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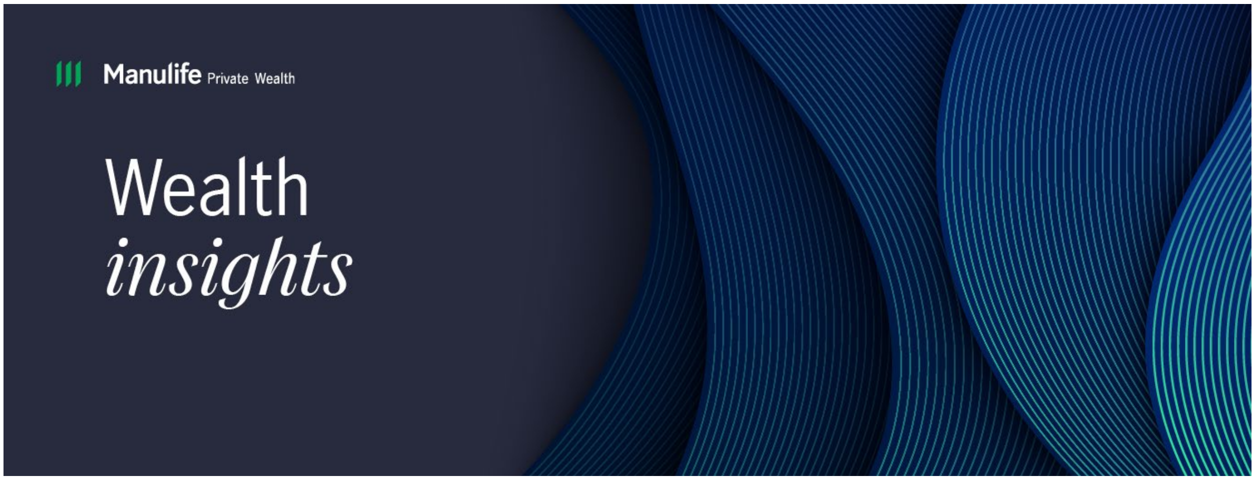

Market outlook 2025

Speaker Participants

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Presentation

00:00:00:00 - 00:00:29:07

Alex Grassino

Thrilled to be with you today in our 2025 outlook, we wrote this year shaping up to be a year of transition. Given what's already happened this year and especially this week, it's possible this may have been one heck of an understatement. Today we'll get into what we see as being the key forces driving our economy and markets, and discuss what some possible scenarios look like for the year ahead.

00:00:29:09 - 00:00:56:23

Alex Grassino

I haven't seen at any point in my career a transition to having this much impact across so many different areas. We think about things like our fed call for the year that was thrown into doubt when

Donald Trump came in, because there was no certainty around where trade, tariffs, inflation and growth would go. As such, the fed has gone from a firmly using pattern to one of let's wait and see, which is probably the most prudent way to go.

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Alex Grassino

And we're still waiting very much to see what kind of an impact that we're going to have on the broad economy stage in Canada. Similarly, there were equally pronounced effects as you looked at what the Bank of Canada did. Most recently, there was an expectation that they would ease by gradually. And then tariffs uncertainty kicked in. And then generally speaking, what happened was there was a clear skewed uptick.

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Alex Grassino

And we expect that they will probably cut a little bit more than is expected by markets at this stage. So that's setting the stage. The big question we're getting these days clearly relates to tariffs and how they will affect Canada, the United States and the United States at this point. Really, when you look at the general outlook for the United States, it's a little bit more ambiguous in Canada.

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Alex Grassino

Main takeaway here really, though, is that even with all the tariffs announced across all the different countries, the United States will be affected relatively less than other places in the United States. If you have a tariff, clearly there's a slight growth shock and you see upward inflationary pressure, that would happen. The question then becomes what really happens to the Federal Reserve policy as we go through?

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Alex Grassino

The natural assumption here really is that you see inflation move up into the right growth move down. But the Federal Reserve would, generally speaking, look towards the higher inflation profile, especially given the last few years and talks about hiking have started. We think that it's one of those things that you can quite easily look through. I think right now, when you think about central bank policy and what it means for rates, markets at this stage, holding the pattern that it's currently in or alternatively, lower rates is probably the right way to go for the following reasons.

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Alex Grassino

Inflation does go up, yes, but if you have a one time shock to tariffs, you see inflation move up and then roll back down a year later as the base effects roll off. It really comes down to whether or not the central bank wants to look through the transitionary effects, the transitory effects. Sorry. You use a T word there, around what happens exactly as the economy goes through.

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Alex Grassino

So if you have weakening growth, slight rise in unemployment rate, even with higher inflation, we think at worst the fed will hold at this point. The worst case scenario for the United States really would be a sort of rolling tariff war in which basically you see incremental increases, the tariffs that don't materially affect growth, but to do push inflation higher over a period of swung, we don't think we're there yet.

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Alex Grassino

And overall, when you look at the US economy right now we actually think that is going quite well. Thank you very much. We had called for a recession last year and the reason was very simple. You looked at all the leading indicators, were pointing firmly negative. Now we're a lot more sanguine about what the outlook is for the simple reason that when you look at the underlying dynamics that were causing us to be very worried, most of them, with the exception of interest rates, have since receded.

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Alex Grassino

And frankly, when you look at the US consumer right now, which really is the straw that stirs the US economy is strength. There's really nothing but a healthy outlook at this point. So in that context, even with tariffs, we do think that you see a pretty healthy US economy over the course of the year. And in that context, the United States does remain sort of the cleanest dirty shirt in the global economic laundry basket, I guess is the way to put it.

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Alex Grassino

So best overall economy. Still, even with everything that's going on. We are, however, vigilant for things that we could be seeing over the next 6 to 12 months. And specifically from our perspective, that would really come in the form of a labor market shock. We're not there yet. Not concerned, but there are little signs things are slightly weak to slightly slightly weak to imbalance.

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Alex Grassino

And at this stage, what that means is if you see more cracks there, you could potentially get a consumer confidence shock and slower growth from that room. Again, not pricing, but it's certainly a spot to watch. Overall, when you look at the impact of trade on the global economy. It does imply that energy prices, generally speaking, probably face downward pressure if you see slower trade volumes.

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Alex Grassino

And that's another spot to watch. But at this stage overall, again, the US economy looks fairly simple. You move over to the of the Canadian economy. We are slightly more concerned from a starting point. When you look at what's been happening with the Canadian economic picture over the last couple of years. You really be dealing with a situation where you've had muted domestic demand at best.

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Alex Grassino

So whether or not we've been in a recession is almost irrelevant. When you're dealing with flattish growth, you're sort of parsing out through a minor difference one way or the other. Now, against the backdrop of weakening economic, weakening economic picture and tariff wars, we think that there's potential for negative shocks. Again, at this point, we're in a 30 day grace period, and we're in a period where there is a suspended state of concern around tariffs.

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Alex Grassino

But the reality is that if tariffs hit, especially at the magnitude that, the US federal government wants to announce, not with retaliation on the Canadian side, it does increase the odds of recession for a bit here. The Bank of Canada, as I've mentioned before, has been unambiguously dovish. Basically, what that means is they will be prepared to look through the short term impact to inflation and focus much more on the permanent hit, the demand you'd expect to see in this case.

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Alex Grassino

So you'd expect to see some sort of policy response. There is an interesting thing worth noting. As long as we haven't actually had tariffs, and we have a more dovish Canadian central bank, what that means is interest rates are falling, which is, at the margin, a huge benefit to the Canadian economy. You think about the classic problems we've been talking about Canada.

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Alex Grassino

It's been the consumer lover of the consumer, the levered consumer. My apologies. High house prices and a whole bunch of areas where you're just seeing constrained growth as interest rates fall off. Some of those pressures are starting to ease. And in that context, you're starting to see an environment where you could see a bit of a fall out.

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Alex Grassino

So if you have a bizarre environment where maybe tariffs don't actually happen, but you do get easier policy, you do see a bit of an upswing in the back half of the year. But again, there's material downside risks at this point around what that would. More broadly, when we think about the Trump administration and the impact it's had on central banks in North America, you can extend that to other parts of the world as well.

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Alex Grassino

It's not just about what the fed does. It's about what the US dollar does. So when you think about the emerging markets in particular, you think about what the central bank policy dynamics are there. In some cases, especially for economies that are held more broadly to the US dollar standard, or they're much more sensitive to trade or the US dollar.

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Alex Grassino

It's actually forcing places that would like to ease into being a little bit more conservative on that front and holding rates higher, so slowing down things broadly across the board. So when you think about the general spillover effects are quite wide that level. On that note, I think I'll pause and hand it off to Kevin or Morgan so they can talk to their parts of the forecast stage.

00:08:00:24 - 00:08:24:00

Macan Nia

I'm going to take a bit of time the next ten minutes and talk about the equity landscape. With the backdrop of what Alex referred to is the and really the economic backdrop. And, Kevin, I, we travel a lot, for our jobs, and we've been meeting with clients over the past six, we believe the past couple of months.

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Macan Nia

And there's a sense from our clients that there's a heightened level of uncertainty as we start the beginning of 2025, and that is absolutely the case. But I'm going to be the first to remind clients and investors on this call, as we always have uncertainty going into any year. Kevin, I have been in the business for 15 plus years now, and we haven't entered a year thinking all we know exactly what's going to happen.

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Macan Nia

And there's a lot of certainty. That's never the case. That being said, we do recognize that the volume is slightly increased because of the new administration south of the border. I also want to highlight that when we look throughout 2025, we're actually still constructive on both equity returns and bond returns. The path to get there will be absolutely volatile, but we believe point to point it will be another good year for investors.

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Macan Nia

Now why do we think there's going to be volatility other than the obvious. We haven't had a correction for the past couple of years a correction of greater than 10%. So the past two years like I just mentioned we haven't had a correction of greater than 10%. To have that third year without a correction is historically historically a rare thing.

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Macan Nia

Last time that happened was, essentially in the 90s when the US economy was firing on all cylinders. And the other point in time was right after.com. And, you know, I think that was a reward for investors after several years of negative years. So we think with this backdrop, the odds of a correction have increased. We are highlighting to clients what to do and what not to do when, when and if those corrections happen.

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Macan Nia

So if you have, hand that wants to sell, we're advocating if you when you are in the right solutions, the right companies is to not sell. But if you have the other hand that wants to buy and you actually feel sick to your stomach sending the, the an email to your advisor, it's often a good sign.

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Macan Nia

So why are we constructive on equities for the entirety of 2025? As Alex mentioned, when we look across the world, specifically the US, the consumer remains resilient. Yes. As Alex mentioned, there seems to be some cracks appearing, but not enough for us to be concerned at this point. Another reason to be optimistic is China. China is stimulating their economy.

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Macan Nia

Historically, that has led to an increase in global manufacturing and global profits. Another one thing is everyone on this call has heard about AI and the importance of it. Well, when you look at AI sales or semiconductor sales specifically, there's a very strong relationship between semiconductor sales and profits globally. This is not a new phenomenon over the past couple of years.

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Macan Nia

This has been a phenomenon that has been around for several decades. Semiconductor sales are doing very well. We anticipate that that will help global profits as a result. South of the border, we have the Trump administration. When you look at the first, first year of the first term or second term, Kevin, I often joke, is this really the first term or is it the second term with the Trump administration?

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Macan Nia

Regardless, market returns are favorable in this environment. Historically, it's roughly 12.5%. Why is that? As we're seeing south of the border now, the new administration often tries to pump through policies before the midterm election in a couple of years, too. Frankly, they have to start campaigning in a year. And they also don't know what the makeup of Congress is going to be.

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Macan Nia

Market returns often take those policy decisions that are going to happen in a year and a half or two years, and we bring forward those returns. So historically, the markets had done well. And specifically the S&P 500 has done well in the first year or, the first term or second term of a US election. And I don't want to I want to keep stressing the importance of the consumer.

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Macan Nia

The consumer, as Alex said, is the backbone of any developed market. And in the US, they remain resilient. Now, I know and Alexis talked about the Canadian economy is very quick for probably many on this call to become worried about your Canadian investments. And I think it's a really important point, is there's a difference between the Canadian economy and the TSX.

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Macan Nia

They are two very different entities. Look no further than last year. Last year was a struggling year for the Canadian economy that led the Bank of Canada to make drastic cuts beginning in the summer. What did its corresponding Canadian index do? It was up 18%. So despite the weakness in the broader Canadian economy, the TSX did well. And that's what we're stressing as we go into or as we navigate throughout 2025, is the importance of quality at this point, the importance of picking companies regardless of their geographic location, regardless of their sectors that have quality.

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Macan Nia

What is quality? High recurring cash flows, they have high cash flows, high profit margins. And also we're also emphasizing diversification. We have seen the increase in AI as a performance perspective over the last couple of years. When we talk with our end clients, clients are often surprised they realize how much tech they now own within their US weight and their global weight.

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Macan Nia

And by no means are we saying that tech is a bad investment. It is not. But it comes down to too much of a good thing. It's not necessarily a good thing that diversification matters. These are great fundamentals. This company Google, for example, has seven basically seven platforms that on a daily basis have close to 2 billion individuals accessing them.

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Macan Nia

Think about that. That's a phenomenal platform. But too much of that is not necessarily a good thing. So we're recommending to clients look through your portfolios. Be aware of the potential risks, diversify, rebalance from those winners. Reallocate to other parts of the market that haven't rallied as a result, because we still believe, despite the headline news, despite the potential challenges.

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Macan Nia

From an economic perspective, as we navigate the early parts of the year, we think point to point equities will be another good year, maybe not as good as last year, but there are going to be another good year for investors. And I just want to leave it with two points is number one I saw one the one client comment was I'm extremely worried and we understand that.

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Macan Nia

But think back to everything that has happened over the last couple of decades, or everything that's happened in the last 50 years. What if I told you the odds of being positive over the last 50 years, in any three year time horizon is close to 90%. Those odds are in your favor as a long term investor, and maybe I'll leave it with this and pass it, to you, Kevin, afterwards for the bond analysis, is I heard this quote many years ago.

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Macan Nia

I think it's really important for and clients, especially those that are now vulnerable, that are, you know, maybe want to have a knee jerk reaction to the headlines is investing is like, so the more you touch it the smaller you get again. So think back when you sat down with your advisor, were you making your financial plans for the next six months?

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Macan Nia

The next year? No. Those are for much longer time frames. And in those longer time frames, the odds are in your favor. So it's very important at this point, especially with the new administration down south, is not to react to the short term headlines because ultimately they are unlikely to have a material impact on your long term goals.

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Macan Nia

So with that, I'll pass it to you.

00:16:05:21 - 00:16:28:07

Kevin Headland

Thanks, Mark, and thanks, Alex, for getting to talking about fixed income and bonds. I just wanted to press, the most recent, period of volatility. Mark on on myself for writing our, viewpoints article on the upcoming expect the tariffs. And there were supposed to you go live on Friday. I said, yeah, let's wait till Monday and see what the results of the weekend.

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Kevin Headland

Of course, as were, reacting to the results on the weekend. We, had a ready to go on Monday. And of course, we saw changes, during that day. If you look at the market open, first thing Monday morning, the TSX actually opened down 3%. Material dropped. But as we work through the day, cooler heads prevailed and realized that perhaps there's a lot of opportunity, within the markets.

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Kevin Headland

And there was no reason to just do a blanket selloff. This was a case of sell the rumor by the fact. And of course, as we worked through the day and we, got the announcement that the Mexican tariffs or the tariffs against Mexico were delayed at least 30 days. For some negotiations. And, of course, we waited the phone call between President Trump and Prime Minister Trudeau at 3 p.m. and eventually, at around 4 or 430 or so, it was announced by Prime Minister Trudeau, that the tariffs against Canada were also, delayed three days.

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Kevin Headland

And, of course, the retaliatory tariffs that were put in place by the Cuban government were also put aside for the time being, as we can negotiate a much better deal. So it's important again, to not just react to the potential, negativity there as market and Alex alluded to, the economy, could suffer throughout the year, potential tariffs or trade negotiations or uncertainty regarding the impact.

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Kevin Headland

Perhaps we could push the Canadian economy into recession. But clearly the markets are not the same as economy. And we have definitely to have cooler heads prevail now at the same time, we had fixed income sell our rally materially in Canada, where the bond yields actually, fell because prices went up. Now it's important I understand how that works for your investments is when yields move higher and Morgan's prices are falling, or also when yields fall prices are moving higher.

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Kevin Headland

So in this case when prices are moving higher and yields are falling, that is a good news story of fixed income. That is also means that perhaps the Canadian bond market on the government side was pricing in additional risk from the economy. Again, that helps bond investors is typically there's what we call a flight to safety, that money that is perhaps leaving riskier areas of the marketplace like equities tends to gravitate towards, what we would see, the safer area of the market, which is fixed income.

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Kevin Headland

Now, there were some worries I heard from investors as the, you know, tariffs were perhaps being announced going back to the inauguration, that could this be inflationary for Canada. And we would see a repeat of 2022 where both equity and fixed income sold off. We argued that was not going to be the case because we believe, as, Alex allude to, that the bank had a would essentially ignore the temporary shocks of inflation and help protect the overall economic environment by decreasing interest rates.

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Kevin Headland

And as the market starts pricing in a decreasing interest environment, for the Canadian central bank, that again, is better for fixed income in Canada, better for a bit longer duration fixed income. That quality fixed. Same as good news story. So we've been talking for quite some time, especially post 2022, as a lot of investors have been hesitant to invest in fixed income, hasn't it, perhaps to have a balanced approach because what 2022 happened, 2022 was the worst hit year in history.

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Kevin Headland

For fixed income, especially government bonds, we do not believe we are in a similar environment. Now. We believe that we are back to, seeing fixing them as what is supposed to do. We buy bonds for three reasons. First, capital preservation, protection. The downside we buy bonds for income, especially as we're entering our retiring years. We need income and that is something we have had essentially going back to the financial crisis.

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Kevin Headland

So over 15 years now or close to 15 years, actually going to 16 years now. And what was the biggest headlines on, Kitty newspapers over the last little while, last 16 years essentially is how are we going to generate income in retirement? And a lot of investors have had to go a little bit more on the risk spectrum, invest in dividend paying securities because bond yields were so low, we're not seen anymore.

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Kevin Headland

In fact, bond yields right now and many, different asset classes, fixed income, you can look across the board and see that bond yields are higher than their five and ten year average. That is a good news story. We're finally getting income for, our getting income from our fixing instruments. And of course it's a hedge against risk assets.

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Kevin Headland

That is exactly what we want to see is as equities sell off we'll get more volatility in equities. We get that move to a safer secure asset class and bond prices tend to rally. That is a good news story. That is what we saw last week when we had the deep sea shark, with an eye and, equity sold off, bonds steadily rallied.

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Kevin Headland

That is a good news story. And then, of course, as of Monday when yields our equity sold off again, we saw bonds rally again. So we saw that hedge against risk assets. So we're finally sorry to see bonds do what they're supposed to do for us. Our position on fixed income is we like, you know, a little longer duration Canada, not ultra long duration.

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Kevin Headland

We kind of like the better the curve here, which means about the 7 to 10 years, we don't actually need to take long, ultra long duration right now. But we believe the government Canada bond market is very attractive. The US bond market, the government bond market, we want to be a bit shorter there. As Alex allude to, we don't leave the Federal Reserve or is going to react, too quickly to cut rates.

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Kevin Headland

They are in that wait and see approach. They're gonna be much for cautious about how the Trump administration's policies impact both the US economy and inflation within us. We do like credit. So government, our corporate bonds, the companies are very strong. And from a financial, financial perspective, that is a good news story. However, we would, look at higher quality high bonds.

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Kevin Headland

So higher quality, government. Excuse me. So maybe we don't want to be taking too much risk there. High yield bonds are lower quality bonds have been a best performing asset class coming out of 2022. We don't think we're really paid and take on that risk right now. So we want to be what we call high grading our bond portfolio, looking at our quality high yield or invest grade bonds, in the corporate space where they pay, again above average yields.

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Kevin Headland

And also prices are below long term average. So not not only are we getting income from our bonds, but also potential capital gains. As price of appreciate towards their maturity value. That is something we have not seen. Again in quite some time. So the combination of both income and, price appreciation sets up the fixing landscape very attractively.

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Kevin Headland

And we think for balance investors who are trying to manage, upside potential but also mitigate, some volatility, their, balanced portfolios are looking very attractive and probably more attractive than have in quite some time. So that's somewhere we're very, we're looking towards for a majority of our, average clientele at 64 and seven portfolio is back to doing what it's supposed to do, which we're quite happy about.

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Kevin Headland

So Alex, back to you.

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Alex Grassino

It was a pleasure to come out and chat with you. I hope you found the discussion informative and useful. And in particular, thank you, Kevin and Mark for coming out and spending time with us. On that note, I think that is, our time. Thank you all once again and we'll be chatting with you soon, I'm sure.

00:24:05:05 - 00:24:18:04

Macan Nia

Bye. Take care of your own. Thank you.
