

Economic and Financial Review

Office of the Chief Economist

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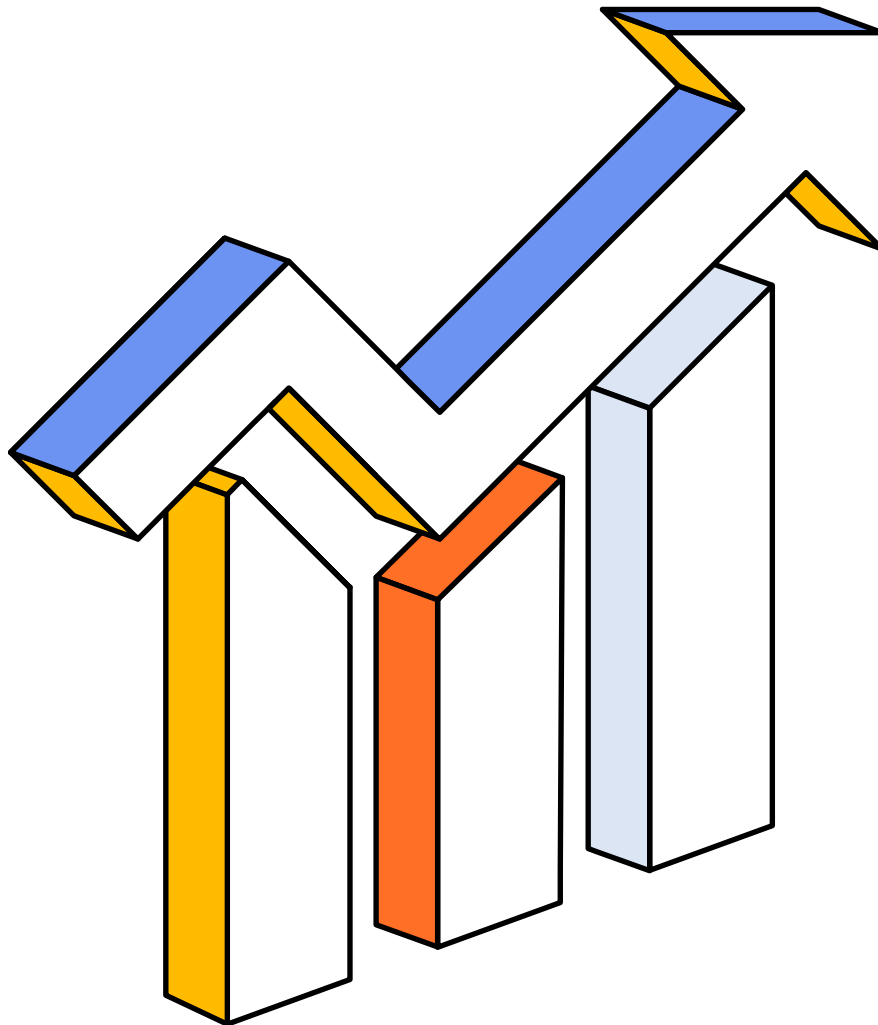


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Highlights

- While 2025 saw the new U.S. administration pursue an aggressive tariff policy, it did not produce the catastrophe that many feared, and the global economy performed fairly well.
- The U.S. economy was particularly robust, posting 4.3% growth in the third quarter, on the heels of 3.8% growth in the second quarter, despite a federal government shutdown that lasted more than a month.
- The Canadian economy saw weak GDP growth. However, despite trade uncertainty, it avoided a recession. Canada had to adjust to U.S. protectionist policies, which harmed several sectors of the economy.
- Québec's economy slowed considerably in 2025, and the outlook for 2026 is not much brighter. As with the Canadian economy, tariffs and the generalized climate of uncertainty dealt a blow to trade and put a damper on investment and hiring.
- Financial markets were highly resilient in 2025 amid rising trade tensions and increasing geopolitical risks. Stock markets benefited significantly from investor enthusiasm for artificial intelligence.
- On the bond markets, yields fluctuated sharply, reflecting tension between fears of inflation and rising government debt, on one side, and a slowing economy and monetary easing, on the other.
- A number of issues will be on the radar in 2026, including geopolitical and trade tensions, market valuations, private sector debt, and artificial intelligence.

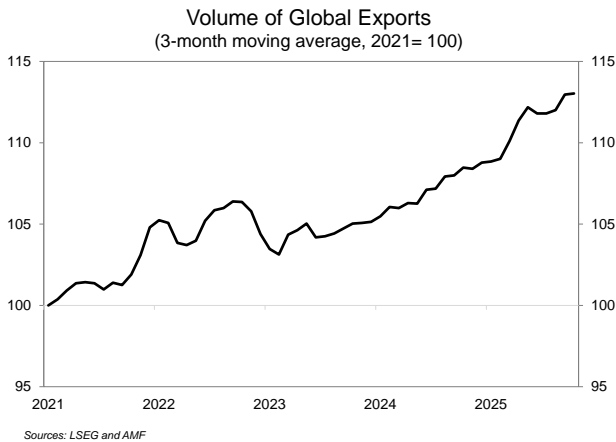
	Real GDP			Inflation			Unemployment Rate		
% change	2024	2025e	2026f	2024	2025e	2026f	2024	2025e	2026f
United States	2.8	2.0	2.1	3.0	2.8	2.8	4.0	4.3	4.5
Euro area	0.9	1.4	1.2	2.4	2.1	1.8	6.4	6.4	6.3
Canada	2.0	1.7	1.3	2.4	2.1	2.1	6.4	6.8	6.6
Québec	1.7	1.1	1.1	2.3	2.4	2.3	5.4	5.7	5.6

e: estimate, f: forecast

Sources: Bloomberg and AMF

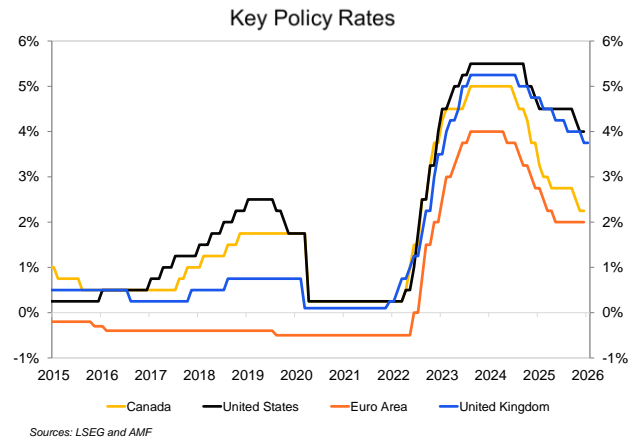
World

While 2025 saw the new U.S. administration pursue an aggressive tariff policy, it did not produce the disaster that many feared, and the global economy performed fairly well. The tariffs that ultimately were applied were substantially lower than what was initially announced, and most countries did not impose counter-tariffs. Fiscal stimulus policies were also implemented in several countries, so that global trade actually increased in 2025. In addition, the U.S. Supreme Court still needs to rule on the legality of imposing tariffs on all countries by declaring an economic emergency.



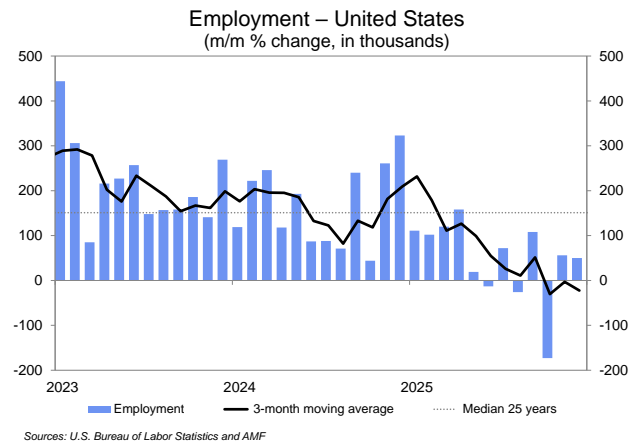
In most of the world's major economies, economic growth proved more resilient than expected, and economic forecasts, which had been revised downward in the first half of the year, were subsequently revised upward.

Amid uncertainty, the central banks paused or adopted a gradual approach to monetary easing, even though inflation, in many cases, continued to be slightly above the typical 2% target.



The U.S. economy was particularly robust, posting 4.3% growth in the third quarter on the heels of 3.8% growth in the second quarter, despite a federal government shutdown that lasted more than a month. Consumer spending and investment, particularly in artificial intelligence, remained steady and supported growth. For all of 2025, growth is expected to be 2%.

The labour market slowed considerably, however, with only 49,000 new jobs added each month in 2025, compared with 168,000 each month in 2024. At the same time, the jobless rate rose from 4% in January 2025 to 4.4% in December 2025.



Inflation increased from spring levels, climbing from 2.3% in April to 2.7% in December, due, in part, to the impact of tariffs on prices. As a result, the cost of living became a political issue, leading the government to cancel its tariffs on hundreds of basic food products.

Given the strength of the U.S. economy, the Federal Reserve kept its key policy rate unchanged until September. The slowing labour market and rising jobless rate eventually prompted the Fed to make three consecutive rate cuts in the final months of 2025. The key policy rate ended the year in the 3.5% to 3.75% range.

The future seems more uncertain as the Federal Reserve, faced with a faltering job market and inflation that is still above its target of 2%, finds itself pulled in two directions by its dual mandate of price stability and maximum employment.

The euro area posted modest growth throughout 2025 but ended the year on a more positive note than anticipated after the United States' initial tariff announcements in the spring. An agreement negotiated between the United States and the European Union brought U.S. tariffs down from 20% to 15%, and the E.U., fearing the loss of U.S. security guarantees, ultimately did not impose retaliatory measures.

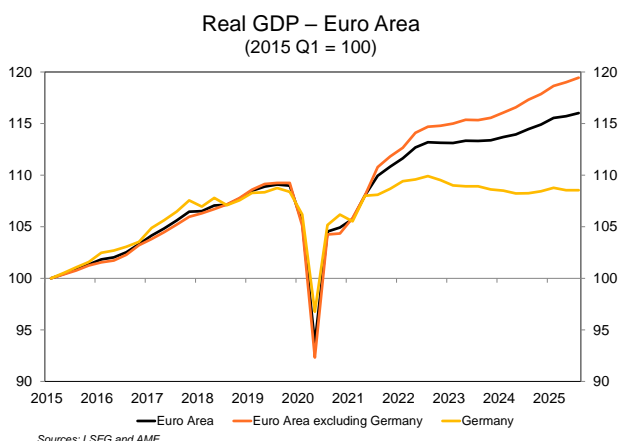
Major investments in artificial intelligence also drove growth. The biggest challenge to growth in the euro area is the German economy, which has been stagnant for more than three years. Europe's manufacturing powerhouse has been growing more slowly than the other 19 euro-area countries.

The European Central Bank cut its key policy rate three times in the first half of the year, lowering it from 2.75% to 2%, and has kept it at 2% since June. Inflation held steady at around the ECB's target of 2% throughout the year. The central bank also adjusted its growth forecasts upward twice during the fall. With inflation under control and growth proving resilient, the central bank is not planning to make any further cuts to its key policy rate in 2026.

Lastly, China, the main target of U.S. trade policy, was able to withstand U.S. tariffs as high as 145% during the year. Because the country controls two thirds of the world's production of rare earths, which many high-tech industries (automobile, armament, technology, etc.) depend upon, it was able to reach a truce with the United States.

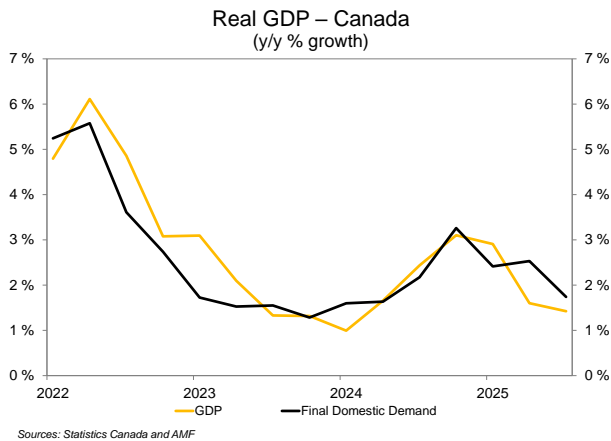
The decoupling of the world's two biggest economies is well underway, with both countries seeking to reduce their dependence on one another. As trade with the United States declined, China redirected exports to other parts of the world, including Southeast Asia and Europe, enabling it to post a record trade surplus of over \$1 trillion for the first time in 2025.

Its exports, which increasingly consist of high-tech products, including green technology, have enabled China's economy to once again maintain a respectable pace of 5% growth in 2025. However, leaving exports aside, the picture appears less rosy. The country continues to grapple with major structural issues, including weak domestic demand, the collapsing real estate sector, deflation and population decline.



Canada

In the past year, the Canadian economy saw weak GDP growth. However, despite trade uncertainty, it avoided a recession. Following a first six months of very modest growth, the economy rebounded in the third quarter, with GDP increasing 2.6%, although domestic demand remained sluggish.

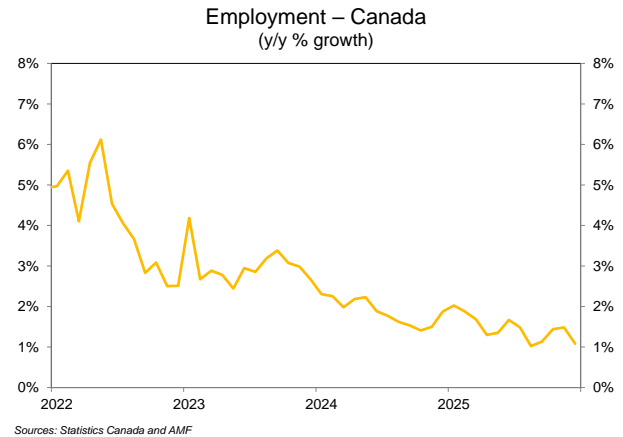


Canada had to respond to the U.S. administration's protectionist policies, which harmed several sectors of the economy. In addition to lower U.S. demand for Canadian products, companies had to contend with a high degree of uncertainty, which dampened investment and slowed hiring.

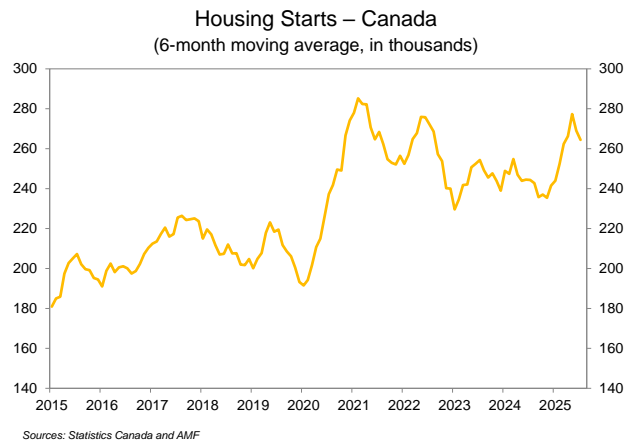
The outlook for 2026 is somewhat brighter, but there is still significant uncertainty. The recovery is expected to be slow at first, then pick up speed over the course of the year on the strength of lower interest rates and sustained public investment and as the private sector gradually adapts to the changing business environment.

Consumer spending is expected to slow, however, owing to declining population growth along with higher perceived job insecurity that is making consumers cautious. More favorable financial conditions, however, will have the reverse effect and partly bolster household spending.

The labour market showed signs of tightening last year, with more modest job growth and higher unemployment. The recovery in employment, like the overall economic recovery, is expected to be gradual but will nonetheless bring the unemployment rate back down.



Conditions in the residential real estate market varied significantly across the country. The Toronto and Vancouver markets slowed considerably, whereas the Québec market sustained its momentum, posting a marked increase in sales and prices. Housing starts were up nationally, partly due to Québec, and are expected to remain high, supported by pent-up demand and lower mortgage rates.



Trade uncertainty severely dampened private investment and may continue to weaken it in 2026. Other factors are also contributing to weaker investment, including excess capacity caused by the slowing economy that has marked the last two years.

Investment will eventually pick up as businesses adapt to the new trading paradigm, the Canadian economy continues to undergo restructuring, and companies seek to close a wide competitiveness gap. However, the recovery in investment is expected to take a while and may not begin to yield more tangible results until 2027.

U.S. demand for Canadian products, after a marked decline in 2025, is expected to stabilize in 2026, at least to the extent that it can. The trade war and uncertainty surrounding the direction of U.S. trade policy will continue to weigh on the performance of the export sector, especially as negotiations between the two countries are currently at a standstill and certain key sectors continue to be hammered by high tariffs.

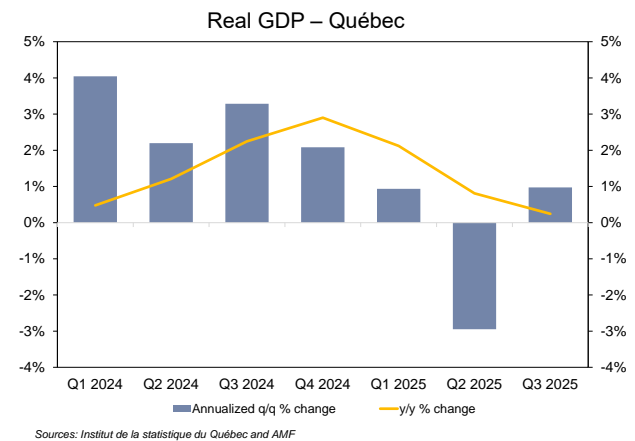


Total inflation hovered around 2% throughout the year, while core inflation reached almost 3%. In this context, the Bank of Canada was nonetheless able to continue lowering its key policy rate, which is now at 2.25%, a level low enough to bolster the economy.

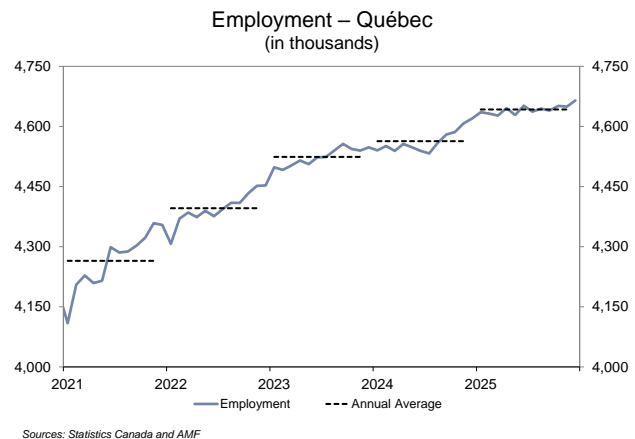
The scenario of a modest recovery for the Canadian economy is tempered by a high degree of uncertainty driven by persistent trade tensions and the uncertain effects of slowing population growth, which will impact aggregate supply and demand.

Québec

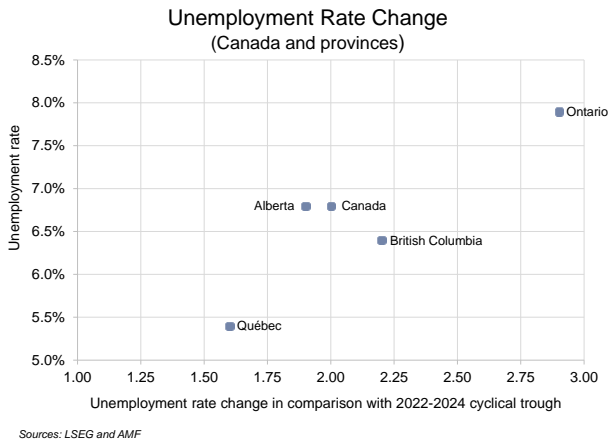
Québec's economy slowed considerably in 2025, and the outlook for 2026 is not much brighter. As with the Canadian economy, the increasing number of tariffs and generalized climate of uncertainty dealt a blow to trade and put a damper on investing and hiring.



The job market stagnated for most of 2025. Despite the weakening economy and uncertain climate, businesses did not proceed with massive layoffs, but they did not hire much either. The sectors with the greatest exposure to foreign trade were among the most affected.

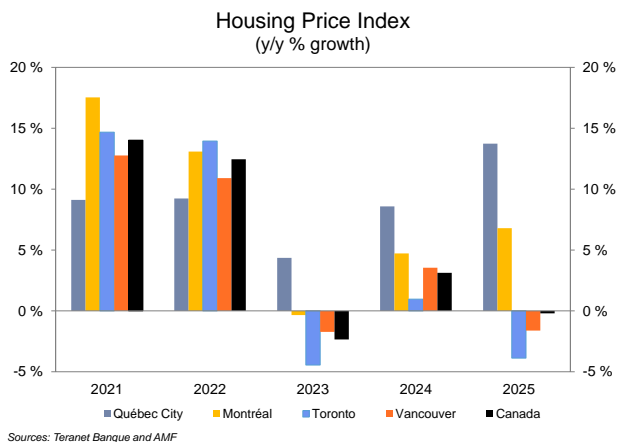


On a relative basis, the labour market still managed to perform well. Québec’s unemployment rate remains the lowest among Canada’s four largest provincial economies and posted the smallest increase.



Consumer spending showed some resilience, buoyed by lower interest rates, accumulated savings and wage growth that was above inflation. All these factors mitigated the effect of a cooling labour market on consumption.

Québec’s real estate market is performing rather well, with sales, prices and housing starts on the rise—a picture that stands in stark contrast with the current situation in Ontario and British Columbia.



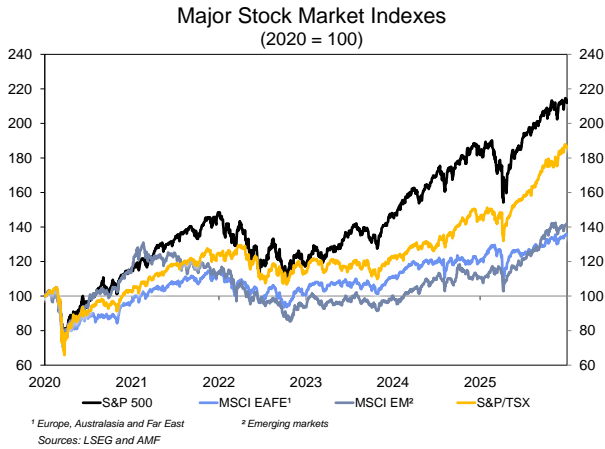
The loosening of borrowing conditions will continue to support the real estate market over the coming year. However, accessibility remains a challenge for many households. Bottlenecks will continue to limit the supply of new housing, lead to caps on construction and contribute to rising prices.

The resulting business environment and uncertainty could again lead to certain investment projects being postponed or cancelled. Businesses might also decide to relocate some of their operations to the United States. Conversely, accelerating investment in the energy, defence and public infrastructure sectors will support capital spending.

Although Québec’s economy will continue to be shaken by U.S. protectionism, which will slow exports and private investment, these headwinds will abate in 2026. Québec should fare relatively well due to resilient domestic demand. 2026 could therefore be a year of transition and provide the impetus for faster economic growth in the following years.

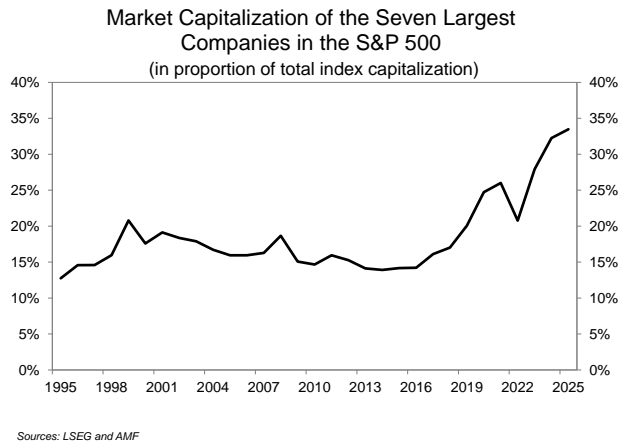
Financial markets

Financial markets proved resilient in 2025 amid rising trade tensions and geopolitical risks. Despite this uncertain environment, global economic growth was relatively strong, and stock markets benefited greatly from investor enthusiasm for artificial intelligence.



In the United States, the indices continued the upward trend that began in 2023, driven by mega-cap tech firms and the artificial intelligence investment cycle. In 2025, the S&P 500 rose approximately 16%, while the Nasdaq gained 20%, reflecting continued appetite for AI, semiconductors and digital infrastructure.

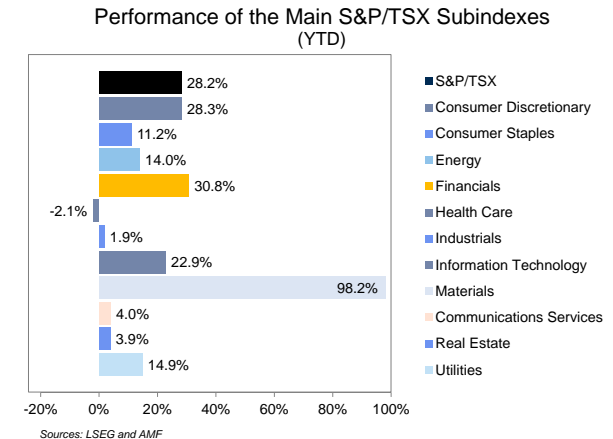
The “Magnificent Seven” continue to be the driving force behind this performance. Their market capitalization now accounts for about 34% of the total weight of the S&P 500, an unprecedented level for the seven largest companies in the index in terms of market capitalization (see chart).



The leading U.S. index is therefore now particularly sensitive to developments at a limited number of companies. Earnings growth remains positive but is slowing, while valuation multiples remain high, with the S&P 500 trading at around 22 times forward earnings, above its long-term average.

In Canada, the S&P/TSX posted one of the best returns among major global indices, gaining 28%, driven by the strength of Materials and Financials, which account for about half of the index’s weighting.

Geopolitical and trade tensions led to a sharp increase in the price of gold (+64%) and had a direct impact on the performance of the Materials sector. Major Canadian banks also played a key role, supported by solid profits in the capital markets and a smaller than expected increase in loss provisions. Québec-based companies on the TSX posted slightly more modest growth than the S&P/TSX as a whole (+22%), reflecting in particular their more limited exposure to the Materials sector.



On the bond markets, yields fluctuated sharply, reflecting tensions between fears of inflation and rising government debt, on one side, and a slowing economy and monetary easing, on the other. The major central banks continued their monetary easing campaigns against a backdrop of economic slowdown, leading to a decline in short-term yields. In contrast, very long-term yields rose in several countries as government debt increased and demand struggled to absorb the growing supply of government bonds.

The yield on 10-year U.S. bonds ended the year at 4.15%, down 42 basis points, owing in particular to a slight de-escalation of trade tensions, while the 10-year Canadian bond yield ended the year at 3.44%, up 22 basis points. However, the latter remains well below its U.S. counterpart, reflecting the relative weakness of the Canadian economy.

As for corporate bonds, yield spreads with government bonds have reached very low levels. These spreads widened slightly at the start of the trade war but have since been trending downward. Investors do not appear to be anticipating a significant deterioration of economic conditions.

Despite high volatility, the cryptoasset market has seen a resurgence of interest, particularly from institutional investors. The use of stablecoins, although still limited, has grown significantly, gradually becoming a means of international payments and transfers. The amount of stablecoins in circulation now exceeds US\$300 billion.

In the coming quarters, uncertainty around trade tensions and the high valuations of technology stocks are likely to remain dominant themes in the financial markets.

Market Performance

		Stock Markets						
		Level	% change				Last 12 months	
		2025-12-31	1 month	3 months	6 months	1 year	Min.	Max.
MSCI All Country World Index		1,214	0.66	3.35	11.25	18.01	900	1,223
MSCI EAFE ¹		1,774	2.00	5.81	10.93	17.54	1,370	1,776
MSCI Emerging Markets		87,315	2.36	5.22	17.44	28.35	63,205	87,571
S&P 500		6,846	-0.05	2.35	10.32	16.39	4,983	6,932
S&P/TSX		31,711	1.05	5.62	18.07	28.24	22,507	32,059
Morningstar National Bank Québec Index		606	3.36	7.87	16.04	23.33	429	611
		Bond Markets						
		Level	% change				Last 12 months	
		2025-12-31	-1 month	-3 months	-6 months	-1 year	Min.	Max.
Québec	10-year	3.92	3.69	3.70	3.86	3.80	3.44	4.13
Canada	10-year	3.43	3.15	3.18	3.27	3.23	2.83	3.60
United States	10-year	4.17	4.02	4.15	4.23	4.57	3.95	4.79
Canada	BBB - 10-year Gov. spread	113.67	126.48	123.92	132.40	135.45	113.08	160.73
United States	BBB - 10-year Gov. spread	102.27	107.23	100.90	112.27	104.44	97.87	143.67

¹Europe, Australasia and Far East
Sources: Bloomberg and AMF

Trends to watch in 2026

Geopolitical tensions

The radical and ever-shifting foreign, economic and trade policies of the United States will continue to be a source of global uncertainty and volatility, with major consequences for the world economy and international relations. The use of force in Venezuela and elsewhere, the targeting of natural resources and threats against several enemies and allies alike (Denmark/Greenland, Colombia, Cuba, Mexico, Iran, and even Canada) spell the end of the world order as we know it and signal a return to American imperialism, particularly in the Western Hemisphere.

These policies are eroding trust with allies, fueling tensions with other major powers and undermining multilateral cooperation, including transatlantic relations, and international law. The United States will continue to exert its power over the rest of the world, but its protectionist measures are likely to be tempered by their effect on the cost of living and well-being of Americans.

Financial market valuations

U.S. stock indices have reached new peaks and valuations are high, reflecting the high prices in the technology sector amid investor enthusiasm for artificial intelligence. Valuations in this sector are vulnerable to changing investor expectations around artificial intelligence and a potential economic slowdown. Similarly, yield spreads between corporate bonds and government bonds are low compared to the historical average. Against a backdrop of persistent economic uncertainty, the risks of a stock market correction and a sharp rise in yield spreads remain significant.

Artificial intelligence

Artificial intelligence has reached a new milestone, driven by massive investments, the widespread use of multimodal models and advanced automation now integrated into most professional tools, including in finance. In 2025, the regulatory framework became clearer with the European Union gradually implementing its Artificial Intelligence Act, the United States strengthening its measures for regulating the responsible use of generative models, and Canada clarifying the application of existing regulations to AI. Although AI has already transformed finance, healthcare and education, it is nonetheless raising major transparency, data protection and security issues. Consequently, leading international regulators are seeking to prioritize the regulation of high-risk uses, meaning those likely to have an impact on individuals' rights, security and economic situation.

Household debt

Household debt decreased slightly in 2025, both in Québec and Canada as a whole. The debt to disposable income ratio declined by 2.6 percentage points to 147.8% for Québec households and by 2.5 percentage points to 183.1% for Canadian households. Improved financial conditions also resulted in a decline in the debt service ratio, easing pressure on household finances and mitigating the risk of default. In 2026, households will continue to benefit from relatively favourable borrowing conditions, but uncertainty around the economic environment presents certain risks for their financial health.

Corporate debt

The debt levels of Canadian corporations are relatively stable. According to Statistics Canada, the non-financial corporations debt to equity ratio stands at around 64%, down since the start of the year. Some tariff-sensitive sectors are under pressure, but overall, the financial health of Canadian corporations remains relatively strong. Nevertheless, given trade tensions and lingering uncertainty, there is likely to be continued pressure on business investment, job losses in certain sectors, and challenges in refinancing or restructuring existing debt.

Climate change

The Trump administration's freeze and reversal of U.S. climate policies were major developments in 2025. However, the initiatives are continuing in the E.U. and China against a backdrop of competition in the renewable energy and clean technology sectors. In Canada, climate action is being rolled back in favour of a desired increase in fossil fuel exports. Industrial carbon pricing, the development of the nuclear and critical minerals sectors and the reassessment of GHG reduction targets for 2030 will enable to take stock of the federal government's new directions. In 2025, insurable losses related to extreme climate events in Canada (\$1.5 billion) and at the global level (US\$107 billion) appeared to remain below the previous 10-year average.

Digital assets

The cryptoasset craze continues unabated. The integration of bitcoin into traditional financial products is bolstering its institutional recognition and accessibility. However, the sharp correction observed in the fall serves as a reminder that this asset remains highly volatile and likely to amplify periods of financial stress—far from the role of a safe haven sometimes attributed to it. The adoption or proposal of regulatory frameworks, including the GENIUS Act in the United States and the Stablecoin Act in Canada, are further structuring the fiat-backed stablecoin sector. Now present in digital payments, stablecoins are attracting heightened institutional demand. However, the main risk remains a break in parity with the anchor value and contagion to the traditional financial system.

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