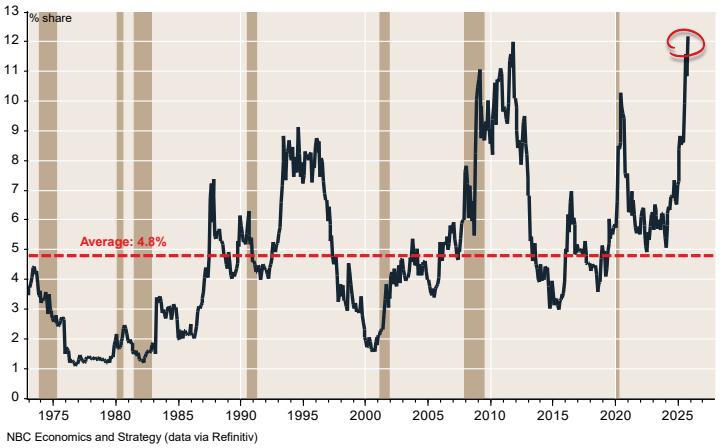
NBF Economics and Strategy (data via Refinitiv)

Within the sector, gold stocks were the standout performer, surging more than 17% in November alone and extending their year-to-date advance to an astonishing 128%. Gold now represents just over 12.2% of the market capitalization of Canadian equities—its highest share on record and far above the historical average of 4.8% since the mid-1970s (chart).

Canada: Gold stocks hit record weight
Market capitalization of gold stocks relative to total Canadian equities (last value of each month)



NBC Economics and Strategy (data via Refinitiv)

As we argued in the previous edition of our Equity Monitor, lingering global inflation uncertainty—driven by USD depreciation, persistent geopolitical risks, resilient price pressures, and ballooning government debt across major economies—continues to bolster the appeal of alternative assets such as bullion heading into 2026. Interestingly, price expectations remain muted—both among analysts and as implied by the forward curve—leaving a low bar for positive surprises and investors potentially underexposed should bullion continue to outperform (table).

Commodities: Expectations remain muted
Price expectations: Analysts and forward curve

	Copper	Gold	Crude Oil	Natural Gas
Current Price	11189	4239	59	4.85
Analyst assumptions				
Q+2	10500	4000	58	3.75
Q+4	10600	4150	59	4.28
Growth (Q_t/Q_0)				
Q+2	-6.2%	-5.6%	-0.7%	-22.7%
Q+4	-5.3%	-2.1%	0.6%	-11.9%

Current Forward Prices

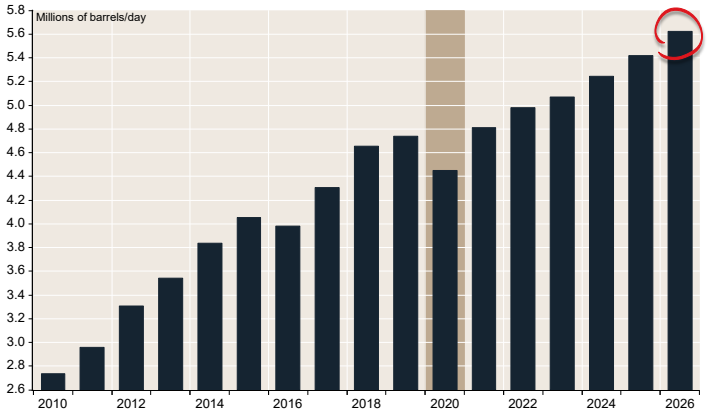
	Copper	Gold	Crude Oil	Natural Gas
Current Price	11189	4239	59	4.85
Forward prices				
Q+2	10902	4248	58	3.82
Q+4	10811	4331	58	4.67
Growth (Q_t/Q_0)				
Q+2	-2.6%	0.2%	-0.6%	-21.3%
Q+4	-3.4%	2.2%	-0.4%	-3.6%

11/29/2025

NBF Economics and Strategy (data via Refinitiv)

But there is more than gold that could support the S&P/TSX next year. The November 4 federal budget finally provides a coherent framework to address Canada's chronic under-investment problem—streamlining permitting, reducing tax complexity, and strengthening capital formation—while signalling a more pragmatic stance toward conventional energy within the national industrial strategy. This policy shift crystallized on November 27 with the signing of a landmark Memorandum of Understanding (MOU) between Ottawa and Alberta, confirming that the province can continue to develop its fossil fuel industry sustainably without an emissions cap. We view this agreement as foundational to making Canada investable again (MCIA). Re-industrialization and the ambition, stated in the budget, to become an energy superpower are simply unattainable without harnessing Alberta's vast resource base. The fact that the sector is no longer treated as a stranded asset could meaningfully reignite investor interest in the S&P/TSX energy complex—where production is already expected to surpass 5.6 million barrels per day in 2026—and catalyze a renewed wave of foreign direct investment into Canada

Canada: Oil production to exceed 5.6 Mbpd in 2026
Crude oil production (annual average)



NBC Economics and Strategy (data via NBC Energy Group)

Even so, renewed progress in U.S.–Canada trade negotiations—currently on pause—will be critical to sustaining investor confidence and preserving interest in Canadian assets.

Asset allocation

We are maintaining our asset allocation unchanged this month, with an underweight stance in equities—particularly in the United States. States. Investor expectations are very high, as evidenced by valuations reaching their highest levels in several years, based on expected strong earnings growth. In this context, exceeding those expectations will be difficult, and because we believe anticipated rate cuts may not materialize amid persistent inflation, the risk of equity market volatility is elevated. Meanwhile, the S&P/TSX has continued to deliver solid performance since our last publication. While valuations have moved above their long-term averages, we still see additional upside. Investors are increasingly acknowledging that the November 4 federal budget follows through on Ottawa's pro-business commitments. Further progress on Canada-U.S. trade negotiations—an outcome we consider likely in the months ahead—should provide another catalyst for domestic equities.

NBC Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	21	
U.S. Equities	20	15	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
Fixed Income	45	50	
Cash	5	8	
Total	100	100	

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Sector rotation

We are leaving our sector allocations unchanged this month, maintaining an overweight in Gold to hedge ongoing geopolitical and inflation uncertainty. We also keep Energy and Industrials above benchmark, supported by Ottawa's push for resource development and reindustrialization, funded by underweights in Staples, Real Estate, and Consumer Discretionary.

NBC Market Forecasts

NBC Market Forecast *Canada*			
		Actual	*Q2 2026*
Index Level		Dec-01-25	*Target*
S&P/TSX		31,102	31,150
Assumptions			Q2 2026
Level:	Earnings *	1646	1715
	Dividend	750	782
PE Trailing (implied)		18.9	18.2

** Before extraordinary items, source Thomson*

NBC Economics and Strategy (data via Refinitiv)

NBC Market Forecast *United States*			
		Actual	*Q2 2026*
Index Level		Dec-01-25	*Target*
S&P 500		6,813	6,700
Assumptions			Q2 2026
Level:	Earnings *	265	275
	Dividend	78	81
PE Trailing (implied)		25.7	24.4

** S&P operating earnings, bottom up.*

NBC Fundamental Sector Rotation

Fundamental Sector Rotation - December 2025

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**15.6%**
Energy Equipment & Services	Overweight	0.2%
Oil, Gas & Consumable Fuels	Overweight	15.4%
Materials	**Market Weight**	**17.7%**
Chemicals	Underweight	1.0%
Containers & Packaging	Market Weight	0.3%
Metals & Mining *	Market Weight	16.2%
Gold	Overweight	13.4%
Paper & Forest Products	Market Weight	0.2%
Industrials	**Overweight**	**10.7%**
Capital Goods	Overweight	3.0%
Commercial & Professional Services	Market Weight	3.4%
Transportation	Overweight	4.2%
Consumer Discretionary	**Underweight**	**3.3%**
Automobiles & Components	Market Weight	0.5%
Consumer Durables & Apparel	Underweight	0.3%
Consumer Services	Underweight	0.7%
Retailing	Underweight	1.7%
Consumer Staples	**Underweight**	**3.5%**
Food & Staples Retailing	Underweight	3.1%
Food, Beverage & Tobacco	Underweight	0.4%
Health Care	**Market Weight**	**0.3%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.1%
Financials	**Market Weight**	**32.2%**
Banks	Market Weight	20.8%
Diversified Financials	Market Weight	4.4%
Insurance	Market Weight	6.9%
Information Technology	**Market Weight**	**9.6%**
Telecommunication Services	**Market Weight**	**2.0%**
Utilities	**Market Weight**	**3.6%**
Real Estate	**Underweight**	**1.5%**

** Metals & Mining excluding the Gold Sub-Industry for the recommendation.*

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