Asset Allocation Strategy

CIO Office | February 2026

A new world order?

Highlights

- Against an increasingly turbulent geopolitical backdrop, financial markets saw several of the trends from 2025 intensify in January, with the U.S. dollar depreciating and the price of gold breaking records, although the month's final stretch took some shine off the precious metal.
- For equities, one year after the inauguration of the 47th President of the United States, we can see that the apparent "rupture in the world order" has not triggered a rupture in the bull market. It has, however, resulted in a rupture in U.S. equity leadership, which has intensified in recent weeks.
- It must be acknowledged that, from an economic standpoint, the overall picture remains stable, with generally positive economic surprises, inflation that hasn't reignited fears, and solid quarterly results for most companies.
- Still, political considerations will continue to influence financial markets in the coming months. In principle, the upcoming midterm elections should compel the Trump administration to focus on the cost of living. In practice, we can expect rhetoric to remain highly hostile, particularly in the context of negotiations on the CUSMA agreement.
- In this context, we are maintaining our investment strategy unchanged but remain alert to any change in trend that could require adjustments to our geographical allocation within equities, for instance. Lastly, after recording its highest annual increase in 46 years, we continue to advise caution with regard to gold prices, which appear to be increasingly subject to abnormal speculative activity.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities				■	
Fixed Income		■			
Cash			■		
Alternatives				■	
Fixed Income					
Government		■			
Credit				■	
Duration			■		
Equities					
Canada				■	
United States			■		
EAFE		■			
Emerging Markets				■	
Alternatives & FX					
Gold			■		
Uncorrelated Strategies				■	
Canadian Dollar			■		

CIO Office

Bottom line: Our baseline scenario — which anticipates sustained economic activity, but tinged with heightened geopolitical risks — remains unchanged. This continues to argue for a moderate overweighting of equities, while keeping a close eye on our market sentiment indicator, which at this stage does not justify either adding or reducing risk.

Market review

Fixed income

- The Canadian fixed income universe ended January with positive returns, recouping about half of December's losses.

Equities

- January saw a continuation of the key market trends observed in 2025, starting with significant geographical dispersion in equity returns. Overseas markets outperformed (EAFE region, Emerging Markets), while the United States ranked last amid waning enthusiasm for technology sectors.

- In Canada, the S&P/TSX continued to be pushed upward by Materials, which is composed mainly of gold miners. The Energy sector also helped the Canadian market amid rising oil prices.

FX & Commodities

- Against a backdrop of growing tensions between the United States and Iran, including very real possibilities of military intervention, oil prices rose significantly in January. Gold also continued its upward trend, but with a marked increase in daily volatility. The enthusiasm for gold also spread to other metals, such as silver and copper.

- On the currency front, the U.S. dollar depreciated sharply in January, with the Greenback suffering, among other things, from the unpredictability of U.S. economic and trade policy.

Market Total Returns

Asset Classes	January	12M	2025
Cash (S&P Canada T-bill)	**0.2%**	**2.7%**	**2.9%**
Bonds (ICE Canada Universe)	**0.6%**	**1.9%**	**2.4%**
Short Term	0.4%	3.4%	3.8%
Mid Term	0.6%	3.1%	3.8%
Long Term	0.9%	-1.4%	-1.0%
Federal Government	0.4%	1.1%	2.0%
Corporate	0.9%	4.2%	4.3%
U.S. Treasuries (US$)	0.0%	5.7%	6.2%
U.S. Corporate (US$)	0.4%	7.5%	7.8%
U.S. High Yield (US$)	0.5%	7.5%	8.5%
Canadian Equities (S&P/TSX)	**0.8%**	**28.3%**	**31.7%**
Communication Services	3.7%	12.5%	11.0%
Consumer Discretionary	-5.3%	23.8%	31.0%
Consumer Staples	-3.9%	11.4%	12.8%
Energy	10.6%	31.5%	19.2%
Financials	-1.5%	29.8%	35.3%
Health Care	-4.2%	-1.2%	0.4%
Industrials	0.4%	0.0%	3.1%
Information Technology	-17.6%	-7.9%	23.1%
Materials	8.9%	98.2%	100.6%
Real Estate	1.7%	5.6%	4.2%
Utilities	2.0%	22.5%	19.7%
S&P/TSX Small Caps	8.7%	62.2%	50.2%
U.S. Equities (S&P 500 US$)	**1.5%**	**16.3%**	**17.9%**
Communication Services	5.8%	29.5%	33.6%
Consumer Discretionary	1.7%	3.3%	6.0%
Consumer Staples	7.7%	9.7%	3.9%
Energy	14.4%	21.8%	8.7%
Financials	-2.4%	5.3%	15.0%
Health Care	0.0%	7.3%	14.6%
Industrials	6.7%	21.3%	19.4%
Information Technology	-1.7%	25.6%	24.0%
Materials	8.7%	13.8%	10.5%
Real Estate	2.8%	4.2%	3.2%
Utilities	1.4%	14.3%	16.0%
Russell 2000 (US$)	5.4%	15.8%	12.8%
World Equities (MSCI ACWI US$)	**3.0%**	**22.4%**	**22.9%**
MSCI EAFE (US$)	5.2%	31.8%	31.9%
MSCI Emerging Markets (US$)	8.9%	43.7%	34.4%
Commodities (GSCI US$)	**9.8%**	**13.9%**	**7.1%**
WTI Oil (US$/barrel)	12.6%	-11.4%	-21.0%
Gold (US$/oz)	16.3%	79.0%	64.7%
Copper (US$/tonne)	4.9%	46.4%	43.9%
Forex (US$ Index DXY)	**-1.4%**	**-10.5%**	**-9.4%**
USD per EUR	1.3%	14.4%	13.4%
CAD per USD	-0.8%	-6.3%	-4.6%

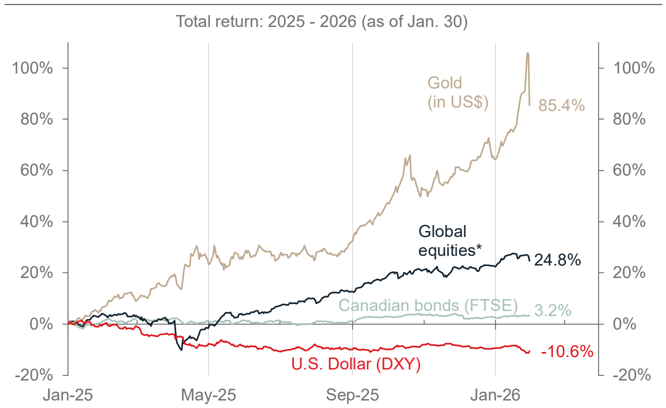
CIO Office (data via Refinitiv, as of 2026-01-30)

A new world order?

Military operations in Venezuela, threat of intervention in Iran, a hostile takeover bid for Greenland, new tariff threats against Europe and Canada, criminal investigation against the current Federal Reserve Chairman... quite a January for the U.S. administration.

In any event, on financial markets, this geopolitical instability has mainly prompted investors to bet even more heavily on 2025 trends: gold prices broke records, equities continued to edge higher, bonds remained range-bound, and the U.S. dollar weakened further (**Chart 1**).

1 | A start to the year that echoes 2025...

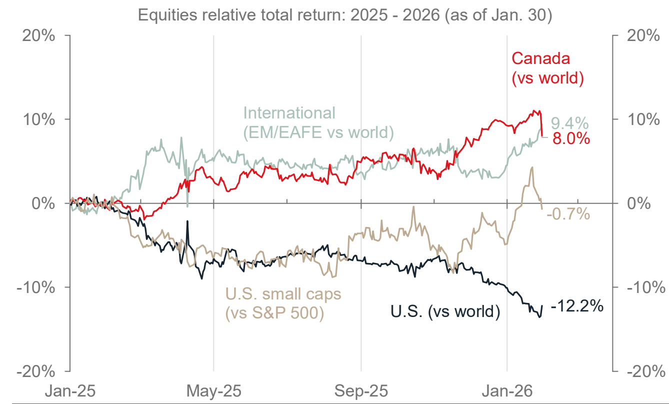


CIO Office (data via Refinitiv). *40% S&P 500, 30% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM (all in C$).

Within equities, the rotation away from the United States also intensified, with investors seeing the turmoil in the U.S. as a reason to pull away — echoing the reaction that followed the rollout of President Trump's tariff policy in early 2025.

However, one difference this time is that within U.S. markets themselves, small-cap stocks have recently come back into favour — a sign that many investors believe the upcoming midterm elections will push the Trump administration to maintain pro-domestic-growth policies in 2026 (**Chart 2**).

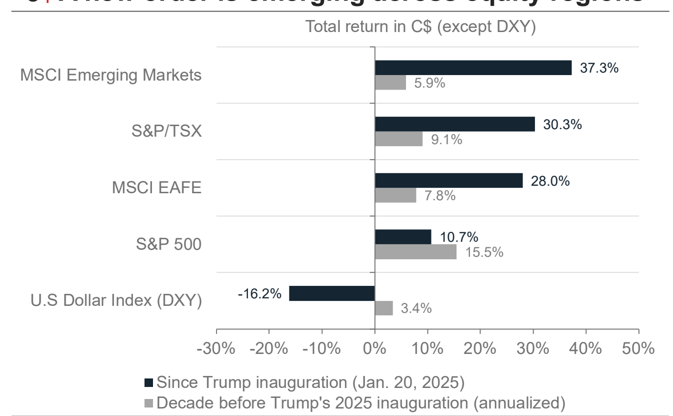
2 | ... to the (relative) detriment of large U.S. equities



CIO Office (data via Refinitiv)

Time will tell. But, for now it is clear that one year after the inauguration of the 47th President of the United States the apparent "rupture in the world order"[1] has not triggered a rupture in equity markets. On the contrary, stocks have delivered substantial gains over the period. What it has produced, however, is a rupture of performance rankings across regions — to the detriment of U.S. assets (**Chart 3**).

3 | A new order is emerging across equity regions



CIO Office (data via Refinitiv)

Let's take stock of the situation.

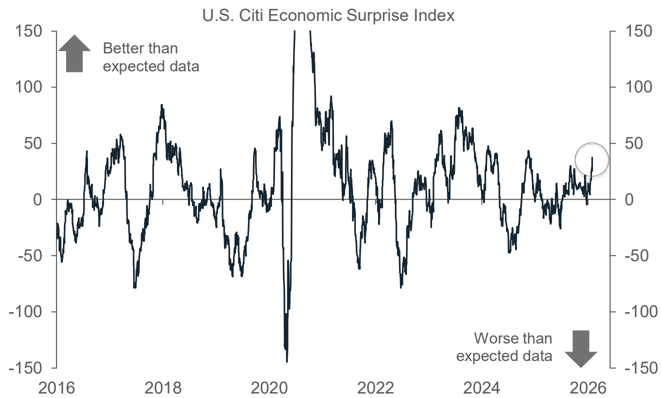
[1] Term used by Prime Minister Mark Carney during his Special address in Davos, on January 20, 2026.

All quiet on the southern front

While the political situation south of the border is ever more atypical, on the economic front it's a different story.

For instance, the Economic Surprise Index remains in positive territory, indicating that, overall, economic data continues to exceed expectations in the United States (**Chart 4**).

4 | The economy continues to surprise positively…



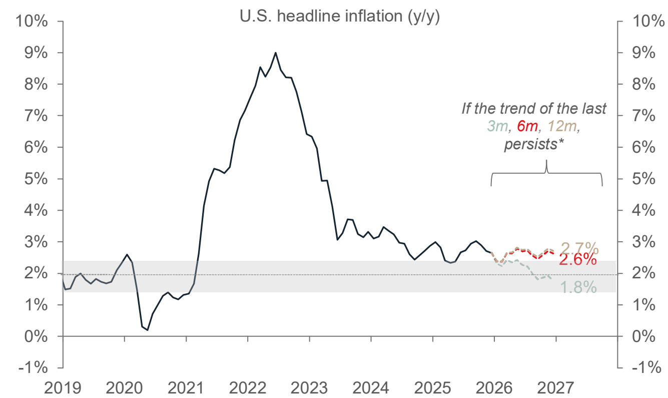
CIO Office (data via Refinitiv)

As for inflation, the most recent figures have also kept fears at bay. If the trend of recent months continues — which is far from guaranteed[2] — we may even see year-over-year CPI growth come close to 2% later in 2026 (**Chart 5**).

In this regard, recent wage growth data do indeed suggest that underlying inflationary pressures have eased further lately. That's what our projection model has been anticipating for several months now, and it now points to stabilization at the lower end of the comfort zone, between 3% and 4% (**Chart 6**).

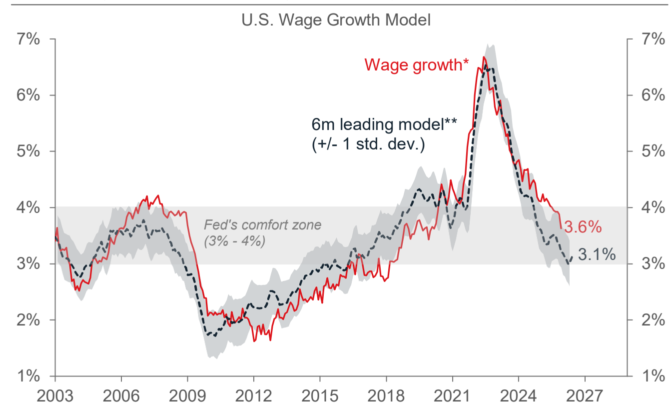
Naturally, this observation mirrors a more difficult job market for those seeking employment, with

5 | ...while inflation stagnates between 2% and 3%



CIO Office (data via Refinitiv). *Interpolation used for October 2025 data, which is missing because of the U.S. government shutdown.

6 | Wages are slowing down "just enough"



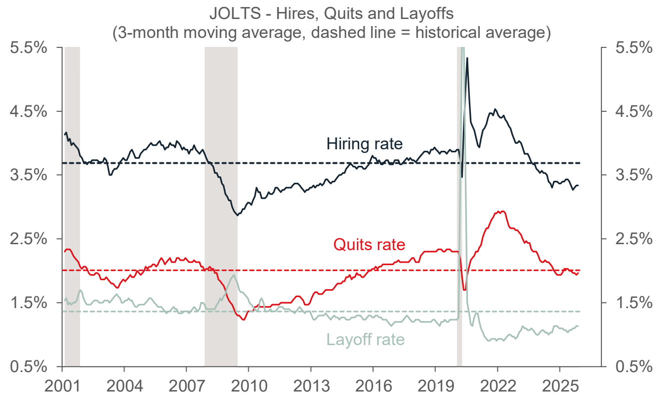
CIO Office (data via Refinitiv). *Average between the Atlanta Fed measure and average hourly earnings (adjusted for extreme movements due to sector composition early in the pandemic). **Linear regression based on (1) job openings (indeed and JOLTS) vs unemployed, (2) NFIB "hard to fill jobs", (3) NFIB "plan to increase wages", (4) consumer sentiment "jobs plentiful", (5) JOTLS quits rate.

hiring rates remaining below its long-term average. Nevertheless, layoff rates also remain very low by historical standards, indicating that economic activity is holding up reasonably well (**Chart 7**, next page).

In particular, if we focus on large publicly traded companies which have begun to release their earnings reports for the last quarter, the overall outlook remains spectacular (**Chart 8**, next page).

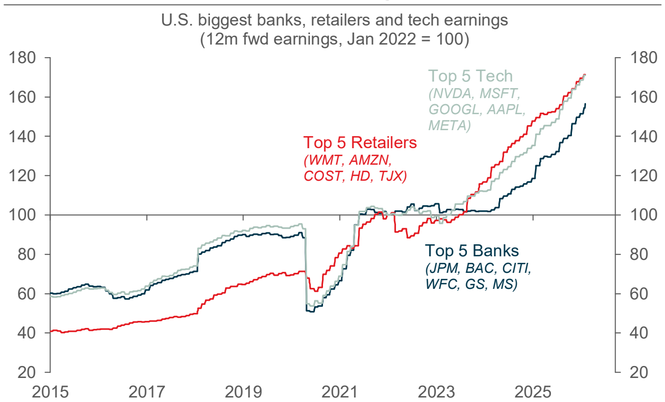
[2] The quality of recent inflation data is likely lower than normal due to the U.S. government shutdown, especially since no report was released for October. In addition, the recent rise in energy prices and early-year tax refunds could put upward pressure on inflation in the coming months.

7 | Few hires, few layoffs…



CIO Office (data via Refinitiv)

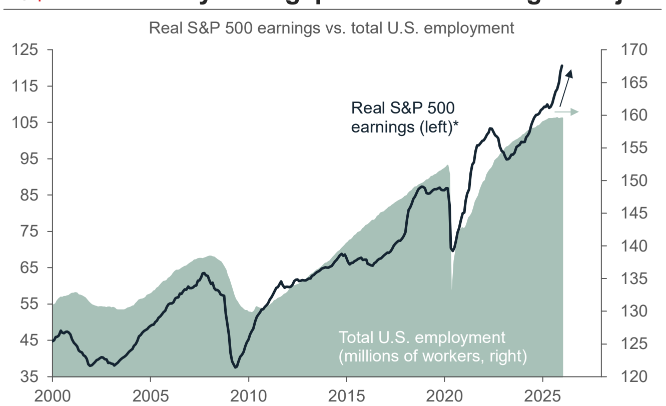
8 | ... but lots of profits for large companies



CIO Office (data via Refinitiv)

So how can we explain such a sharp rise in earnings alongside a seemingly stagnant job market (**Chart 9**)?

9 | An unusually wide gap between earnings and jobs



CIO Office (data via Refinitiv) *12m fwd earnings of the S&P 500, converted in real terms using U.S. headline CPI.

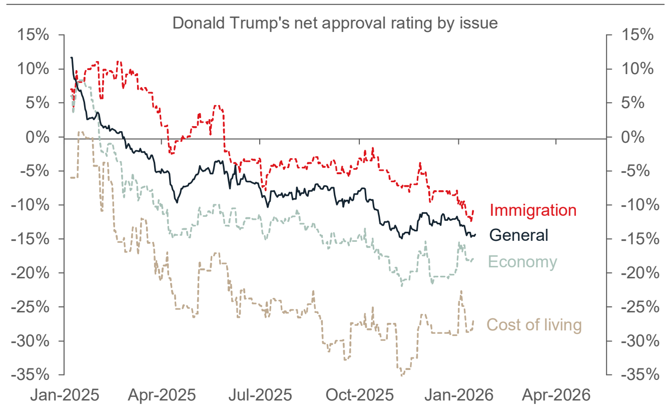
It's difficult to answer precisely, although we can point to more accommodating fiscal and regulatory policies, the depreciation of the U.S. dollar — which mechanically inflates profits earned abroad — and, probably, productivity gains associated, in part, to the rise of artificial intelligence.

One thing is certain: the feeling of being left out is becoming increasingly prevalent among the U.S. population.

Predictably unpredictable

The aggregate of polls is unequivocal: the U.S. President's popularity rating is down sharply since his inauguration, with the immigration situation clearly not helping his cause lately (**Chart 10**).

10 | What a difference a year makes

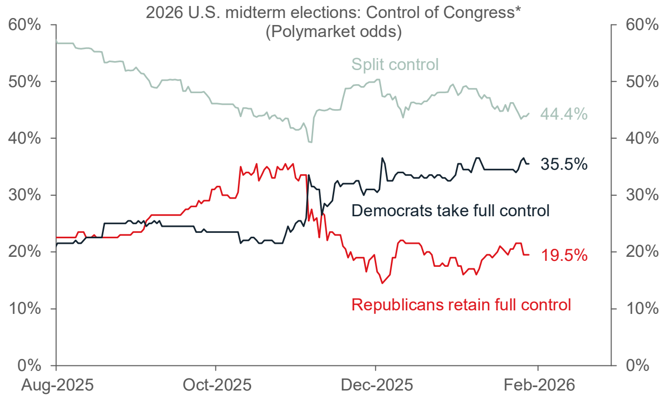


CIO Office (data via Silver Bulletin)

Consequently, the probability of Republicans retaining control of Congress after the midterm elections scheduled for November remains low, at around 20% (**Chart 11**, next page).

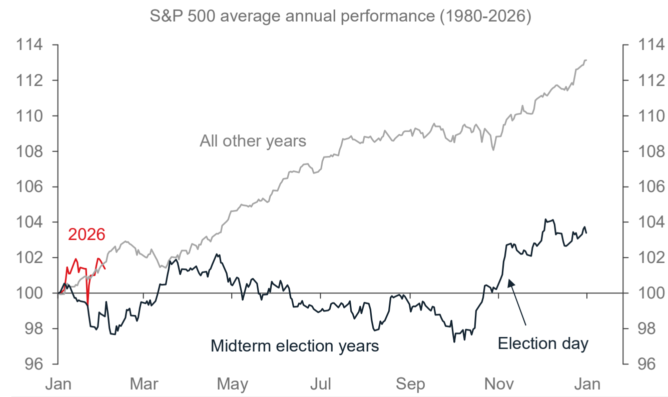
Either way, history doesn't look too good for the Republican Party: in the last six midterm elections where one party held the majority in both the House and the Senate, only once did that party manage to

11 | What to expect from the midterm elections?



CIO Office (data via Polymarket). *Complete control = control of both the House of Representatives and the Senate.
Split control = one party controls the House, the other controls the Senate.

13 | Equity markets don't like uncertainty



CIO Office (data via Refinitiv)

12 | Power is often fleeting in the United States

U.S. midterm elections when the President's party has full control of Congress* (since 1980)

Election year	President	Party	Full control before election?	Retain full control after election?
1994	Bill Clinton	D	Yes	No
2002	George W. Bush	R	Yes	Yes
2006	George W. Bush	R	Yes	No
2010	Barack Obama	D	Yes	No
2018	Donald Trump	R	Yes	No
2022	Joe Biden	D	Yes	No
2026	**Donald Trump**	**R**	**Yes**	**?**

CIO Office. *Full control of Congress = the same party controls the House of Representatives and the Senate.

retain these (Bush administration, in the aftermath of the September 11 attacks, **Chart 12**).

For equity markets, the typical scenario in a midterm election year is for prices to move sideways until the election nears – scheduled for November 3 this year – allowing an upward trend to resume buoyed by a divided Congress that limits the potential for major legislative changes (**Chart 13**).

That said, to quote PM Carney, “there is almost nothing normal now in the United States” [3] which is why we should probably be extra careful before drawing any strong conclusions based on historical averages.

Concretely, a critical issue in the coming months will inevitably be the renegotiation of the Canada-United States-Mexico Agreement (CUSMA), which technically should begin formally on July 1 under the terms of the agreement but which has, in a sense, already begun. Three things to keep in mind in this context:

1. After a year in power, the unpredictability of the U.S. administration is becoming increasingly... predictable. Essentially, the negotiating tactic consists of (1) making colossal threats, (2) carrying out at least some of them, then (3) engaging in negotiations – and (4) repeating this sequence as many times as necessary to claim victory. According to Bloomberg Economics' analysis, of the 49 tariff threats made by the Trump administration since November 2024, 20% have been fully implemented and remain in place (**Chart 14**, next page) [4]. We should, therefore, not be too surprised nor overreact if we learn one

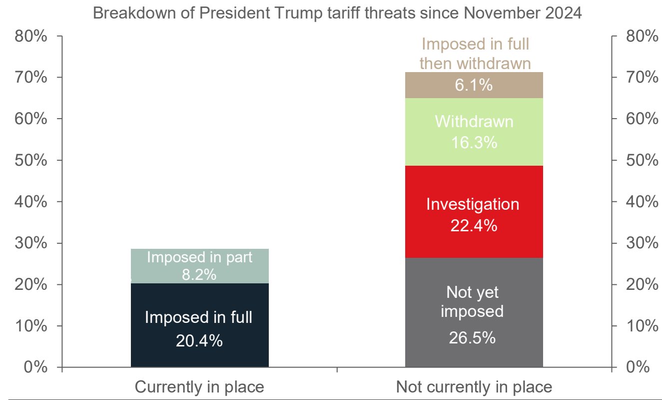
[3] Carney says almost nothing is normal in the US, trade pact review starting soon, January 28, 2026.
[4] TACO Tracking: Trump Carries Out One in Four Tariff Threats, Bloomberg, January 27, 2026.

day that President Trump, for instance, goes so far as to claim he wants to completely withdraw from the agreement.[5] However, …

2. <u>... it is becoming increasingly difficult for the Trump administration to pretend that the tariffs are being paid by foreign countries</u>. In fact, according to a study published by the Kiel Institute, which analyzed 25 million transactions covering nearly US$4 trillion in goods imported into the United States between January and November 2025, 96% of the tariff bill was absorbed by importers (i.e., Americans), compared to only 4% by foreign exporters (**Chart 15**).[6] Whether it admits it or not, this represents a significant constraint for the U.S. administration, especially considering that…

3. <u>…in a midterm election year, the cost of living is likely to re-emerge as a priority for the Trump administration</u>. It should be remembered that at the end of the 2024 presidential election, 79% of those who voted for Mr. Trump said that the cost of living was their number one motivation (**Chart 16**). In theory, this argues in favour of lower tariffs, not otherwise.

14 | Tariff threats: some go through, most don't

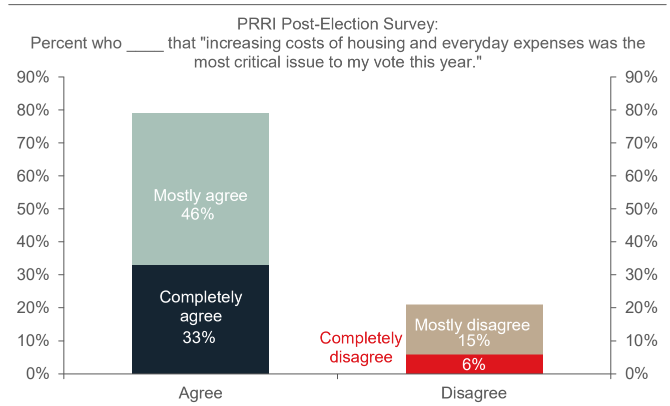


CIO Office (data via Bloomberg Economics)

15 | Who pays tariffs? Now we know.

CIO Office (data via Kiel Institute)

16 | Cost of living is what got Trump elected



CIO Office (data via PRRI)

---

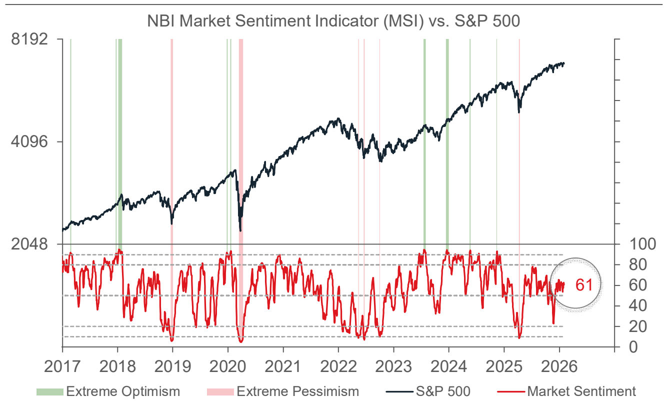
[5] According to Article 34.6 of CUSMA, any country may withdraw by giving six months' written notice to the other two parties. Once this period has elapsed, the withdrawal takes effect automatically. However, as the agreement was ratified by Congress, the latter would, in theory, have to approve the withdrawal of the United States, which seems highly unlikely.
[6] <u>American's Own Goal : Who Pays the Tariffs?, Kiel Institut, January 2026.</u>

The bottom line for investors

Overall, our baseline scenario — which anticipates sustained economic activity, but tinged with heightened geopolitical risks — remains intact.

In terms of investment strategy, this continues to argue for a moderate overweighting in equities, while keeping a close eye on our market sentiment indicator, which at this stage does not justify either adding or reducing risk (**Chart 17**).

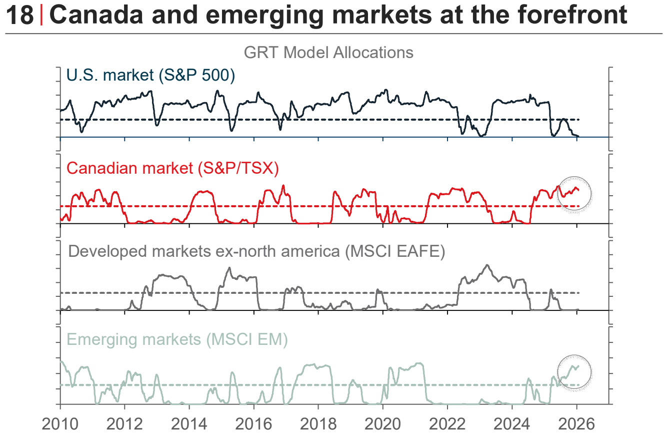
17 | No exaggeration in market sentiment



CIO Office (data via Refinitiv, Bloomberg)

Within equity markets, overweighting emerging markets got 2026 off to a good start. This remains the recommendation of our relative momentum model, which also favours Canadian equities (**Chart 18**), and we are positioned accordingly.

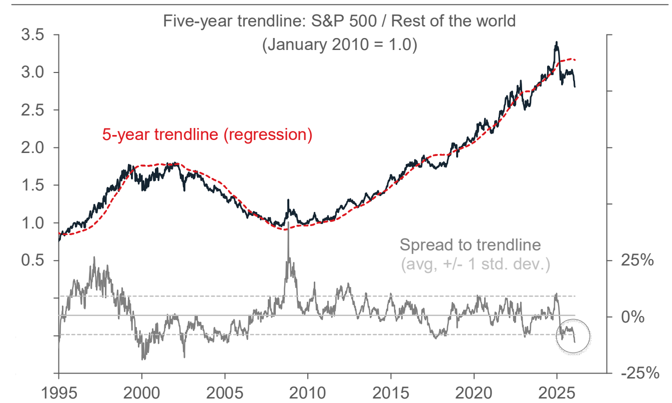
18 | Canada and emerging markets at the forefront



CIO Office (data via Refinitiv)

With regard to U.S. equities, we shifted from underweight to neutral in December, as the gap between their long-term relative trend and the rest of the world appeared stretched. Since then, this gap has widened even further, now reaching its most extreme level in 21 years (**Chart 19**).

19 | "Sell America": Has it gone too far?



CIO Office (data via Refinitiv)

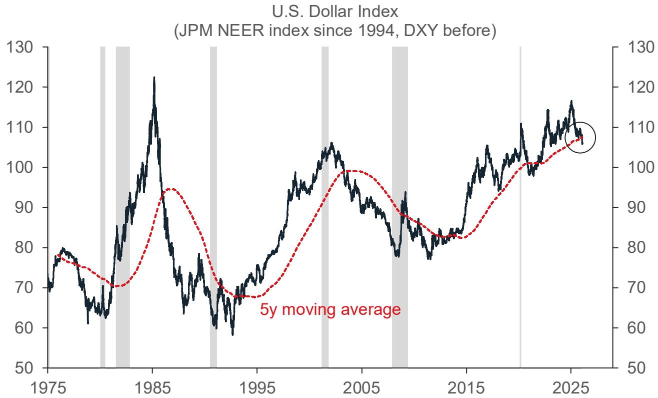
While some may be tempted to bet on a rebound in the short term, it is important to bear in mind that we may be witnessing a structural turning point in the U.S. leadership that has characterized most of the last 15 years.

Specifically, the sharp decline in the Greenback — which fell below its 5-year moving average in January (**Chart 20**, next page) — could mark the beginning of a prolonged cycle of U.S. dollar (and relative U.S. equities) weakness, a dynamic that we will be monitoring closely in the coming weeks.

Moreover, the sharp rise in the price of gold — now the biggest annual increase since the late 1970s (**Chart 21**, next page) — is certainly not unrelated to this drive to diversify away from the Greenback.

It is easy to draw parallels between today and the late 1970s, a period marked by significant geopolitical instability (the Iranian revolution, the Cold War) and pressure on the U.S. dollar (high

20 | The U.S. dollar has plenty of room to retreat

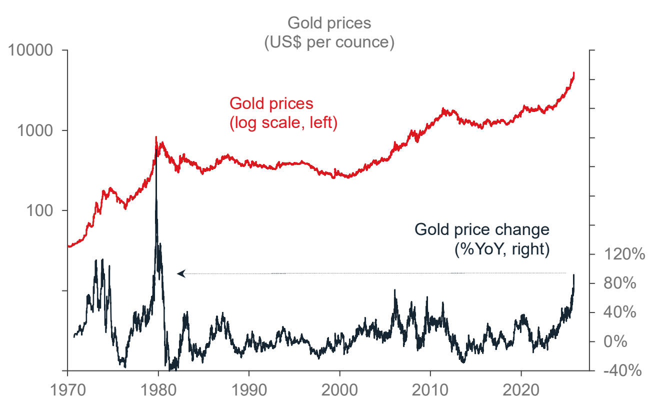


CIO Office (data via Refinitiv)

22 | Commodity prices are a key risk...

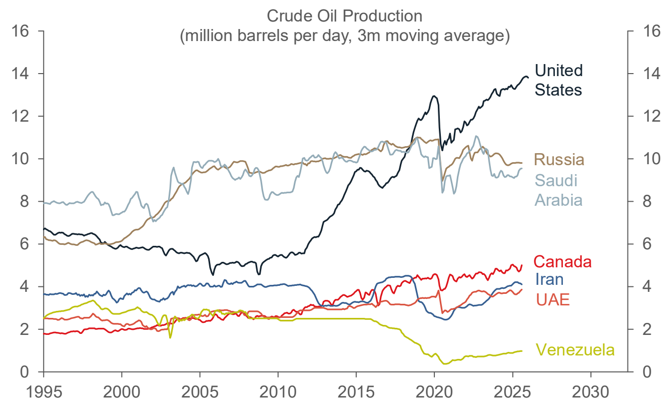
CIO Office (data via Refinitiv)

21 | Gold prices: a remake of *That '70s Show* ?



CIO Office (data via Refinitiv)

23 | … at the heart of heightened geopolitical tensions



CIO Office (data via Refinitiv)

inflation, end of the gold standard). Nevertheless, the speed at which prices have risen recently suggests that speculative activity is beginning to take over, which is why we still recommend a degree of caution with regard to precious metals in the near term.

Meanwhile, a broader rise in commodity prices — including oil — took shape at the end of the month, posing a key risk to our economic outlook given the potential impact on inflation (**Chart 22**).

There is no doubt that the threat of U.S. intervention in Iran is putting upward pressure on energy prices, with Iran being a much more important player than Venezuela in the oil market (**Chart 23**), especially when one considers its influence over the Strait of Hormuz through which approximately 20% of the world's oil transits each day.

But let's not forget that, just as with tariffs, despite its combative rhetoric, the U.S. administration remains fundamentally constrained by the reality of the cost of living — which implies, in particular, the necessity of keeping energy prices stable. To be continued.

CIO Office
CIO-Office@nbc.ca

Martin Lefebvre
Chief Investment Officer
martin.lefebvre@nbc.ca

Louis Lajoie
Senior Director
Investment Strategy
louis.lajoie@nbc.ca

Simon-Carl Dunberry
Senior Director
Portfolio Strategy
simon-carl.dunberry@nbc.ca

Nicolas Charlton
Director
Quantitative Strategy
nicolas.charlton@nbc.ca

Mikhael Deutsch-Heng
Director
Investment Strategy
mikhael.deutschheng@nbc.ca

Zaid Shoufan
Associate
Portfolio Strategy
zaid.shoufan@nbc.ca

Julien Gordon
Analyst
Quantitative Strategy
julien.gordon@nbc.ca

General

The information and the data supplied in the present document, including those supplied by third parties, are considered accurate at the time of their printing and were obtained from sources which we considered reliable. We reserve the right to modify them without advance notice. This information and data are supplied as informative content only. No representation or guarantee, explicit or implicit, is made as for the exactness, the quality and the complete character of this information and these data. The opinions expressed are not to be construed as solicitation or offer to buy or sell shares mentioned herein and should not be considered as recommendations.

Views expressed regarding a particular company, security, industry, market sector, future events (such as market and economic conditions), company or security performance, upcoming product offerings or other projections are the views of only the CIO Office, as of the time expressed and do not necessarily represent the views of National Bank of Canada and its subsidiaries (the “Bank”). Any such views are subject to change at any time based upon markets and other conditions, which could cause actual results to differ materially from what the CIO Office presently anticipate(s) or project(s). The Bank disclaims any responsibility to update such views. These views are not a recommendation to buy or sell and may not be relied on as investment advice.

These index providers may be included in this document: BofA Merrill Lynch, Standard & Poor's, FTSE, Nasdaq, Russell et MSCI. These companies are licensing their indices “as is”, make no warranties regarding same, do not guarantee the suitability, quality, accuracy, timeliness and/or completeness of their indices or any data included in, related to or derived therefrom, assume no liability in connection with their use and do not sponsor, endorse or recommend National Bank Investments Inc. and any of their products and services. The above index providers do not guarantee the accuracy of any index or blended benchmark model created by National Investment Bank using any of these indices. No responsibility or liability shall attach to any member of the Index Providers or their respective directors, officers, employees, partners or licensors for any errors or losses arising from the use of this publication or any information or data contained herein. In no event shall the above Index Providers be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, legal or other expenses, or losses (including, without limitation, lost revenues or profits and opportunity costs) arising out of or in connection with the use of the content, even if advised of the possibility of such damages.

The FTSE/TMX indices are trademarks of the LSE Group. S&P Indices are trademarks of S&P Dow Jones Indices LLC, a division of S&P Global. MSCI indices are trademarks of MSCI Inc. BofA indices are trademarks of Merrill Lynch, Pierce Fenner & Smith incorporated (“BofAML”). Nasdaq index is a trademark of Nasdaq Inc. Russell 2000 ® is a trademark of the Frank Russell Company.

National Bank Investments is a signatory of the United Nations-supported Principles for Responsible Investment, a member of Canada’s Responsible Investment Association, and a founding participant in the Climate Engagement Canada initiative.