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Dear Clients,

With the arrival of the New Year, it is only natural to look forward and scan for clues about what might lie ahead.

The folks at Fortune magazine decided to turn to technology for help. They asked an AI model for a one-word description of the economic outlook for 2026. "Precarious" is the answer they got back.

That probably sounds a little ominous but given the current trade situation and the impending reopening of the Canada-US-Mexico free trade agreement it is not an overstatement. Even in normal times, the uncertainty that comes with major trade talks would ripple widely through the economy. As we have experienced for the past year, these are not normal times.

In housing, real estate and mortgages, affordability and interest rates will likely continue to get the most scrutiny. At this point "stable" appears to be the most common, one-word, description of the market. The key question right now is: "What will the Bank of Canada be doing with interest rates?". Most market watchers seem to believe "nothing" is the answer. They see the central bank holding its policy rate at 2.25% for most of 2026, and even into 2027.

In a summary of the deliberations of the December decision to hold the rate at 2.25% all seven members of the central bank's governing council discussed how the future of CUSMA would affect the outlook.

They said the "high level of uncertainty" made it "difficult to predict when and in which direction the next change in the policy rate would be."

The Bank's next interest rate announcement is set for January 28.

