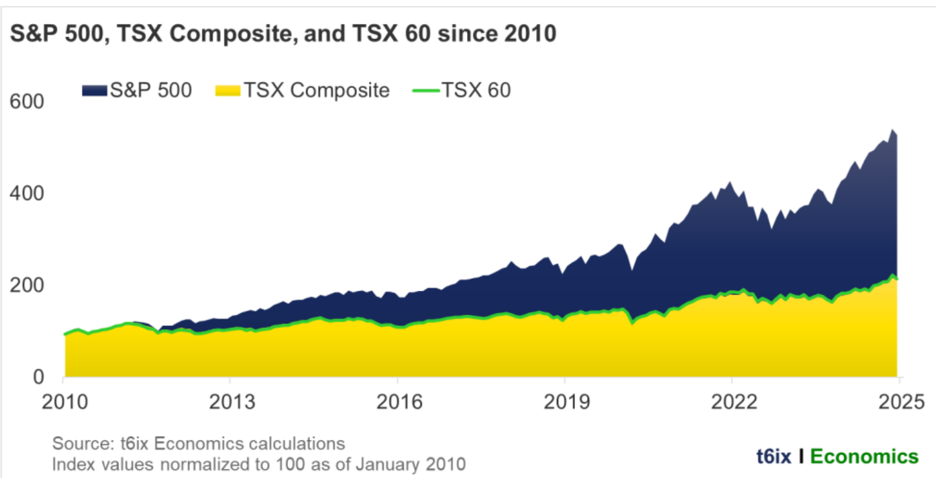
Canadian Markets Keep Losing to the S&P 500

Canada's equity markets aren't just underperforming the S&P 500—they're structurally disadvantaged. The gap in returns is widening, driven by fundamental weaknesses in Canada's economic makeup, sector concentration, and sluggish productivity growth. Normalized index values since 2010 highlight the stark underperformance of Canadian equities relative to the S&P 500 (Chart 1).

Chart 1: S&P 500 vs. TSX: A Widening Gap Since 2010



Structural Weaknesses in Canada's Market

The S&P 500 continues to dominate across all time horizons. Canadian indices, particularly the **TSX Composite and TSX 60, have consistently lagged in annual returns**, reflecting persistent challenges in Canada's equity markets (Charts 2 & 3).

The core structural issues driving this divergence include:

- **Sector Dependence Limits Growth:** The TSX is concentrated in financials, energy, and materials—sectors with lower long-term growth potential compared to the high-growth tech-driven expansion in the U.S.
- **Canada Lacks High-Growth Companies:** Unlike the U.S., Canada has few dominant global firms in technology, healthcare, or innovation-heavy industries. This limits the ability of Canadian markets to capture high-growth investment opportunities.
- **Capital Allocation Challenges:** Canadian capital markets are smaller and attract less foreign investment compared to the deep liquidity of U.S. equities, further widening the performance gap.

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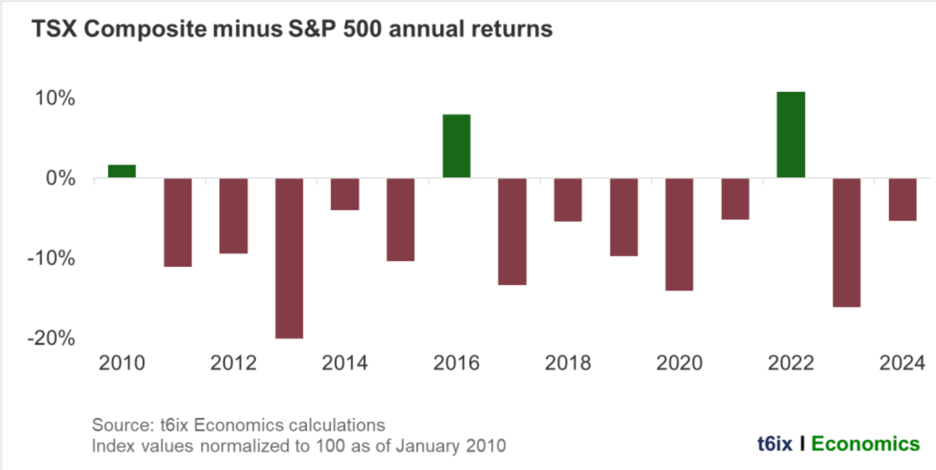
Chart 2: TSX's Persistent Underperformance: Annual Returns vs. S&P 500



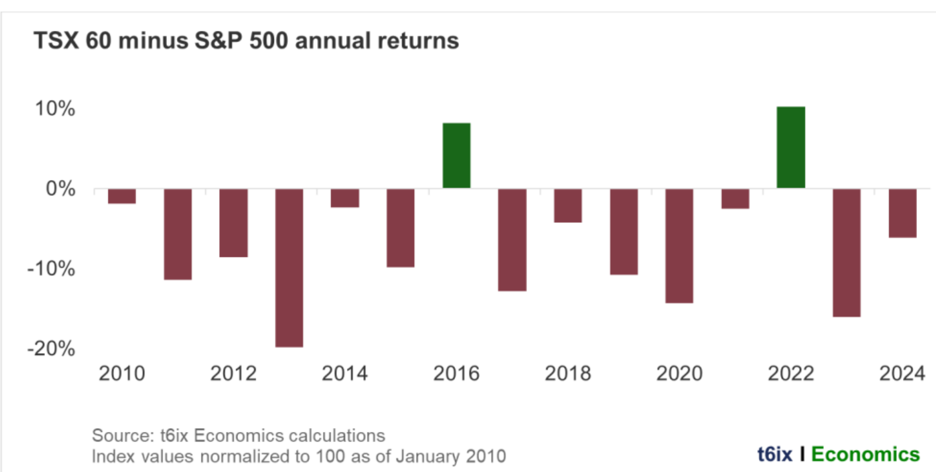
Recent Trends: The Gap Worsens in 2024

Canadian stocks have rallied, but **still lag the S&P 500**. Even with a strong year, the TSX Composite and TSX 60 remain well behind U.S. equity performance. Annual return differentials illustrate this continued underperformance, reinforcing long-term concerns (Charts 2 & 3).

At the same time, economic uncertainty has added further pressure:

- **Canada faces slowing GDP growth, rising debt burdens, and weaker corporate investment**—all factors that constrain equity upside.
- **The CAD's decline further exacerbates underperformance.** A weaker loonie makes U.S. investments more attractive for Canadian investors, reinforcing capital flight to U.S. markets.

Chart 3: TSX 60's Struggles Against U.S. Large Caps



THE MACROECONOMIC HEADWINDS BEHIND CANADA'S MARKET LAG

Beyond stock market performance, **broader economic challenges are driving Canada's underperformance:**

- **Productivity Gap:** Canada's labor productivity has consistently trailed the U.S., limiting the competitiveness of its corporate sector.
- **Investment Deficit:** Capital investment in high-growth sectors remains low, reducing future earnings potential for Canadian firms.
- **Government Policy & Taxation:** Higher corporate taxes and regulatory burdens deter business expansion, while the U.S. benefits from more business-friendly conditions.

FINAL TAKEAWAY: THE TSX'S UNDERPERFORMANCE IS STRUCTURAL

The data shows that **Canadian markets aren't just experiencing cyclical weakness—this is a long-term trend**. Without major structural shifts, the TSX will likely continue to lag the S&P 500.

- **Canada must foster innovation-driven industries** to remain competitive in global markets.
- **Global capital will follow stronger returns.** Until Canada's economy can sustain higher productivity and innovation, the S&P 500 remains the superior destination for equity growth.

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