

Global Asset Allocation Viewpoints

The View from Canada

February 2026

Outlook

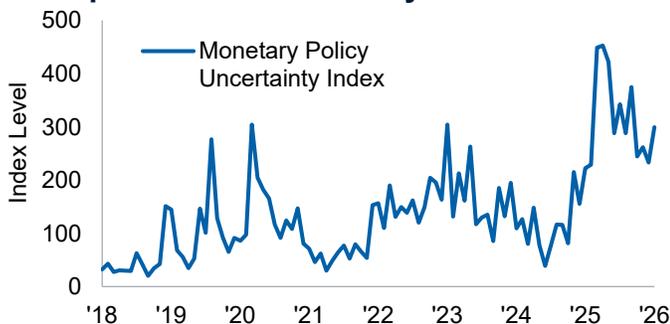
- We maintain a balanced stance across global risk assets. Though valuations are slightly extended, earnings momentum and economic growth remain favorable, underpinned by still-accommodative fiscal policies across most regions.
- U.S. economic growth remains resilient fueled by AI-driven capital spending and supportive fiscal and monetary policies, although labor market data continues to reflect a softening.
- Markets outside the U.S. continue to benefit from improving fundamentals, supported by fiscal spending, notably in Europe and Japan.
- Canadian macro backdrop remains on positive trajectory, with fiscal stimulus coming alongside strengthening natural resources demand. However, trade and political uncertainty pose challenges.
- Key risks to global markets include any threat to AI-driven growth, sticky inflation, a sharper-than-expected deterioration in labor markets, shifting policy expectations, and persistent geopolitical tensions.

Themes Driving Positioning

Wishy-Warshy

The nomination of Kevin Warsh as Federal Reserve chair has introduced fresh uncertainty into an already delicate monetary policy backdrop. Markets initially recoiled on the news, seeing Warsh as more hawkish given his past criticism of quantitative easing and zero interest rate policy adopted after the GFC. Given the ongoing pressure from the administration to lower rates, Warsh seemed like an odd choice, given he was perceived to be the most hawkish among the potential candidates. And while he may have had hawkish views in the past, his recent comments on deflationary impacts of AI-related productivity and tariffs being a one-time hit to inflation suggest a more dovish view. However, those softening inflation views could be challenged as fiscal policy tailwinds begin to hit what appears to be an already resilient economy. With this still clouded backdrop and even more division expected among the FOMC, the outlook for short-term rates looks as wishy-warshy as ever.

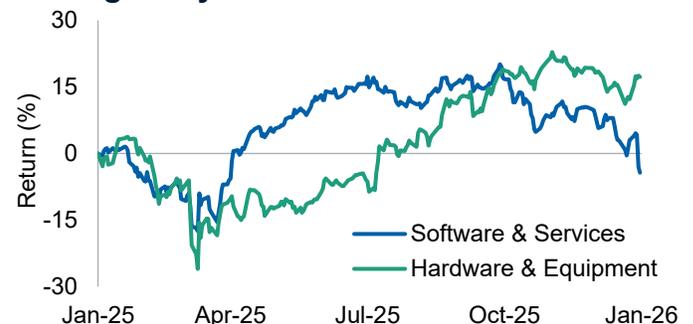
Fed Up with the Uncertainty¹



Resistance

Despite still broadly positive AI-related news, market sentiment has turned more cautious. Large scale capex commitments to fund AI growth, that had been cheered last year, are now being met with greater skepticism as investors question the return on investment. While the AI theme has broadened to support other parts of the market, other sectors that might be disrupted by AI have found themselves in the crosshairs, notably software companies. The sector has been hit by fears that AI technology could displace software services and data analytics firms, with companies potentially developing their own in-house solutions using AI. The combined concerns over AI spending and potential disruption have pressured the technology sector, leaving it trailing most sectors of the market. As valuations continue to reset, we'd expect investors to reengage given the still powerful growth potential for AI. But, perhaps we've met a healthy point of resistance where investors are becoming more selective in distinguishing potential winners and losers.

Getting Picky²



Past performance is not a guarantee or a reliable indicator of future results

Data as of 31 January 2026 unless otherwise noted.

¹ Source: Bloomberg L.P. The data is represented by the US Categorical Economic Policy Uncertainty Monetary Policy Index.

² Sources: Bloomberg L.P. and S&P. Please see additional disclosures for more information. Both data sets represent sub-sectors of the S&P 500 Index.

Asset Class Positioning

Equities



- We remain neutral on equities reflecting a balanced view between decent fundamentals, including fiscal support and potential for deregulation against expensive valuations.
- We continued to increase our overweight to small-caps given reasonable valuations, a constructive earnings outlook, falling interest rates, and tailwinds from deregulation as well as M&A/IPOs.

Bonds ▲



- We maintain an underweight to bonds as inflation and funding requirements associated with U.S. fiscal stimulus and continued deficits could keep upward pressure on rates, particularly at the long end.
- We shifted to an overweight position in emerging market bonds as fundamentals continue to improve, supported by easing financial conditions associated with a weaker US dollar, funded from cash and high yield.

Cash ▼



- We continue to maintain an overweight position in cash, due to reasonable yields and limited duration risk.
- Sector offers liquidity to take advantage of opportunities amid market dislocations.

Equities: Regional Views

	Underweight	Neutral		Overweight	
Change	Red	Red	Grey	Green	▼ or ▲ Month-Over-Month Change
U.S.		U			Valuations remain stretched as hyperscaler capex pressures sentiment, yet AI-infrastructure demand supports earnings breadth. Labor market weakness and persistent inflation remain concerns.
Europe				O	Benefiting from fiscal support, easing inflation, and improving global growth backdrop. Cyclical and financials remain notable areas of strength as sentiment improves.
U.K.				O	Valuations are attractive and evidence of cyclical improvement are emerging. Fiscal constraints and labor market softness remain headwinds, but the BoE is moving toward a cutting bias.
Japan			N		Equity strength has been driven by global growth acceleration combined with a high likelihood fiscal stimulus. However, monetary policy is expected to tighten further.
Canada			N		Stimulus and improving fundamentals support equities, but elevated valuations and USMCA uncertainty remain reasons for concern.
Australia ▲			N		Following underperformance over the last year, valuations are relatively attractive and natural resources demand is trending higher. However, monetary policy could remain a headwind.
EM				O	Accelerating global growth, stable currencies, improving policy, and AI-infrastructure demand provide multiple tailwinds.
China			N		Policy support and improving activity aid sentiment, though weak labor markets, property stress, and subdued domestic demand persist.

Over/underweights are based on Asset Allocation Committee (AAC) positioning except for U.K. and China (which are not separated in the AAC model). Those weights are based on the positioning of the U.K. Regional Investment Committee (RIC) (for UK) and the Asia RIC (for China). **These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.**

Equities: Style & Capitalization Views

	Underweight		Neutral		Overweight		
Change	U	U	N	N	O	O	▼ or ▲ Month-Over-Month Change
Global Ex-U.S. Growth		U					Growth stocks' valuations are expensive and offer less sensitivity to improving global economic backdrop.
Global Ex-U.S. Value ▼					O		Improving fiscal outlook and normalized interest rate environment should continue to drive further earnings growth, particularly in financials.
U.S. Growth			N				Mega-cap tech underlying fundamentals remain strong, but growing capex budgets facing heavier scrutiny. Extended valuations make risk/reward less attractive.
U.S. Value			N				Economic growth outlook for 2026 supported by deregulation, fiscal policy, re-shoring and potential Fed cuts. However, thus far strength has been largely limited to AI build-out.
Global Ex-U.S. Large-Cap		U					Improving prospects for Europe and Japan, combined with a more stable outlook in China offer support. Potential for further U.S. dollar weakness also supportive.
Global Ex-U.S. Smid-Cap ▲					O		Further economic acceleration and a weaker dollar beginning to provide tailwinds for cyclical areas with still very attractive valuations.
U.S. Large-Cap ▼		U					Very strong and improving fundamentals, particularly within technology have justified valuations thus far. However, rising hyperscaler capex is coinciding with mounting competitive risks.
U.S. Smid-Cap ▲					O		Small-cap earnings improving sharply due to lower rates, deregulation, fiscal stimulus and broadening AI benefits. Stronger M&A and IPO activity could lead to improving valuations.
Real Assets					O		Offers mitigation from rising inflation risks, and benefits from AI build-out demand. Precious metals have been subject to momentum, but geopolitical uncertainty likely to provide a durable tailwind.

Bonds: Regional & Sector Views

	Underweight		Neutral		Overweight		
Change	U	U	N	N	O	O	▼ or ▲ Month-Over-Month Change
Canadian Investment Grade		U					Continued upward pressure on rates is expected amid increased supply, a strengthening growth outlook supported by fiscal stimulus, and spillover effects from U.S. rates.
U.S. Investment Grade (IG)		U					Stronger growth backdrop, sticky inflation and heavy issuance give curve a steepening bias. Credit fundamentals still supportive, with spreads expensive.
Developed Ex-U.S. IG (Hedged)					O		Attractive alternative to U.S. yields with less steepening pressure on long end of the curve given stable growth and limited inflationary pressures.
U.S. Long-Term Treasuries		U					Concerns around sticky inflation and fiscal deficits could keep upward pressure on long-end yields, with limited recession risk.
Inflation-Linked					O		Risk that inflation remains elevated due to staggered effects from tariffs and more stability to the economic growth backdrop.
Global High Yield ▼					O		Tight spreads may limit further potential upside, but sector continues to offer a healthy yield, measured default expectations and a low duration profile.
Floating Rate Loans			N				Favorable valuations and attractive yields provide support, however, potential for further monetary easing and liquidity considerations pose challenges.
EM Dollar Sovereigns ▲					O		Attractive yields and regional improvements supportive, though higher U.S. rates could weigh given sector's longer duration profile.
EM Local Currency Bonds					O		Compelling yields combined with improving growth environment and expectations for a weaker U.S. dollar point to a favorable outlook.

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