

2026 Global Investment Outlook

A message from Steve Peacher

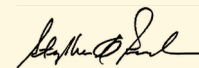
I am pleased to present our 2026 Global Investment Outlook, during a time of considerable opportunity across fixed income and alternatives. The 2025 calendar year was one of heightened uncertainty, with concerns over geopolitical conflicts, world trade and the general macroeconomic environment pervasive throughout those 12 months. These issues continue to persist now, with inflation, employment, tariffs and global security still top of mind. But we have also witnessed signs of remarkable resilience in 2025, which in my view position us well in the new year.

At the macro level, many major central banks adopted a more dovish approach toward rates in response to inflation and growth indicators. Credit spreads remained fairly tight in both the United States and Canada, due in part to sound fundamentals. Yet, yields remained high, driven by supply–demand dynamics in the markets.

Against this backdrop, much remains unclear as we head deeper into 2026. Macroeconomic conditions may not be as conducive to further rate decreases. Corporate fundamentals may weaken. A shift in the supply–demand balance could impact spreads in credit sectors. And as in past years, unpredictable geopolitical events could significantly change the investment landscape.

I believe that whatever the new year holds for institutional investors, it has the potential to create opportunities within a variety of asset classes. Investment grade and non-investment grade fixed income, private credit, real estate and infrastructure each have their own unique strengths and resiliency no matter market conditions, which is why I'm particularly excited to share our collected insights for 2026. Our investment specialists provide their unique perspectives in this report, which I hope you will find valuable in your own approach to investing in the months ahead.

Best wishes for 2026,



Steve Peacher
Executive Chair, SLC Management

Macroeconomic outlook

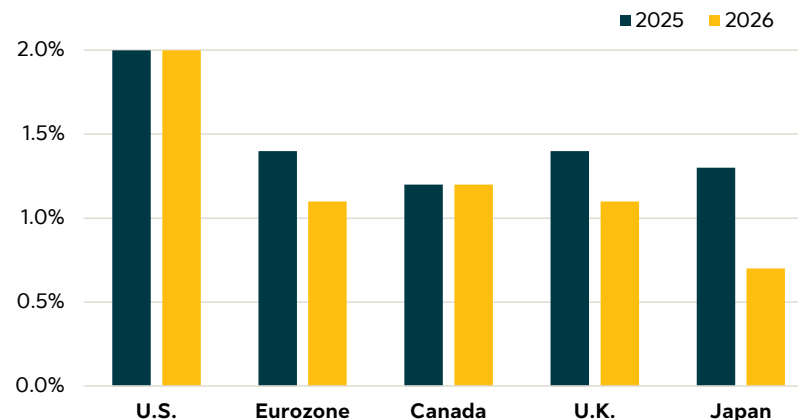
Economic uncertainty to be a theme for 2026, with central banks contending with competing pressures

Amid cracks, growth to hold up

If there is one word to describe what we generally saw across the world last year, it was “resilience.” And forecasters are banking on much of the same in 2026. In the face of tariffs and growth scares, countries, businesses and households found ways to manage and mitigate several shocks last year. But this year we are in a more fragile state.

This is true particularly in the U.S., where hiring is slowing, wages are cooling and layoffs are starting to pick up. Part of the layoff pressure is from companies who over-hired during COVID. Some of it is from those trimming headcount to offset tariffs, and some of it is from AI productivity, or its promise. For example, workforce analysis from Revelio Labs estimates that entry level jobs that require some college education are down 35% from January 2023. A big part of that is AI challenging the need for those jobs, or at least is forcing companies to rethink and wait on hiring decisions.

GDP growth outlook for major economies



Source: Bloomberg monthly survey, 2025. The above forecast is based on estimates and there is no guarantee that the estimate will be achieved.

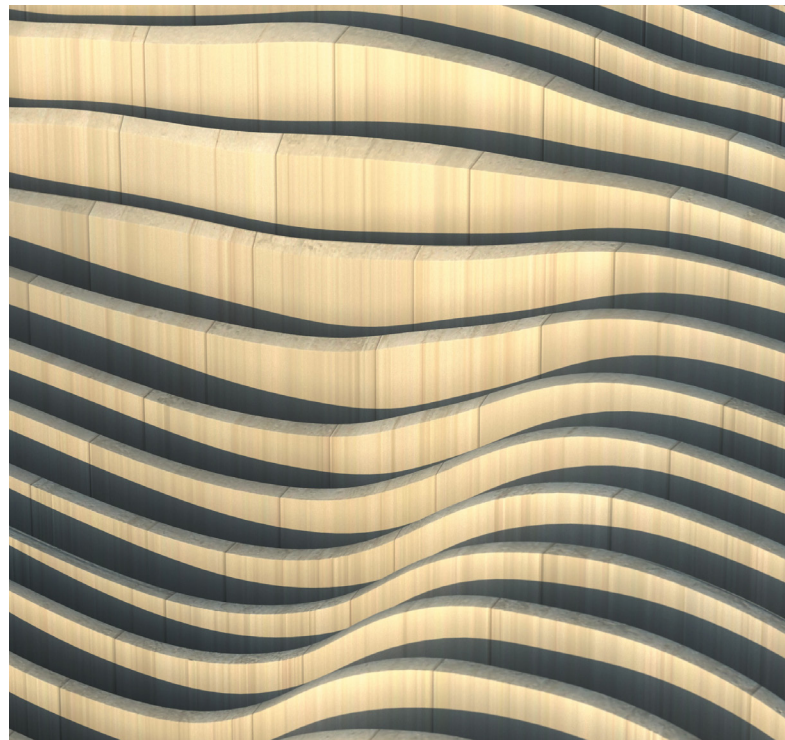


Dec Mullarkey

Managing Director, Investment Strategy and Asset Allocation

However, despite some of this deterioration there is some stimulus in the works. The softening labor market is pushing the U.S. Federal Reserve to cut rates even as inflation stays high. And benefits from tax cuts and less onerous regulations should start to kick in next year. Household and company balance sheets are in good shape. And markets generally remain optimistic about growth and earnings.

The U.S. economy is a mixed dashboard with a lot of solid fundamentals. But policymakers need to remain attentive to the health of the labor market and stubborn inflation, and act as needed to keep things in balance.



U.S. has an inflation problem, China a deflation challenge

Across North America, 2026 GDP growth is expected to hit 2%, with Canada delivering around 1.2%. Canada has made a lot of progress in arresting inflation, while the U.S. is still struggling to contain it and will likely take well into 2027 to get closer to its target.

Meanwhile, the eurozone is expected to post growth of around 1.4% with China delivering 4.5%. Inflation is well contained in the eurozone. In China, prices are falling and have been for a while, as large government perks have led to overproduction while domestic demand remains weak.

However, China’s exports have proven more robust than anticipated as the country persuades the U.S. to hold off on tariff threats and continue negotiating. While China’s exports to the U.S. are down over the year, its global exports are up as it increases trade to other areas, particularly Africa. Nevertheless, we expect China’s domestic demand and inflation to remain relatively muted this year.

Eyes on the Fed while the BoC and ECB are more settled

Markets expect the Fed to cut rates twice this year and then stall. While the Fed wants to cut rates to a level that is more consistent with sustaining long-term growth, stubborn inflation complicates any rush to get there. Inflation is running hot while job creation cools. With both moving in opposite directions, the Fed is conflicted – helping one may potentially exacerbate the other. But for now, it seems more concerned about labor weakness.

Meanwhile the Bank of Canada has made steady progress on bringing inflation under control. While Canadian growth has slowed, as tariff policy still hangs over markets, expectations are for a return to more normalized growth levels in the second half of the year. The European Central Bank also finds itself in a comfortable place as inflation stabilizes and overnight rates settle close to target.

Macroeconomic outlook (cont.)



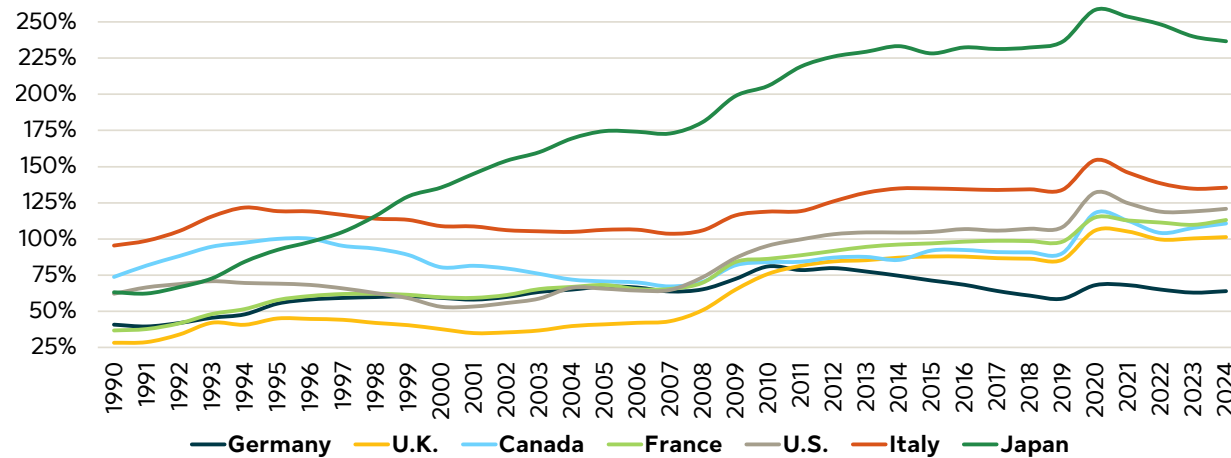
Dec Mullarkey
Managing Director, Investment Strategy
and Asset Allocation

Sovereign debt levels running high

The global debt burden keeps growing as politicians continue to win elections by touting populist agendas and increasing spending. Japan is the most recent case. Here, the traditional party that had held sway for decades lost ground to parties that promised tax breaks and perks.

While that playbook may win elections, bond investors see it as troubling, with debt levels continuing to grow. Japan is not alone. Its global peers, including the U.S., are in the same boat. Markets are already reacting. Rates on 30-year debt across the G7 are high. And governments now need to be more tactical when issuing bonds as investors are showing less appetite for longer term debt, in our view. There is no definite debt level at which markets lose confidence in a developed economy. But the longer deficits persist and governments lack fiscal discipline, the more expensive borrowing becomes and starts to hamper economic growth.

Gross government debt to GDP %



Source: International Monetary Fund, 2025.

Key takeaways

- Following a resilient 2025, the new year could see some lingering macroeconomic concerns come to the fore.
- The Fed might find itself caught between inflation and growth, but for now seems to be leaning toward stimulating a weak labor market.
- Public debt levels remain a concern for 2026 and beyond.



Sources: Bloomberg, Revelio Labs, Financial Times, 2025–6.

Fixed income: investment grade

Canada positioned to weather challenges; spending, rates outlook could stabilize yields

Stuck in neutral

After a tumultuous 2025, it feels like 2026 may settle back into normal, but perhaps a “new normal” as we continue to process changes in global trading relationships, global political tensions and technological advances. As we closed out 2025, the Canadian economy continued to meander along, just managing to keep its head above the water in positive growth territory. The Bank of Canada (BoC) continued to support the Canadian economy with four rate cuts totaling 100 basis points in 2025 and remains biased toward further supporting growth in 2026 as most measures of inflation have steadied at levels within the BoC’s tolerance band. The federal government also recognized the adversity the economy faces, passing a budget with significant spending increases and stronger support for defense and major infrastructure projects across the country. The combined federal and provincial budget deficits will be close to 4% of GDP in 2026 – still well below the U.S. government’s deficit levels, but also deteriorating faster than U.S. levels.

Yielding to change

The post-pandemic volatility in the rates market continued to subside throughout 2025, likely spurred by greater stabilization in inflation. The annual issuance of federal bonds has nearly doubled from pre-pandemic levels, but the market seems to have adjusted to this change and Canada continues to have the lowest net debt-to-GDP ratio of all G7 countries. Despite the higher federal budget deficit expected in 2026, we expect federal bond issuance in the current year to be similar to 2025 due to a lower level of bond maturities in 2026. As the provinces have increasingly leaned on foreign currency issuance to stem supply pressure in the Canadian-dollar market, longer-term yields may have found a new equilibrium with both real and nominal yields at elevated levels. With a significant amount of federal spending on the horizon, as well as some major projects spurring growth, the BoC may be less inclined to continue to lower rates, and the Canadian yield curve will likely maintain its shape in 2026.



Randall Malcolm

Senior Managing Director, Portfolio
Manager, Public Fixed Income

Credit shopping spree

As another record year in corporate bond issuance drew to a close in 2025, the bond market’s appetite for corporate credit is unquestionably robust, with all-in yields still relatively high despite corporate credit spreads close to all-time tights. This has been driven by strong investment inflows into the bond market, supported by stability in the economy and relatively solid corporate fundamentals. Demand for corporates has led to an unprecedented number of new Canadian-dollar corporate issuers and issuances from riskier parts of the capital structure. It will be interesting to see if corporate credit can weather longer term effects from either the changing trade landscape or the significant funding required for AI infrastructure.

While provincial bond credit spreads have also remained tight, this is mostly due to a supply technical as an increasing percentage of provincial debt is being issued in other currencies. While provincials have also benefited from investor cash flowing into the bond market and a sanguine economy, provincial fundamentals have been more challenged than the corporate fundamentals. That is unlikely to change in 2026.

Key takeaways

- We expect federal bond issuance in 2026 to be similar to 2025 due to a lower level of bond maturities in the current year.
- Demand for corporate credit should remain strong, thanks to investment inflows, general economic stability and relatively solid corporate fundamentals.
- Provincial fundamentals, while benefiting from inflows and a more stable economy, might be more challenged than corporates in 2026.



Source: Bloomberg, 2025–6.

Fixed income: non-investment grade

Policy moves create credit-friendly conditions, but sovereign debt levels a concern

Rate cuts in inflationary environment could have impact

The U.S. Federal Reserve resumed rate cuts in 2025 even as inflation has remained stubborn. Amid the justified macro concerns over these policy moves, we believe there is potential for lending markets to get a major boost from the resultant easing environment. This could be especially pronounced when policy meets the effects from other stimulative actions, such as the One Big Beautiful Bill, a lighter regulatory backdrop and potential growth in merger-and-acquisition activity.

In our view, the ingredients are in place for an extended credit cycle and a growth-friendly landscape. Factors such as AI-driven productivity gains, possible resilience in the Chinese economy and supportive technicals could combine with policy and stimulus for a promising scenario for fixed income investors.

Long-term interest rates sensitive to debt

However, the bias of major economies around the globe toward increasing debt remains a concern that echoes across bond markets. To gauge how sensitive long-term interest rates are to rising levels of government debt, the International Monetary Fund (IMF) recently analyzed U.S. fiscal history.

Their findings suggest that during periods of weakened fiscal discipline, a 10% increase in the debt-to-GDP ratio is associated with a 20–30-basis point (bp) rise in long-term interest rates. With U.S. debt-to-GDP projected to increase by roughly 20% over the next decade, this relationship implies as much as 60 bps in additional borrowing costs.

How quickly this premium emerges depends largely on how inevitable markets believe the fiscal trajectory to be. Efforts to restore discipline could help stabilize rates, while policy inaction may prompt investors to demand higher yields more quickly.



John Fekete

Managing Director and Head of Tradeable Credit



Fixed income: non-investment grade (cont.)



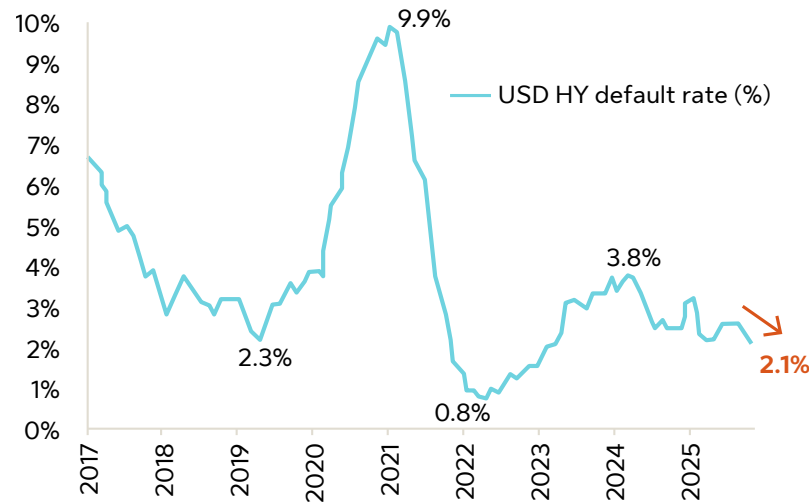
John Fekete
Managing Director and Head of Tradeable Credit

Fundamentals, technicals remain supportive

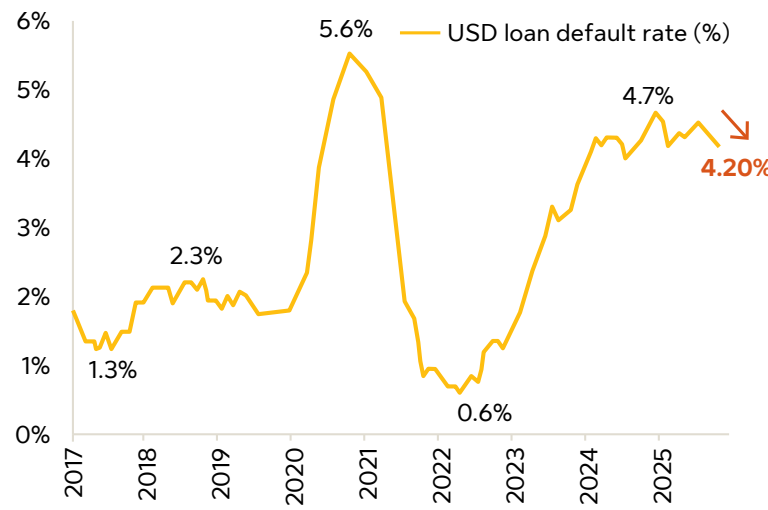
Low net supply and relatively high yields continue to provide strong technical support for private credit, high-yield bonds and syndicated senior loans. Most borrowers maintain healthy cash flows, allowing them to remain current on their obligations. The Federal Reserve Bank of Atlanta's GDPNow model tracked a robust +3.9% growth rate in December 2025, reinforcing the strength of the broader economy.

Consequently, signs of stress across credit markets remain limited. Default rates for both high-yield bonds and syndicated loans have declined in 2025. Should the Fed acknowledge what appears to be a weakening labor market, growth could accelerate further, extending the current credit cycle expansion.

Lowest high yield issuer default rate in over two years



Loan issuer default rate saw another tick down



Sources: BofA Macro Credit Daily Comment (HY October Recap, Loan October Recap), 2025.

Key takeaways

- The Fed's rate cuts, amid stubborn inflation, could combine with other stimulative factors to boost credit markets.
- Sovereign debt levels remain a concern, with historical data indicating sensitivity of long-term rates to debt increases.
- Market conditions at the beginning of 2026 were favourable for private credit, high-yield bonds and syndicated senior loans.

Sources: IMF, BofA, Bloomberg, 2025-6.

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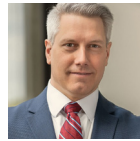
Private credit: investment grade

Deal pipeline looks to remain robust, with potential opportunities across IG sectors

Primary market sets record, secondary steps up

The 2025 investment grade (IG) private credit market was another record year of new investment activity despite ongoing macro uncertainty around tariff- and policy-related headlines. Following 2024's record volume of US\$125 billion, 2025 primary IG private credit activity is estimated at US\$170 billion, reflecting a notable 36% year over year increase. It was an interesting year characterized by the U.S. Federal Reserve's prolonged rate cut pause in early 2025 then shifting to a cumulative 75 basis points in rate cuts in the second half of the year. At the same time, public corporate spreads saw continued compression, hovering near all time lows. Meanwhile, private credit spreads offered attractive liquidity and complexity premiums while still providing attractive all in borrowing costs, supporting borrower deferred refinancing activity, capital investment and acquisition financings among high quality issuers.

Once again, the IG private credit market proved capable of facilitating large financings. Overall, there were more than 39 transactions raising over US\$1 billion dollars each, surpassing last year's 19 deals. The largest transactions were in the digital infrastructure space, with proceeds used to support the build out of mega data center campuses. We also saw stronger demand for delayed funding tranches, which increased by ~88% to roughly US\$20 billion in 2025, showcasing the flexibility that the private market can offer. Beyond digital infrastructure specifically, industrials had another strong year, leading the charge in issuance with financials and utilities having similarly strong years. Fund financing strategies such as net asset value (NAV) and subscription-line facilities played an increasingly central role for general partners, becoming a core liquidity and execution tool to bridge liquidity or fund accretive growth.



Andrew Kleeman

Senior Managing Director,
Co-Head of Private Fixed Income



Elaad Keren

Senior Managing Director,
Co-Head of Private Fixed Income



Valter Lourenco

Managing Director, Private Fixed
Income

While materially smaller than the primary issue market, the secondary market has become an increasingly active part of the broader IG private credit ecosystem. This market is increasingly used by investors to rebalance portfolios, manage liquidity and access new opportunities. Secondary trade volumes from the largest brokers have typically been estimated at US\$3 billion to US\$4 billion annually. In 2025, a new broker entered the investment grade private credit secondary market, pushing estimated total annual volume to about US\$5 billion.

2026's outlook – momentum and duration demand

The 2025 calendar year was a marquee period in many ways for the IG private credit market. As we look ahead, 2026 is well positioned to build on 2025's momentum, in our view. This is despite the market possibly continuing to experience broad, periodic volatility driven by global geopolitical risk and economic policy uncertainty. The pipeline for new deals is expected to remain strong as issuers seek to take advantage of refinancing windows and favorable yield conditions. We expect the expansion of the IG private credit market to continue benefiting from several structural tailwinds. Borrowers are increasingly focused on diversifying funding sources while prioritizing execution certainty. At the same time, bank balance sheets remain constrained by higher capital and liquidity requirements, making the IG private credit market an attractive alternative – particularly for longer dated, fixed rate financing solutions.

Sector leaders for volume in 2026 should again include industrials and financials, with digital infrastructure (data centers, cell towers and fiber) remaining a key growth driver as the data center build out accelerates alongside associated capital investment. Demand for fund finance structures and asset backed securitizations is anticipated to remain robust, particularly among high quality, non-cyclical borrowers seeking to broaden and diversify their access to various funding markets.

Barring any unforeseen macroeconomic shock, public spreads are anticipated to remain under pressure, while IG private credit markets are expected to continue providing excess spread over the public market. We believe attractive risk adjusted returns available to experienced investors with scale and deep sector expertise are expected to continue to anchor the growth of IG private credit activity in 2026.

Key takeaways

- The 2025 calendar year saw another record in new investment, with notable results in large financings.
- Digital infrastructure was the source of the largest transactions, driven by the build out of data centers.
- We expect the new deal pipeline to remain robust in 2026.

Source: Private Placement Monitor, 2025–6. Investment grade credit ratings of our private placements portfolio assets are based on a proprietary, internal credit rating methodology that was developed using both externally purchased and internally developed models. This methodology is reviewed regularly. More details can be shared upon request. There is no guarantee that the same rating(s) would be assigned to portfolio asset(s) if they were independently rated by a major credit ratings organization.

Private credit: non-investment grade

Navigating private credit with discipline in a divided market

A promising investment backdrop, requiring diligence and discernment

As we head deeper into 2026, the U.S. private credit market – particularly the core and lower middle market direct lending segments – continues to demonstrate resilience and relevance. In a macro environment still defined by elevated interest rates, geopolitical uncertainty and structural shifts in capital formation, private credit remains an attractive source of risk-adjusted returns. However, success will increasingly hinge on discernment, selectivity and a disciplined approach to underwriting and manager selection, in our view.



Resilience in core and lower middle market direct lending

We believe the current environment plays squarely to the strengths of the private credit asset class. With base rates still elevated relative to historical standards and volatility across public markets persisting, private credit can offer investors an attractive yield premium with reduced market-to-market risk. Core and lower middle-market strategies in particular can continue to deliver:

- Elevated all-in yields, supported by floating-rate structures and modest leverage.
- Robust creditor protections and tighter documentation.
- Strong information rights, enabling more active monitoring and engagement.
- Premiums to broadly syndicated loans and public credit, without sacrificing structure or transparency.

These structural advantages are reinforced by a market we see as continuing to favor scaled, relationship-driven lenders capable of delivering certainty of execution to financial sponsors.



Chris Wright
President

Deal flow normalization continues; quality remains bifurcated

After a prolonged period of dislocation and suppressed merger-and-acquisition activity, deal volumes meaningfully rebounded in the back half of 2025, and the pipeline remained active heading into 2026. A resurgence in sponsor-backed activity, driven by ample dry powder and improved valuation alignment, is fueling growth in direct lending opportunities.

However, credit quality is increasingly bifurcated. The best-in-class borrowers, those with strong recurring revenue, cash flow visibility and defensible market positions, continue to attract competitive terms. In contrast, second-tier credits are struggling to clear without structural enhancements or pricing concessions. Sector-wise, technology, health care and services remain some of the most active and attractive verticals, benefiting from secular trends such as digitization, value-based care and outsourcing.

The secular shift in capital formation toward private credit remains intact. Private equity sponsors appear to increasingly prefer the speed, certainty and flexibility of direct lenders over traditional syndicated channels, further reinforcing the strategic role private credit plays in middle-market lending.



Chris Wang
Managing Director

Macro and geopolitical headwinds – known unknowns

While fundamentals remain strong, investors must navigate an increasingly complex set of macro and geopolitical risks:

- Policy shifts in the era of Donald Trump, including trade tariffs, tax reform and deregulation, are impacting underwriting across sectors.
- Geopolitical tensions, including in Eastern Europe and the Middle East, are adding risk to global supply chains and business sentiment.
- The regulatory environment continues to evolve, introducing new variables into underwriting and risk assessment.

Amid this uncertainty, credit managers must invest with intention and underwrite to downside scenarios, focusing on cash generative businesses with pricing power and strong sponsors capable of supporting their portfolio companies through market dislocations.

Private credit: non-investment grade (cont.)



Chris Wright
President



Chris Wang
Managing Director

Rising dispersion; growing importance in manager selection

Perhaps the most important theme for 2026 is the growing dispersion across manager performance. As beta-driven strategies come under pressure, performance is increasingly being driven by manager-specific factors: sourcing depth, underwriting discipline and portfolio construction rigor.

Recent dislocations – ranging from some highly publicized, idiosyncratic defaults to increasing non-accruals and payment-in-kind (PIK) interest income in private credit portfolios – have exposed weaknesses in risk controls, underwriting discipline, loose documentation and non-sponsored lending. The era of passive credit beta is over: we believe 2026 is a stockpicker's market. In this environment, limited partners are placing greater emphasis on:

- Cycle-tested track records, with proof of performance across vintages.
- Scalable platforms, with deep origination networks and robust underwriting processes.
- Alignment and transparency, particularly around conflicts, governance and reporting.

Manager selection is no longer a check-the-box exercise – it is a key driver of risk-adjusted return in today's maturing private credit landscape.

Disciplined capital wins in 2026

The opportunity set in private credit remains promising, but the path forward demands differentiated sourcing, discipline, selectivity and deep credit expertise. In a market shaped by structural tailwinds but complicated by macro risk and rising dispersion, we believe success will favor those who stay grounded in fundamentals, have invested through cycles and maintain a sharp focus on risk management.



Key takeaways

- Private credit continues to offer attractive, risk-adjusted returns amid higher-for-longer rates, supported by conservative structures, creditor protections and higher yields.
- Deal activity is rebounding, but quality remains bifurcated – requiring disciplined underwriting, credit selectivity and relationship-driven sourcing.
- With rising performance dispersion, manager selection is critical; scale, cycle-tested credit discipline and sourcing depth are key differentiators in 2026.

Sources: Bloomberg, Private Placement Monitor, 2025-6.

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Real estate

Canadian CRE on better footing heading into a new year

Recession likely avoided; poised for 2026 recovery

Heading deeper into 2026, the economic outlook remains cloudy, but is clearer than it was a year ago. At the start of 2025, policy uncertainty was elevated, with the looming federal election and rising U.S.–Canada trade tensions. The economy slowed as tariffs took effect, weighing on exports, but ultimately avoided a recession thanks in part to a resilient consumer base. With the worst of the downturn likely behind us, the economy is now transitioning into recovery mode.

We expect the federal government’s new pro-growth agenda, centred on infrastructure investment and productivity, to provide economic support as fiscal spending begins to flow in 2026. The labor market has weakened but remains resilient, and a tighter labor supply, driven by an aging workforce and lower immigration, should help sustain wage growth. And while most U.S.–Canada trade moves tariff-free, any progress toward a new United States–Mexico–Canada Agreement (USMCA) should reduce uncertainty and support renewed business confidence in the back half of the year.

Bank of Canada on hold for now

The Bank of Canada (BoC) reduced the policy rate to the bottom of its neutral range at 2.25% in 2025. Forward guidance suggests that monetary policy is about at the right level to keep inflation close to 2.0%, while excess capacity is expected to persist but gradually be absorbed. Absent a significant downshift in economic activity, the BoC is likely to remain on hold.



Phil Stone

Managing Director, Head of Canada Research

Longer-term yields have not adjusted as sharply as in previous easing cycles, but 5- and 10-year Government of Canada (GoC) yields remain well below recent peaks. The stimulative impact of recent cuts should continue to flow through the real economy into 2026, particularly in the housing sector, where activity remains subdued. With further rate cuts on hold, any additional downward pressure on longer-term rates is likely to be moderate. We expect 5- and 10-year GoC bond yields to remain above historically low pre-COVID levels, relatively flat to slightly higher from today’s levels as the yield curve steepens. More importantly, rate volatility has eased, providing the stability needed to support commercial real estate underwriting and facilitate deal flow.

Stabilizing values and steady NOI growth

Commercial real estate (CRE) performance continues its recovery, with seven consecutive quarters of positive returns as of Q3 2025. Valuations appear to have found a floor across most sectors, aside from lower-quality office buildings and industrial assets in select markets where rents are declining. With interest rates well below recent peaks and values bottoming, current conditions present an attractive entry point for institutional capital. As pricing stabilizes and confidence improves, investment activity should strengthen. Large domestic and foreign pension funds are expected to be more active in 2026. Select real estate investment trusts (REITs) may also be net buyers in the year ahead as their cost of capital has improved.



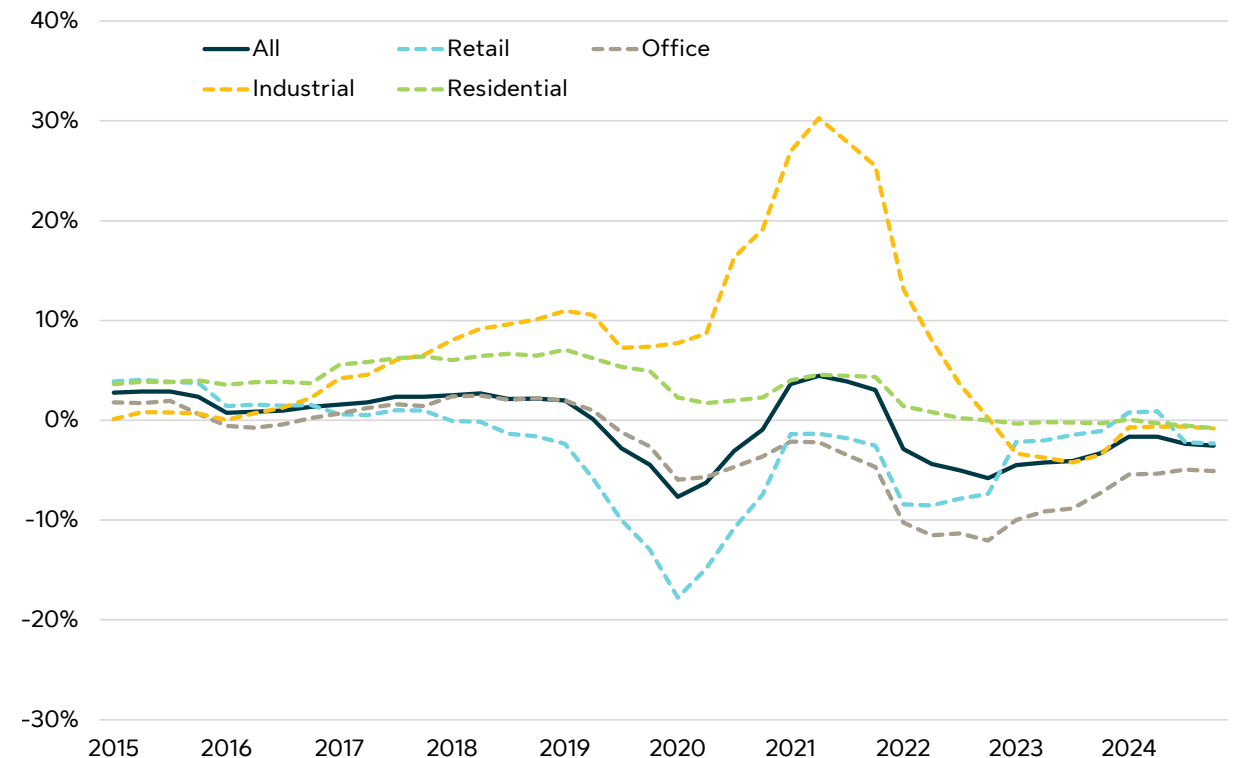
Philippe Dougherty

Managing Director, Commercial Mortgages

Net operating income (NOI) growth remains healthy, although it has moderated in line with a softer macro backdrop. As economic activity improves, leasing should pick up, supporting rent growth. NOI growth, rather than cap-rate compression, will be the primary driver of performance. We reiterate our view that the keys to outperformance when entering a new cycle are asset selection, not simply allocating capital across sectors, and executing business plans through active asset management.

Capital growth by sector

Year-over-year change, standing investments (Q3 2025)



Source: MSCI/REALPAC Canada Annual Property Index.

Real estate (cont.)



Phil Stone

Managing Director, Head of Canada Research



Philippe Dougherty

Managing Director, Commercial Mortgages



Christina Iacoucci

Managing Partner, Head of Canada and Canadian Chief Investment Officer

Constrained supply mitigating demand risk

Critical to our view on NOI growth is that supply risk is significantly lower as the current development cycle winds down. Office construction is at multi-decade lows, and industrial development has fallen well below recent highs. Elevated new supply tends to drive up vacancy through downturns. With much lower development volume today, that risk is materially reduced. As demand gradually strengthens, this constrained supply environment should support future rent growth.

Near-term industrial softness poised for a recovery

Industrial leasing activity was anemic in 2025 under the cloud of tariffs. Net absorption was negative for the second consecutive quarter in Q3 2025 (-0.67 million square feet [msf]), pushing availability to 5.5 percent, the highest level in nearly a decade, although still in line with the 10-year average. However, most of the weakness was 2.7 msf of negative absorption in Montreal, where a surge in sublease space hit the market. Five of 10 major markets registered positive absorption, with the Greater Toronto Area (GTA) alone posting 1.6 msf in Q3 2025. If USMCA negotiations bring greater clarity to future cross-border trade, occupiers could regain confidence and resume expansion plans. Canada's lower e-commerce penetration rate compared to other advanced economies remains a structural tailwind that supports industrial demand. As such, we are positive on the sector over the medium term.

Office showing signs of stabilization

Physical occupancy continues to trend higher as large corporations reinforce return-to-office mandates, translating into improving leasing activity. Net absorption reached nearly 1 msf in Q3 2025, the strongest level since before the pandemic, while sublease vacancy is declining as employers reclaim space for increased in-office presence. With very little new supply for the foreseeable future, sustained leasing momentum should help stabilize vacancy further in 2026. Demand remains concentrated in high-quality space, and the bifurcation between best-in-class assets and the broader market is likely to widen as employers place greater emphasis on amenitized, well-located office space.

Opportunities in the multifamily supply gap

The multifamily sector has been experiencing softer fundamentals as reduced immigration and the influx of both purpose-built rental (PBR) supply and shadow condo rentals have pushed vacancy higher, though not to concerning levels. Rents have declined but not materially, and leasing conditions have become more challenging for owners, with higher tenant turnover, extended lease-up periods and a greater reliance on incentives. These challenges are most pronounced in the Greater Toronto and Greater Vancouver areas, where a record number of new condo completions entered the market.

Apartment starts, both PBR and condo, have fallen sharply due to weaker revenue expectations, a higher cost of financing and elevated construction costs. Once the current overhang clears, today's sharp drop in starts will translate into much lower completions toward the end of the decade, setting up a potential supply crunch. Market vacancy could tighten substantially as a result, driving rents higher. Our medium-term outlook for the sector remains constructive.



Real estate (cont.)



Phil Stone

Managing Director, Head of Canada Research



Philippe Dougherty

Managing Director, Commercial Mortgages



Christina Iacoucci

Managing Partner, Head of Canada and Canadian Chief Investment Officer

Resilient consumers supportive of retail

Despite a softer labor market and softening wage growth, consumers have been surprisingly resilient. Essential and discretionary retail spending held up through the worst of the downturn, indicating limited household distress and willingness to spend. With the outlook improving, consumer confidence should strengthen, supporting further gains in retail spending.

Enclosed retail vacancy rose in 2025 largely due to the closure of a national department store chain rather than any broad softening in demand. Neighborhood and community center fundamentals remain strong and well supported by the stability of daily-needs retail, one of CRE's strongest performers over 2025. This momentum is expected to carry into 2026.

A competitive mortgage market

Commercial mortgage conditions are expected to remain highly competitive in 2026, supported by abundant liquidity. As investment-grade corporate bond spreads remain relatively low, fixed income investors are looking to the commercial mortgage market as an alternative to generate incremental spread and yield. With a significant amount of capital in the market looking to deploy into the commercial mortgage market, we believe conditions are favorable for borrowers, with many lenders competing for the same transactions and keeping spreads and structures competitive. Borrower demand remains healthy for both new acquisition and refinancing activity. Demand for longer-term debt (five years or more) continues to gradually come back, with interest rates down from their previous peak, and borrowers are looking to lock in more certainty on their real estate returns.

From a lender's perspective, this environment reinforces the need for disciplined underwriting. Although sentiment has shifted more "risk-on," lenders must remain mindful of the soft economic backdrop and uneven sector performance. Industrial fundamentals remain tepid, and pockets of the office market continue to present challenges and require reinvestment. Even in favored segments such as multifamily, selectivity will remain high as lenders differentiate more sharply by asset quality and borrower strength.

Key takeaways

- Canadian CRE enters 2026 on firmer footing, with easing headwinds, limited new supply risk and improving operating fundamentals.
- Valuation reset, lower borrowing costs and strong availability of debt capital should facilitate greater investment volume.
- A competitive mortgage market, tightening spreads and strong liquidity underpin lending activity, so disciplined underwriting remains essential, especially in sub-sectors that may be vulnerable to further valuation downside.



Sources: Bank of Canada, Statistics Canada, MSCI, CBRE, Oxford Economics, 2025–6.

Infrastructure

Resilient performance as capital flows accelerate and energy, digital convergence unlocks growth opportunities



Jack Paris
Chief Executive Officer



Edward Hunt
Partner, Head of Core Income Funds



Stephane Kofman
Partner, Head of Capital Gain Funds

Momentum of 2025 poised to continue

The 2025 calendar year marked an annual period of resilience and renewed capital flows in infrastructure. Investor confidence held firm as digital infrastructure and power-linked themes outperformed expectations. Looking further into 2026, we anticipate continued momentum in infrastructure investment. While macro uncertainty persists, infrastructure continues to offer potential for diversification, stability and long-term growth, underpinned by growing demand for digital networks, energy and transport connectivity.

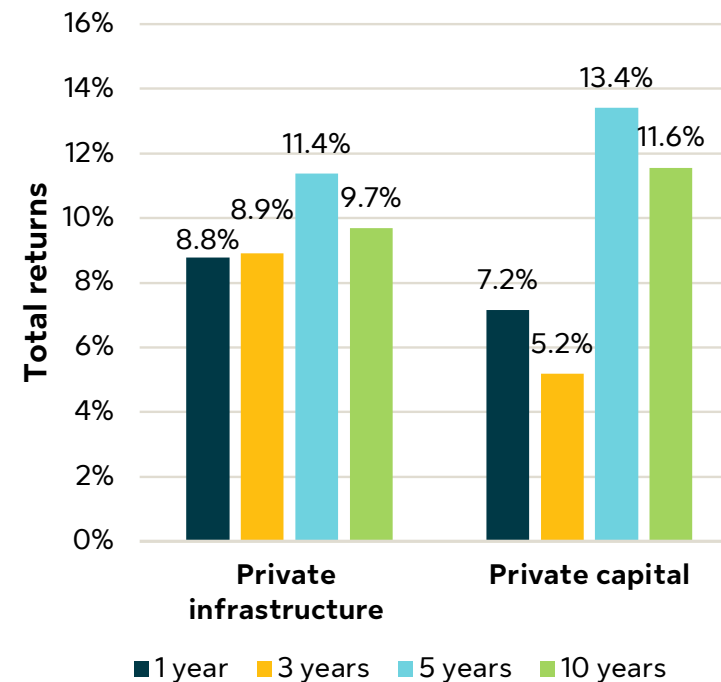
Inflation, long-term yields may ease further in 2026

Economic growth across North America and Europe was more resilient than expected in 2025 – supported by easing monetary policy and selective fiscal stimulus – despite higher tariffs weighing on global trade. In the United States, data center investment was a key contributor to economic growth. Inflation continued to trend lower in Europe but remained stickier in the U.S. Long-term government bond yields remained elevated but now appear to be gradually easing across the eurozone, U.K. and U.S.

Within this macroeconomic context, infrastructure demonstrated performance resilience across all sectors, including energy, digital, utilities and transportation. This was supported by inflation pass-through and positive earnings growth driven by secular tailwinds, particularly across digital and energy. Infrastructure continued to outperform other private capital strategies in the near term and liquidity remained robust, with an improvement in the ratio of capital distributed to capital called. Historically, infrastructure distributions have consistently exceeded 65% of capital calls, highlighting the asset class's resilience (source: Preqin, 2025).

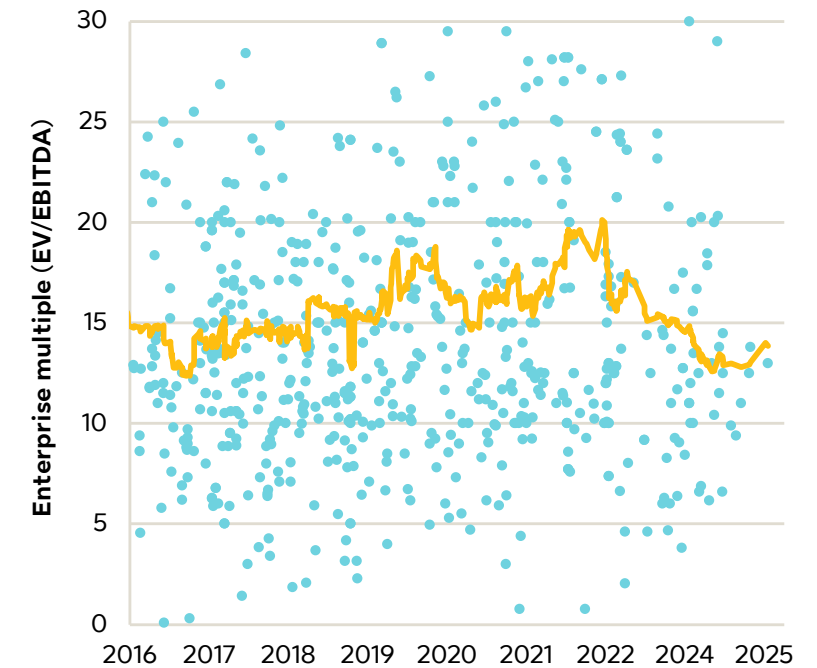
In the previous year, the asset class appeared to have largely absorbed the impact of higher interest rates on valuations, with median secondary market discounts narrowing to approximately 4%, down from 7% in 2024, and valuations showing signs of a rebound (source: Infralogic, 2025), a trend that we anticipate continuing in 2026, providing an opportunity for capital appreciation to existing portfolios.

Infrastructure vs. private capital (total returns)



Source: Preqin, Private Capital Quarterly Index, as of June 2025. Past performance is not indicative of future returns.

Infrastructure transaction multiples trending upward



"EV/EBITDA" is the valuation metric for enterprise value over earnings before interest, taxes, depreciation, and amortization. Source: InfraRed Capital Partners, Infralogic, November 2025. Past performance is not indicative of future returns.

Infrastructure (cont.)



Jack Paris
Chief Executive Officer



Edward Hunt
Partner, Head of Core Income Funds



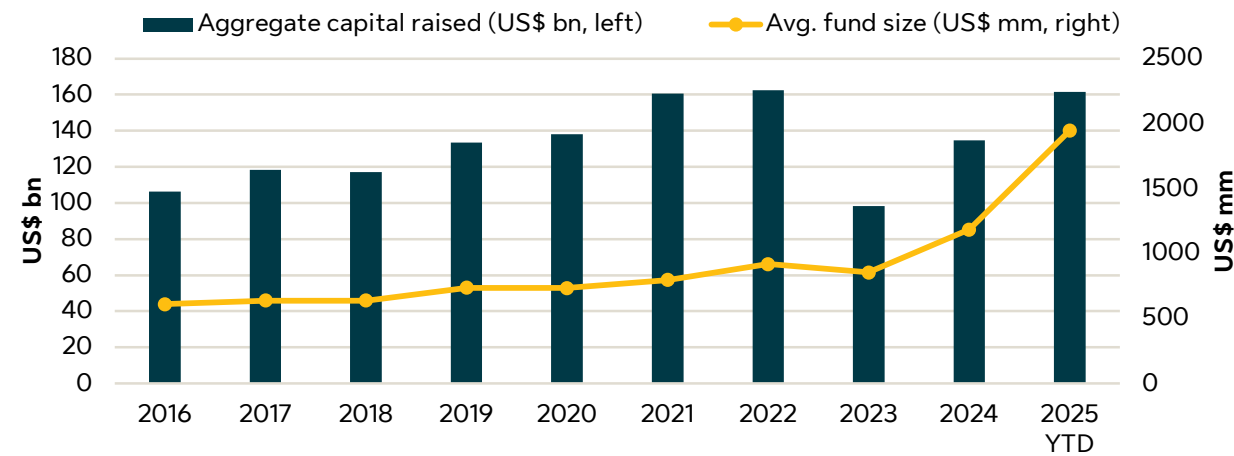
Stephane Kofman
Partner, Head of Value Add Funds

Capital and deal activity regain strength

Infrastructure allocations rebounded to US\$161 billion as of November 2025, positioning 2025 to be the strongest fundraising year on record for the asset class. We observed core and value-add infrastructure strategies proving particularly attractive among investors. Yield-oriented investors allocated to core infrastructure in 2025, supported by attractive entry returns and the prospects of lower long-term government bond yields providing an opportunity for further capital appreciation. At the same time, value-add infrastructure has increasingly represented a key strategy for investors focused on capturing the growth provided by megatrends, in our view.

For 2026, as the asset class continues to be favorably positioned toward the secular tailwinds of energy transition, energy security and digitalization, we anticipate fundraising to remain strong. In 2025, fundraising continued to concentrate, with average fund size rising to US\$1.9 billion from US\$850 million in 2023 – underscoring investors’ preference for managers with proven track records. In 2026, we expect investors to increasingly target the mid-market to enhance portfolio diversification and capture the upside from megatrends.

Infrastructure fundraising rebounds with larger managers (US\$ bn)



Source: Preqin, as of November 2025. Past results are not indicative of future results.

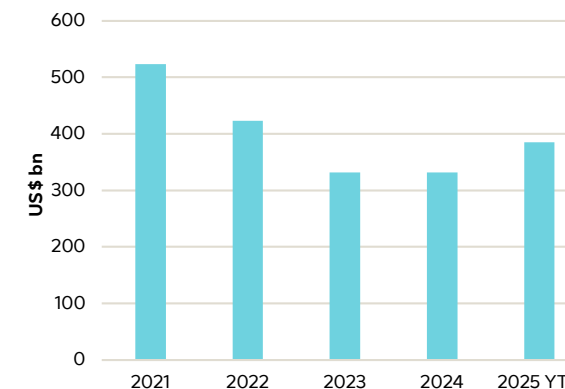
Energy transition, digitalization boost mid-market activity

In 2025, infrastructure transaction volumes showed signs of recovery, with aggregate deal value reaching US\$400 billion as of November 2025 and positioned to exceed the transaction volume recorded in 2022. In 2025, transactions in Europe accounted for approximately 38% of total volumes, with North America at 28% and Asia at 15%. Regionally, North America and Europe remain the most active markets, with Europe recently overtaking North America amid policy volatility, but both represent the key focus of diversified infrastructure portfolios (source: Preqin, 2025).

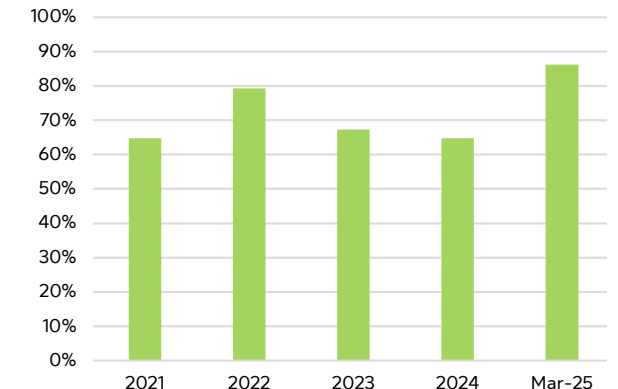
Despite the trend toward larger fundraising vehicles, the average transaction size remained below US\$400 million and continued a gradual decline in recent years. In 2025, 47% of infrastructure transactions were below US\$100 million, while 19% ranged between US\$100 million and US\$250 million – highlighting that most activity was concentrated in the mid-market, where deal volumes continued to accelerate underpinned by a growing pipeline of transactions.

For 2026, we expect the mid-market to remain the most active market segment, supported by the abundance of transaction opportunities, its alignment with infrastructure megatrends and value-creation strategies, comparatively lower entry prices and the sector’s stronger exit optionality helping facilitate capital rotation – a factor of growing importance for infrastructure investors.

Infrastructure transactions by aggregate deal value (US\$ bn)



Infrastructure capital distributed as % of capital called



Source: Preqin, as of November 2025. Past results are not indicative of future results.

Infrastructure (cont.)



Jack Paris
Chief Executive Officer



Edward Hunt
Partner, Head of Core Income Funds



Stephane Kofman
Partner, Head of Value Add Funds

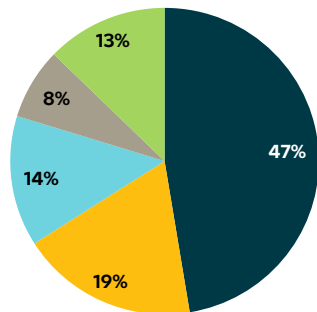
Megatrends broadening investment gap beyond 2026

As energy transition, digitalization and AI accelerate, these forces are reshaping infrastructure markets – expanding the scale of opportunities, deepening the investment universe and unlocking new pathways for growth. In 2025, energy transition continued to dominate the market, accounting for over 50% of transactions – including renewables, battery energy storage systems (BESS), utilities and other energy subsectors. Energy generation has accelerated alongside rising power demand driven by growing data center capacity – a trend we expect to strengthen in 2026, as digitalization and electrification increasingly converge. The electrification of heat continues to represent a growing market trend.

One additional trend shaping the pipeline is the topic of energy security, driven by geopolitical uncertainty, supply-chain vulnerabilities and the need for resilient power systems – a theme we expect to gain further prominence in 2026, particularly across Europe.

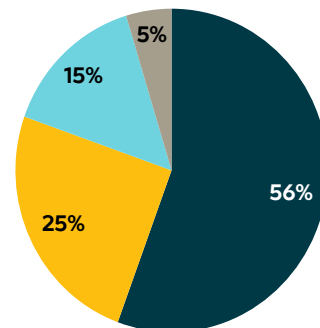
Digital infrastructure represented roughly 25% of transactions in the infrastructure space in 2025, supported by robust growth in data centers underpinned by AI adoption, which is set to expand further across industries in the medium term. Transportation and logistics account for approximately 15% of deal volume, a smaller but accelerating segment, as electrification, supply-chain reconfiguration and automation broaden the opportunity set.

Breakdown of deals by size (2025)



■ Less than US\$100M
■ US\$100M–US\$249M
■ US\$250M–US\$499M
■ US\$500M–US\$999M
■ US\$1B–US\$4.9B

Breakdown of deals by theme (2025)



■ Energy transition
■ Digitalization
■ Transportation & logistics
■ Demographics

Source: Preqin, as of November 2025. Past results are not indicative of future results.



In recent years, investors (limited partners) have meaningfully grown their exposures to digital infrastructure and are now increasingly seeking differentiation and diversification across other sectors. Policy uncertainty has introduced pockets of caution for regulated assets and U.S. renewables. Nevertheless, renewables and battery storage remain attractive, in our view, and are expected to continue to provide ample market opportunities. The pipeline remains strong, as infrastructure has increasingly taken center stage, aligning with political, economic and megatrend tailwinds – underpinned by the need to modernize existing assets and build next-generation infrastructure – with asset class allocations continuing to grow.

Key takeaways

- We have observed infrastructure remaining a preferred allocation for diversification, stability and long-term growth, underpinned by growing demand for digital networks, energy and transport connectivity.
- Infrastructure performance is expected to remain resilient, supported by structural megatrends driving earnings growth, with valuations likely to improve in 2026 as government bond yields soften.
- Capital flows and deal activity surged in 2025, marking the strongest fundraising year on record, driven by investor preference for proven managers. Momentum is expected to remain strong into 2026.
- The mid-market remains a cornerstone of investment activity, accounting for over 75% of deal flow, driven by structural megatrends like energy transition and digitalization.

Sources: Macrobond, Preqin, Infracore, Infrastructure Investor, 2025.

Insurance asset management

Changes in the macro and regulatory environment could open up opportunities for insurers



Ashwin Gopwani
Managing Director, Client Solutions



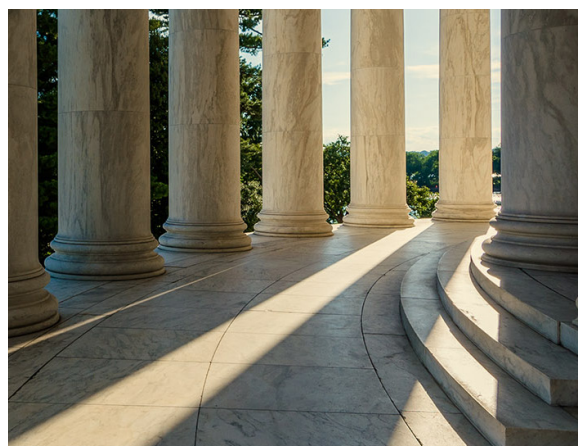
Steve Guignard
Senior Director, Client Solutions

New year primed for investment ideas

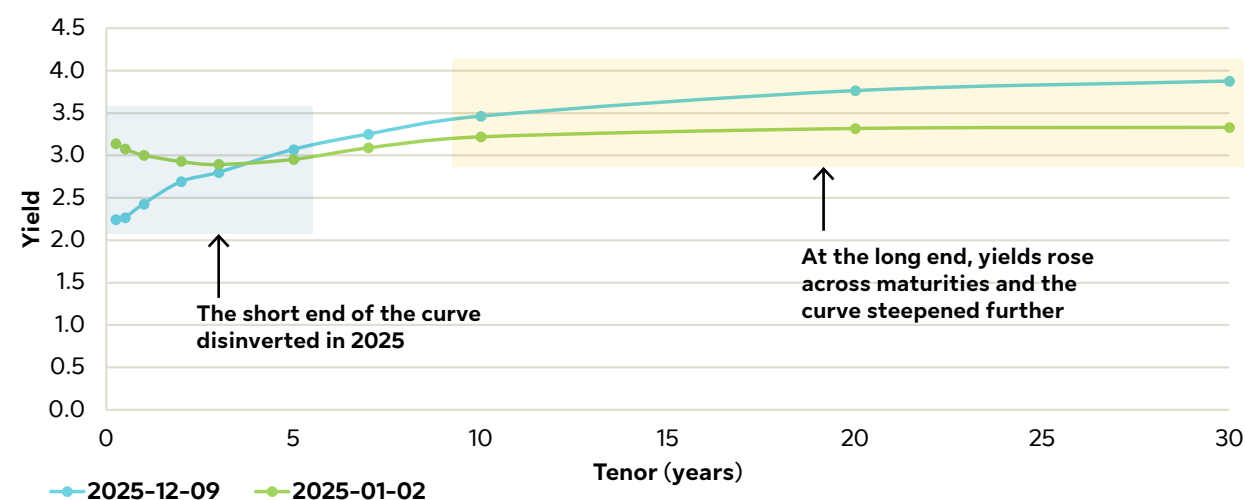
As 2026 begins, insurers operate in an environment that largely mirrors 2025: easing monetary conditions, attractive all-in yields, expensive equity markets and geopolitical uncertainty. Yet, new opportunities have emerged. The sharp steepening of Canada's yield curve has expanded portfolio options, while recent regulatory changes have further improved investment flexibility, enabling insurers to optimize returns and better align assets with long-term liabilities.

Opportunities from the steeper Canadian yield curve

The Bank of Canada's rate-cut cycle in 2025 drove a significant steepening of the yield curve, creating distinct opportunities for both property and casualty (P&C) and life insurers.



The yield curve for Canadian government bonds steepened notably in 2025



Source: Bloomberg, as of Dec. 9, 2025.

P&C insurers – short end of the curve

Tight spreads don't necessarily mean lower total returns. The risk-free yield pickup from three months to five years now exceeds 80 basis points (bps, as of December 9, 2025), compared to -18 bps at the start of 2025. The steepness of the curve in the short end offers P&C insurers an opportunity to extend duration slightly for attractive incremental yield. Even after factoring in the higher interest rate risk capital charge from going beyond liability duration, the net pickup is typically positive.

Life insurers – long end of the curve

Life insurers, meanwhile, are benefiting from long yields reaching levels not seen in over a decade. This creates an opportunity to enhance liability-matching at attractive rates, albeit in an environment of continued pressure on the long end. The current curve also makes synthetic duration-extension strategies, such as using repurchase agreements (repos) to acquire long bonds, more compelling. Borrowing short to invest long now offers a positive yield pickup, supporting both asset-liability matching and portfolio returns.

Credit allocation: A nuanced approach is required

While yields are broadly attractive, credit spreads remain tight by historical standards. Still, dismissing credit allocations only on this premise alone could be shortsighted. Beyond strong fundamentals, insurers have several reasons to take a more nuanced approach to credit allocation:

- **Relative value opportunities:** Private credit and high-quality securitized assets (collateralized loan obligations, commercial mortgage-backed securities, asset-backed securities) offer compelling value, even (and particularly) after considering regulatory capital charges.
- **Spread duration matters:** In the short end, limited spread duration means widening spreads have a muted impact, making incremental yield attractive. In the long end, technical factors, especially supply-demand imbalances, render corporate credit expensive compared to provincial bonds in the current market environment (see the following graph). At higher spread duration, widening spreads can quickly erode excess return.

Insurance asset management (cont.)

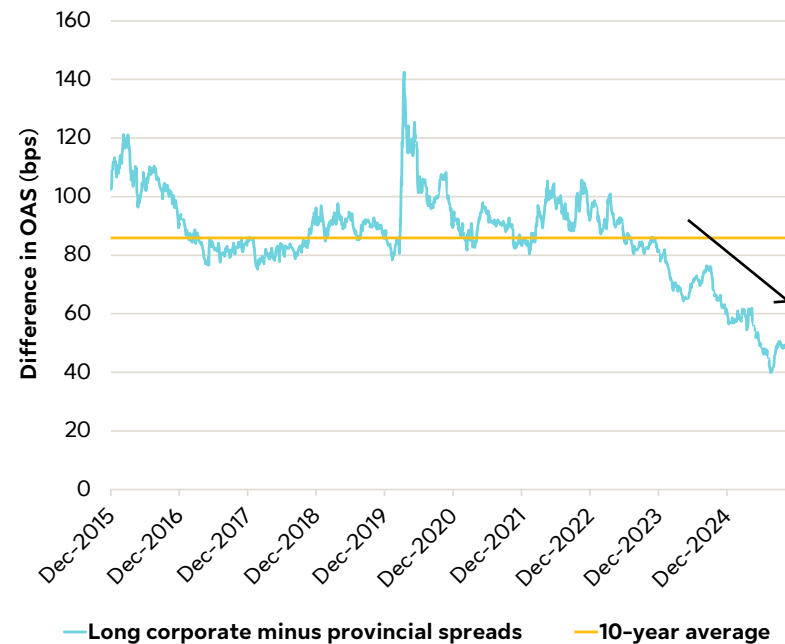


Ashwin Gopwani
Managing Director, Client Solutions



Steve Guignard
Senior Director, Client Solutions

The current differential between long corporate and provincial bond spreads is well below the 10-year average



Source: BlackRock Aladdin; daily data from December 11, 2015, to December 10, 2025. Long corporate spreads are based on the option-adjusted spread (OAS) of the FTSE Canada Long Term Corporate Bond Index, while long provincial spreads reference the OAS of the FTSE Canada Long Term Provincial Bond Index.

- **Liability-matching:** International Financial Reporting Standard 17 valuation methods vary, but most liabilities embed credit exposure. Avoiding credit can create structural yield mismatches between assets and liabilities.

Credit spreads may be tight, but we believe blanket avoidance of credit is misguided. Insurers should adopt a nuanced approach, considering relative value opportunities, curve positioning and liability-matching.

Keeping an eye on insurance investment regulatory updates

The 2025 federal budget included a proposal to repeal investment restrictions on commercial loans, real property and equity investments in the Insurance Companies Act, shifting oversight to the Office of the Superintendent of Financial Institutions (OSFI), for more adaptive regulatory guidance. This change is particularly relevant for P&C insurers, who have faced a strict 5% limit (as a percentage of total balance sheet assets) on commercial loans. This limit, due to its broad definition, has restricted access to private credit and certain investment structures.

The industry is closely watching for details on how OSFI will implement these changes. Separately, OSFI has lowered capital charges for life insurers investing in qualifying Canadian infrastructure. The credit risk charge for unrated infrastructure debt has been reduced from 6% to 3%, while the market risk charge for infrastructure equity has dropped from 40% to 30%. These combined measures are expected to enhance portfolio flexibility for insurers.

Key takeaways

- Rate cuts in 2025 drove a significant steepening of the yield curve, creating distinct opportunities for insurers.
- Private credit and high-quality securitized assets offer compelling value in 2026.
- Regulatory changes may open up some opportunities for insurers in private credit, infrastructure and other asset classes.

Retirement plan solutions

Improved plan health, tight credit spreads drive plan strategy; total portfolio approach gains momentum



Ashwin Gopwani
Managing Director,
Head of Retirement Solutions

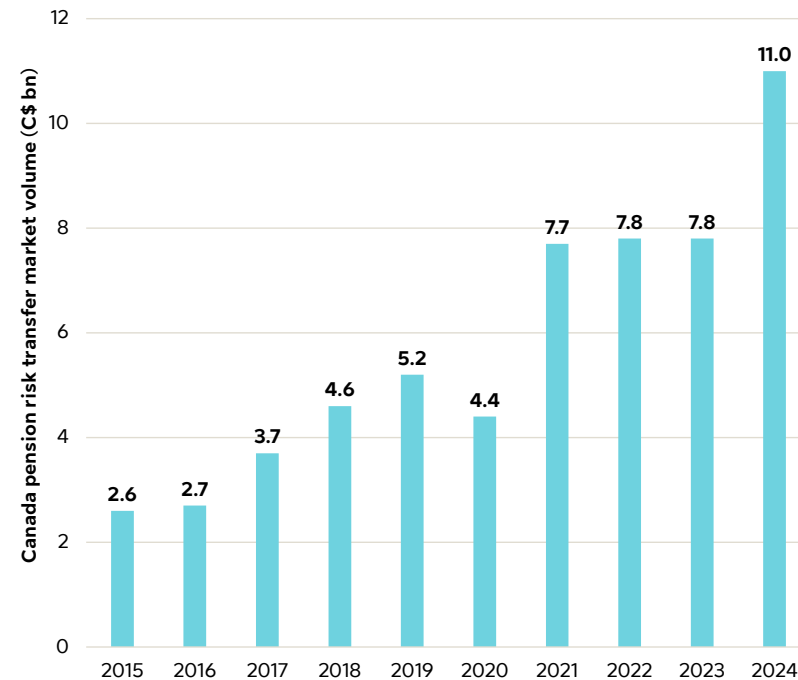


Neil Tai-Pow
Senior Director, Client Solutions

High funded statuses cause divergence in plan investment strategies

Consistent with trends observed post-pandemic, plan funded statuses continued to improve over 2025 with strong equity performance and stable interest rates. With plans becoming better funded, pension risk transfer (PRT) has become more feasible for many plan sponsors as an option for de-risking, as evidenced by the rapid growth in PRT transaction volume over recent years.

Evolution of the Canadian pension risk transfer market



Source: The Secure Retirement Institute Canadian Pension Market report published by LIMRA, March 3, 2025.



For sponsors with remaining plan liabilities, we have observed a division into two broad groups of thinking in response to improved funded status.

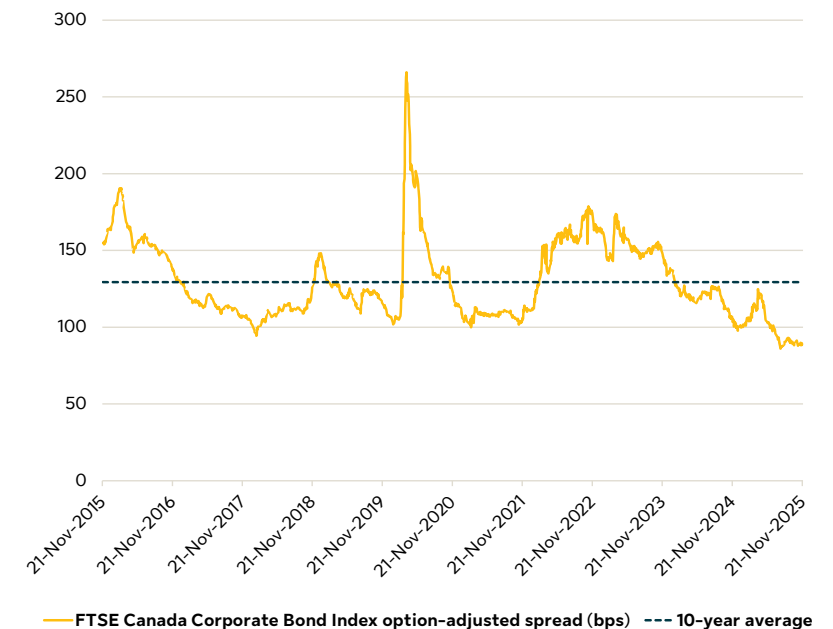
The first group of plan sponsors has tended to keep their investment strategies in a steady state, seeing little reason to change the strategies that have worked well for them up to this point. Some of these plans have taken steps toward de-risking their portfolios by increasing their allocations to fixed income but otherwise making minimal changes to their overall approach.

The second group has tended to be more proactive in considering larger changes to investment strategy to further enhance asset-liability management. These plans are contemplating items such as how to improve portfolio yield relative to rising liability discount rates or how to manage additional liability risks beyond overall duration risk (such as key rate duration risk or inflation risk).

Credit assets: potential opportunity at the short end

Corporate credit spreads have compressed meaningfully, with the option-adjusted spread of the FTSE Canada Corporate Bond Index reaching 10-year record-tight levels over 2025, closing the year at approximately 39 basis points below the 10-year average level. As such, conditions have become more challenging for sourcing value from public credit assets, and there has been heightened focus on seeking the most fruitful areas of the market to obtain credit exposure.

Public corporate credit spreads have compressed



Source: BlackRock Aladdin, daily data time series, as of November 2025.

Retirement plan solutions (cont.)



Ashwin Gopwani
Managing Director,
Head of Retirement Solutions



Neil Tai-Pow
Senior Director, Client Solutions

In the current environment, potentially compelling credit opportunities exist at the short end of the curve. This has garnered interest among some plan sponsors. In choosing to spend their credit risk budget at the short end of the curve, many of these plans are reducing their emphasis on hedging corporate credit spread exposure at the long end, instead focusing on hedging long interest rate exposure using instruments such as provincial bonds and repurchase agreements.

Commercial mortgages are often viewed as the go-to option for many Canadian investors looking to explore the short-duration private credit space. However, in recent years, other areas of the short investment grade private fixed income space, including structured credit, infrastructure debt and private corporate credit, have become increasingly accessible to Canadian investors. These asset classes have garnered interest as options that can provide attractive yield potential in addition to favorable downside protection and diversification attributes.

TPA takes the spotlight

In November, the California Public Employees' Retirement System (CalPERS) became the first U.S. pension plan to officially adopt the total portfolio approach (TPA) model to portfolio construction, replacing the strategic asset allocation (SAA) model that CalPERS previously used to guide investment decision-making. In making this transition, CalPERS joins a list of several other large investors across the world that have already adopted TPA, including Canada Pension Plan Investments, Australia's Future Fund and Singapore's GIC (sovereign wealth fund).

This begs the question: what is TPA, and how does it differ from the traditional SAA framework? The TPA model treats the overall investor portfolio as a single unified entity, with investment decisions evaluated on their ability to improve the return and risk profile of the portfolio. This contrasts with the SAA approach, which typically allocates investor funds across distinct asset class buckets, each having performance measured against its own asset class benchmark. Proponents of the TPA model believe that it is a more flexible approach than SAA, enabling investors to quickly respond to changing market dynamics without the need to consider pre-set allocation targets for each asset class.

It remains to be seen whether CalPERS's transition to TPA may spur similar moves from other large plans. Although the concept of a TPA model is appealing to many investors, formal adoption involves significant changes to governance and culture which could prove challenging.

Key takeaways

- PRT has grown in popularity as a de-risking option as plans improve their funded status.
- Identifying fixed income opportunities has become more challenging amid tight spreads, but the short end of the curve could contain promising investment ideas.
- The use of TPA in model portfolio construction is gaining momentum, but would also need to contend with governance and culture factors among pension plans.



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Unless otherwise noted, all references to "\$" are in Canadian dollars.

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