Equity Team commentary: Resilience, optimism, and a look ahead

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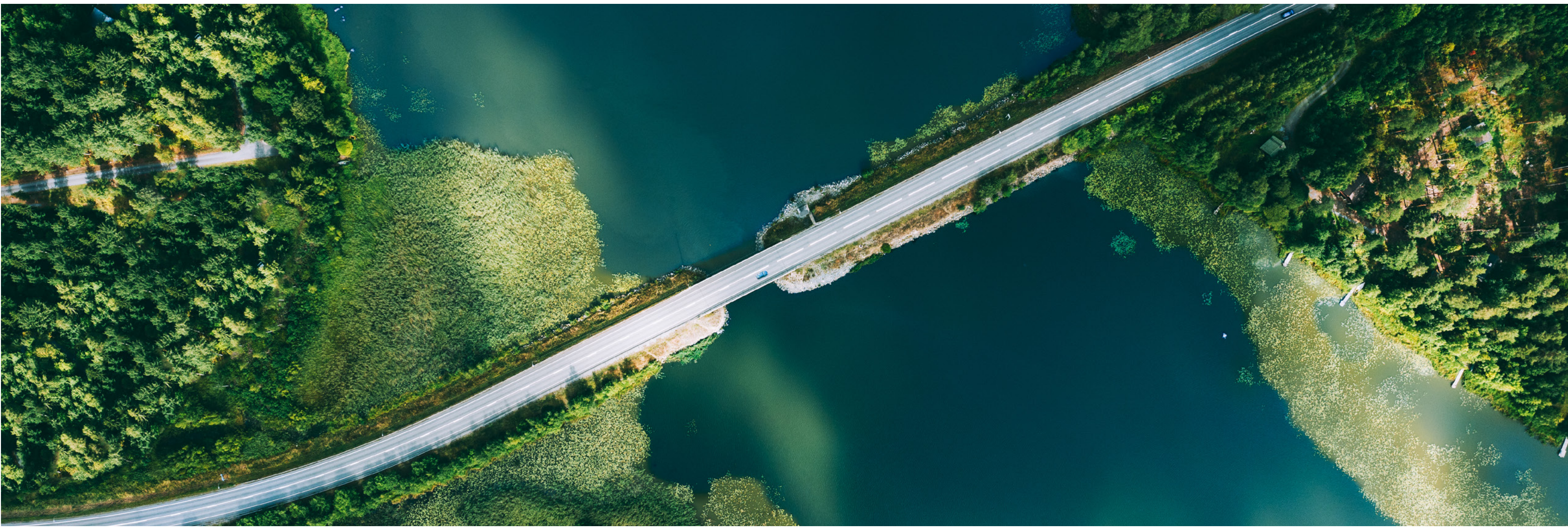

Key takeaways

- **Canadian equities achieved a new record high, with the S&P/TSX up 30% year-to-date.**
- **Investor debate intensified around the sustainability of the Artificial Intelligence sector and the possibility of an AI bubble.**
- **November saw a surge in mergers and acquisitions, reflecting strong corporate optimism and improved market conditions.**
- **The Canadian government announced major infrastructure projects to support growth and diversification.**

We began November by rolling back the clocks to extend morning daylight and gained an extra hour of sleep in the process. This proved timely given the substantial market-moving news and heightened rhetoric throughout the month.

The most prominent topic for investors was whether we are experiencing an Artificial Intelligence bubble, or if ongoing AI investments can sustain enthusiasm. Nvidia attempted to settle the debate with a record-breaking quarter and a forward-looking demand outlook described by CEO Jensen Huang as “off the charts”. However, the unusual intraday reversal of Nvidia and technology stocks on the day of the release, despite strong results, only intensified the debate and left the question unresolved.

While US equity markets were relatively directionless in November, Canadian equities reached another all-time high, with the S&P/TSX delivering an impressive 30% year-to-date return.

Market resilience and low volatility defined November

November also marked the end of the longest US government shutdown on record. Combined with strong third-quarter earnings, this helped reverse the most significant market pullback since the Liberation Day lows. Notably, the pullback was limited to approximately 4–5%, with markets recovering all lost performance by month-end. Investors have benefited from an unusually low level of volatility in equities.

Investor enthusiasm and corporate optimism surged in November, highlighted by a strong rebound in corporate mergers and acquisitions (M&A). Major transactions included Kimberly-Clark's $42 billion acquisition of Kenvue, Salesforce's $10 billion purchase of Informatica, and Coeur's $7 billion deal for New Gold. These transactions contributed to a remarkable $500 billion in deals announced during the month. The increase in M&A activity, especially in technology, resources, pharmaceuticals, and media, was driven by several factors: easing interest rates, improved financial conditions, post-election regulatory optimism, expectations of deregulation, strong corporate balance sheets, and pent-up demand. Together, these elements have created a favourable environment for strategic expansion.

Major infrastructure projects aim to boost Canadian growth

The Carney government announced a series of nation-building projects designed to stimulate growth, improve productivity, and diversify Canada's economy away from reliance on the US. These fast-tracked initiatives are estimated to deliver over $115 billion in economic impact and include:

- The Sisson Mine for critical minerals in New Brunswick
- The Crawford Nickel project in Ontario
- The Ksi Lisims liquefied natural gas project in British Columbia
- An Iqaluit hydro project
- The Nouveau Monde Graphite Phase 2 project in Quebec
- The Northwest Critical Conservation Corridor in northwest British Columbia and Yukon
- The North Coast Transmission Line in northwest British Columbia

Additionally, a memorandum of understanding was signed with Alberta Premier Danielle Smith to explore a new oil pipeline to British Columbia's west coast, as well as a 300,000–400,000 barrel per day expansion of the TMX pipeline. While these announcements provide a framework for future development rather than finalized deals, they address key regulatory issues such as production caps, clean electricity regulations, the oil tanker ban, and certain "greenwashing" provisions.

Materials sector and Barrick Gold drive TSX outperformance

The strongest contributors to TSX performance in November were the energy, financials, and materials sectors. Gold prices stabilized above $4,200 USD per ounce, and company-specific developments at Barrick Gold propelled the stock nearly 30% higher for the month.

Significant structural changes are underway at Barrick Gold following the departure of its internationally focused CEO and lead director. The company is shifting its focus from global expansion to operations in Nevada and the Americas. Reports indicate the board is considering splitting Barrick into two entities: one focused on North America, and another on Africa and Asia — a move that could result in a substantial revaluation. Additionally, Barrick reached a settlement with the Mali government to resolve disputes concerning the Loulo and Gounkoto mines, restoring idled production, securing the release of detained employees, and reducing risk associated with these assets.

Preparing for the year ahead

As we approach the final month of the year, the focus shifts to company outlooks and expectations. We will be closely evaluating company guidance, especially as firms incorporate both the benefits and risks associated with AI.

Given the strong market performance and the limited opportunities for tax loss selling, it will be important to position portfolios earlier than usual in anticipation of increased volatility in the coming year. Investors should keep in mind that this year's low market volatility is the exception, not the norm.

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