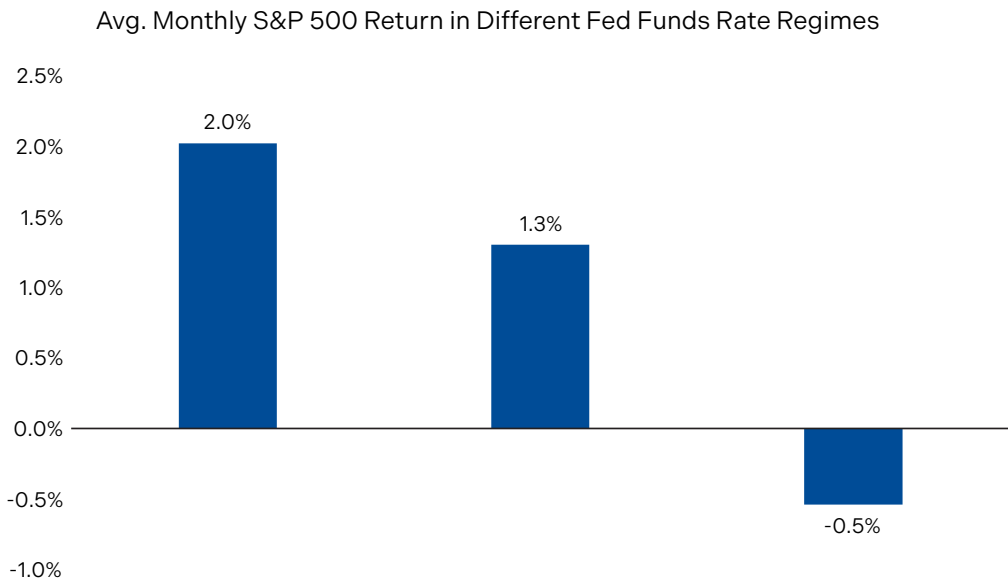


With the turbulence of trade wars, it is hard to believe that all major equity markets are strongly up year-to-date.¹ It is a reminder that the market and GDP growth are not necessarily the same. Canada was arguably in a recession, yet the S&P/TSX consistently made new highs.¹ Nearly 13% of the Canadian market is in gold stocks that continued to make new highs with gold exceeding \$4,000/ounce² which is a reminder that the market is ultimately driven by earnings. With worries over tariffs, margins in the US actually expanded every quarter in 2025 with earnings growing an astounding 16% YTD.³ This was even before the U.S. Federal Reserve (“Fed”) started lowering interest rates in September. This leads us back to the #1 rule of investing, “Don’t fight the Fed”. After three rate cuts in 2025, the market is expecting another 2-3 Fed rate cuts in 2026 which could be revised down with better than expected labour market data.¹ Owning the market during Fed cuts has typically been a profitable trade, as shown in the chart below.

Equities Tend to Perform Well During Fed Cutting Regimes



Source: Bloomberg (data retrieved Oct 31 2025)

Fed Policy, Interest Rates, and Market Implications

Brompton believes the Fed Put is in place, whereby if the economy weakens, the Fed will lower rates to stimulate growth. If the Fed doesn’t move, the Trump administration will likely moderate their trade policy.

With lower short-term interest rates, we expect cash to be less attractive. With fears of tariff-related inflation and a Treasury Secretary who appears to be overly focused on the U.S. ten-year Treasury rates, bondholders could struggle to achieve a real rate of return. As a result, we expect the stock market to remain attractive and in the “buy-the-dips” mode.

Global GDP Outlook

Global GDP growth is expected to be around 3% in 2026, similar to 2025.⁴ Our base case is no recession in the U.S. as The One Big Beautiful Bill, re-industrialization, and increased trade certainty are all positive for U.S. economic growth. In Canada, we expect renegotiation of the CUSMA, albeit on more onerous terms, and the past interest rate cuts to stabilize the economy.

Broadening Earnings Growth in 2026

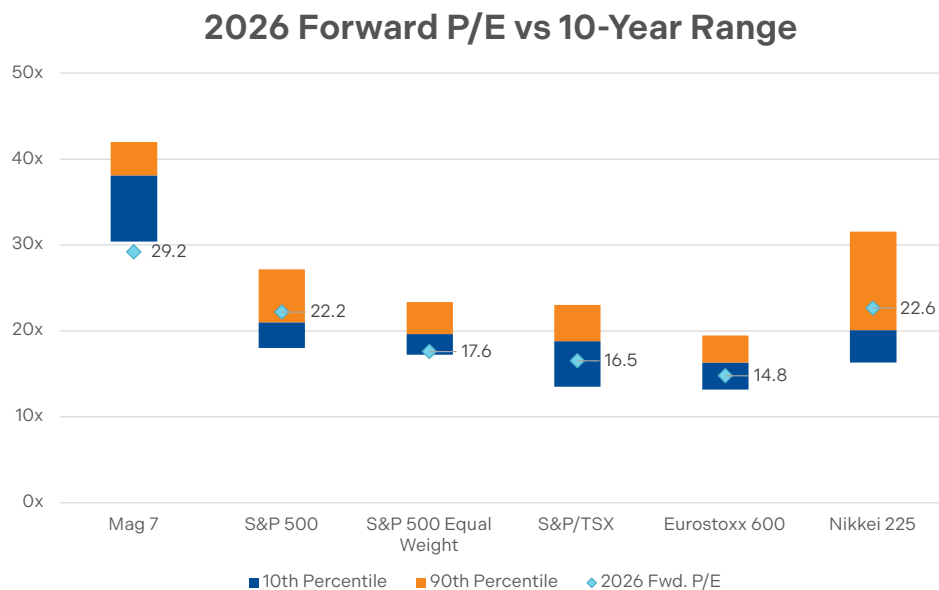
Growth in the U.S. should still be driven by the Magnificent 7, but earnings growth is expected to broaden around the world as shown in the table below.

2026 Earnings Growth Consensus Estimates

Index	2026 Forward P/E	2026 Earnings Growth (%)	2026 (Price/Growth) PEG Ratio
Magnificent 7	30.2	18.0	1.7
S&P 500	23.0	13.9	1.7
S&P 500 Equal Weight	18.2	12.2	1.5
S&P/TSX	16.8	10.5	1.6
Eurostoxx 600	15.2	10.5	1.5
Nikkei 225	23.1	11.5	2.0

Bloomberg, as of December 8, 2025.

The following chart shows the valuation range for the different markets around the world.



Although valuations in the US appear high, the high valuations tend to be in the Magnificent 7 that have substantially higher growth versus the S&P 500 Equal Weight Index. History has shown that when earnings growth is greater than the median (around 7-8%), P/E valuations are unlikely to contract.⁵ Therefore, returns should be approximately EPS growth + dividend yield. Given the double-digit earnings growth across many sectors and regions and relative valuations, we expect returns to broaden out beyond the Magnificent 7. There is also the potential for multiple expansions outside of the US. Overall, this should lead to solid double digit stock market returns in 2026.

The Shift Toward Deregulation

Sentiment towards Europe is improving as the bloc is coming to the conclusion that they are less competitive than other regions. Read more about it in our [Europe Insights](#).⁶ This highlights one of the newer themes in the market: deregulation. Ever since the Great Financial Crisis, the burden of higher capital levels and compliance have increased. Brompton believes capital levels have peaked and [the financial sector has substantial tailwinds](#).⁷ The environment in both Canada & the U.S. to build infrastructure will continue to improve. In Canada, the government is trying to diversify its trading partners and increase GDP growth per capita, while in the US, tech leaders continue to build [AI infrastructure](#).⁸

Artificial Intelligence: The Next Industrial Revolution

Brompton believes [Artificial Intelligence](#) (AI) is the next Industrial Revolution and we are still in the early innings.⁹ There will be more drawdowns like the DeepSeek selloff in March 2025, but we believe this is a long-term theme with AI winners moving through the value chain. It started with Nvidia to data centres to AI infrastructure to software. We expect AI infrastructure to be one of the biggest beneficiaries since this is currently the biggest bottleneck, particularly on the electricity side. This is detailed in our [AI infrastructure Insights](#).⁸ These bottlenecks are expected to take years to resolve and we expect some of the benefits to start accruing to the AI adopters. These are starting to show up in improving margins and sales per employee.

¹Bloomberg, as of December 8, 2025.

²Bloomberg, as of December 10, 2025.

³Bloomberg, as of September 30, 2025. Based on earnings for the S&P 500 Index.

⁴Bloomberg, as of December 8, 2025. OECD Economic Outlook for World GDP Growth.

⁵Morgan Stanley, November 17, 2025.

⁶Brompton Funds, April 8, 2025. [Why Europe is Poised for a Resurgence](#)

⁷Brompton Funds, August 18, 2025. [A New Era for U.S. Banks](#)

⁸Brompton Funds, December 12, 2025. [Infrastructure Spending Goes Into Overdrive](#)

⁹Brompton Funds, November 17, 2025. [The Trillion Dollar Question – Are We In an Artificial Intelligence Bubble?](#)

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