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Why advice matters: 2025 outlook and impact to investors

Speaker Participants

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Presentation

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Good afternoon everyone. We'll get started here today. And on behalf of Manulife. I'd like to welcome you all to our Wealth Insights webinar. My name is Ben for sale. Global multi asset client portfolio manager here at Manulife Investment Management. And today I'm joined by Jamie Robertson, who is a senior portfolio manager and head of our asset allocation franchise here in Canada.

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As well as Patrick Blay, senior portfolio manager and head of our fundamental equity team. We're very happy to to have you all join us today. The calendar tells us that we're just about four months into 2025, but I'm sure many of you have already had your fill of the ups and downs for a full year, that we've seen so far in the markets.

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So, to put it mildly, it's been a year marked by uncertainty. As US tariffs have not just affected asset prices but have raised questions about certain sectors. Of our economy and the outlook for long term global trade. And of course, we have had, just the federal election yesterday, which, perhaps, provides some clarity on Canadian kind of Canada's direction, moving forward.

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But, I'm sure our panelists will have some comments related to that to, to provide, more details. So today, we're talking about key themes. We expect to drive the market through the rest of this year. And we'll try to make sense of the most recent news on on tariffs. We're also going into, portfolio repositioning, in the current risk environment and where we see market valuations.

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I'm going to pass things over first to Jamie, who who's going to talk about the first section of this presentation. Why advice matters 2025 outlook and the impact to investors. So, Jamie, over to you. Looking forward to hearing your comments.

James (Jamie) Robertson, CIM
Senior Portfolio Manager, Head of Asset Allocation–Canada, and Global Head of Tactical Asset Allocation, Manulife Investment Management

Thank you, Ben, and thank you, everyone, for joining us today. I think we are definitely living through a period of time over which we are having to endure a tremendous amount of news flow and, frankly, a lot of noise.

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But fortunately, as men, we have a team of global macro strategists who try to cut through all that and sort of think about what the key themes are, particularly for 2025. So on the next slide, we just highlight, what those five key themes are. And some of them, have been very volatile year to date. But we're talking about a pretty mixed bag, for global growth.

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Not only from a regional perspective, but, from a directional perspective. Because certainly as we started 2025, there is a high degree of certainty that this is going to be a rather uneventful year on the growth side. And I think we can, pretty much agree that that's definitely not how it's going to unfold. We think that there is a somewhat of a circuitous route to neutral rates, global central banks, you know, after the 2020, pandemic had embarked on a very accommodative monetary policy.

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I think that the transitory effect and I use that word with some degree of irony, that the transitory effect of of the inflation that we saw in 2022, meant that all central banks had to play catch up and ended up, tightening quite aggressively. And now there is the mandate or the direction of travel is that they're they're trying to get to neutral so as not to have a major impact on, on, the economies or on capital markets.

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We're also facing a situation where the limits that that, governments and I probably would want to focus more on the US in this case, you know, just how much debt they can continue to take on, you know, with the US now having debt to GDP in, in excess of 100%, we start to see signs that perhaps, that may have, questionable sustainability, shall we say.

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We're also going to see a likely shift. I think this is probably in the, in the category of a little bit more obvious. We're going to see a global shift in global trade. And we'll talk a little bit about how tariffs and the expectations are going forward. And then finally emerging markets, which has been you know, from, from an asset allocation perspective is an appealing area.

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But this, 2025, we thought, you know, our think could be somewhat more challenged. But there are reasons to be optimistic, in terms of how they're those portfolios or those, can countries have performed from an economic perspective? So diving a little bit deeper into this question of a mixed bag for global growth, on the next slide, you know, what you're looking at here is the expectation for the 2025 consensus GDP forecast for basically the eurozone in green, the US, China and Canada.

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I would highlight at the top, just how straight line that, that that Chinese GDP growth is basically been between 5% and four and a quarter for expectations for this year of the last 2 or 3 years, but it's very much, at 4.5% and has been very stable at that level. Even if we were into a situation where, basically global trade between the two largest trading partners, the US and China, were to come to a virtual standstill.

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Analysis that I've seen would indicate that their, their GDP forecast or their GDP growth would only be defined by about 2%. So even at 2.5% with a total embargo, that's still an enviable position to be in from a, from a growth perspective. In terms of the developed markets, the eurozone, US and Canada, you can see that the US at where we entered the year thinking virtually that US exceptionalism was it was a foregone conclusion, probably one of those circumstances when the consensus was so universal that you could probably guess it was going to be wrong.

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We just didn't know how or why it was going to be wrong in that respect. But you can see that there's been a sharp downward trajectory on that side, really, since we've seen Liberation Day on April 2nd. And we're now expecting that, that, GDP for, for the US, to be, you know, potentially flirting with zero by the end of the year.

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In the case of eurozone, this is probably one where we're going to have to the marketplace is going to have to play catch up to accommodate the fact that there's been a big shift from a fiscal standpoint, that the eurozone could very well be in a position where they're going to get better growth as they start to expand their deficits a little bit and rearm Europe.

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But I think the key takeaway from this slide is really that that in the last 2 or 3 months, the outlook for 2025 has changed quite dramatically. And it's going to have some major impacts pretty much across the board and nowhere more so probably, than from a central bank policy. On the next slide, where you're looking at the, the, the, a number of central banks, Japan, the euro area, Canada and the US.

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I think that there have been some surprises really, in the last little while. So in the case of Japan, that gray line coming across the bottom, Japan was going to be very much of an outlier relative to the rest of the global economy. They had kept interest rates at zero for virtually ten years, and was slowly starting to move off of that of their as their deflationary pressures started to to get a little bit, mitigated to some extent, they've got wage growth in that three, 3.5% level.

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And we fully expected that, that, you know, the Bank of Japan would buck the trend and would be actually tightening over the course of 2025. We're probably thinking more along the lines that they're going to be on hold at this particular point. In terms of the other developed economies, really across the board this come these these waxes and wanes.

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2 or 3 months ago, you would have seen the US might have been in a situation where the consensus was for for a flat monetary policy, fed, flat fed but fed funds rate for the rest of the year. Our group was calling for 3%, three cuts in the course of the year. And that's exactly what we're the consensus has now gotten to.

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So we're definitely looking at the US, Canada and the eurozone all working to get rates a little bit lower here. In light of of greater uncertainty and a little bit more economic weakness, despite the fact that they really haven't gotten to where they need to be from a from an inflation standpoint. So that's the short end of the curve.

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The longer end of the curve falls into that whole mountain of debt world. So on the next slide you can see here, this is this is something that we refer to as the as the term premium in, in the US bond market. And the think of the term premium as the additional return that an investor is going to demand for committing their funds out to the ten year area, as opposed to just staying in that 1 or 2 year area.

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So it's what you're actually requiring for compensation to take on a little bit more, more duration risk. Now unfortunately, this slide was was as of February the 10th. So I can get you a little bit of a postmortem here, but you can see that for a very long time, really throughout the whole period between 1985 and basically 2020, that term premium was being suppressed.

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It was being suppressed by the fact that we had an economy that was going through a period of great global ization. We had very, very strong disinflationary policies, and influences in the market. So over time, we got to the point where it got down to that zero level around 2015, in the aftermath of the financial crisis and in the aftermath and moving into the the pandemic that continued to be suppressed to such an extent that you were actually getting a negative term premium in the US.

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So you were not getting any compensation for owning longer term bonds. You were actually paying to be a longer term bonds. And that situation flipped very hard. In 2022, it reached as high as 31 basis points as of February the 10th, but it reached as high as 80 basis points in the last of the while. So you can just imagine what that chart looks like as it spikes up to that, that a 80 basis point level, it's come back a little bit in the last little while, but this is something that is going to have an impact.

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It has an impact on the absolute level of ten year notes. It has an impact on the credit on that, on the on the curve. For the government, curve between twos and tens, as well as just a good barometer of basically investors appetite for really how much more debt the US can take on. And certainly there's that is one of the big questions that faces the US at this point.

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So we've got, you know, you've got debt at very high levels, the market starting to sniff out. But now we've also got some additional pressure coming in, from these tariffs. So I think on the next slide you can see that that we've really had quite a remarkable turnaround in what tariffs, are being collected in the United States.

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You know, so you can see all the way back to 1910, really all the way through to basically 2019, there was a steady reopening or an opening of of trade barriers. Free trade was was very much the moniker that people were focusing on. And obviously when you get down to that 2% level, that looked like a level that that the current administration took upon themselves to identify as being way too low.

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So we got they moved it up to about that 7% level just before Liberation Day. But where we are now is we're at a level here where we're basically at on average in the US economy, we're in that 25% area, which takes us back basically more than 100 years. And I would be lying to you if I knew what the ultimate outcome of all this would be.

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But we do have at this point, you know, the greater bulk of the tariffs are being centered on, on China and, we just don't know how that's going to unfold. There's been it's just been two weeks and we've seen indications that, that is unsustainable. And that's been an admission that the US administration has already made what this is all leading to.

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On the next slide is we are into a situation where we've got extremely heightened geopolitical risks. This is that's the blue line that you can see. And so we're at greater levels of geopolitical risk than we were coming out of the pandemic. We've had periods of time when when it has been elevated. But that is a very, very sharp reaction and a much and a very large, move up from a from a geopolitical risk perspective.

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And what that means is that the market sniffs that out, and that green line is, is what we refer to as the fear index in the market. And this is basically what you think about the VIX, which is what this is, is what people will pay for protection and the higher level that they're prepared to pay for protection seems to be a pretty good proxy for the level of anxiety in market.

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And again, because this is this graph is has not been updated, to their current levels, it actually spiked up to the 66 B level. So way to the top of this graph from a from a VIX perspective. And that's really telling you that there's been a heightened level of, of of risk in the market. It's come down a little bit.

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But we're definitely looking at a from a year over year perspective, a level of fear that is emanating into the markets that usually has, usually smells opportunity, but it also smells, of market weakness as you, as you move into that. On the next slide, we, we talk a little bit about our, our emerging market viewpoint.

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So emerging markets are very interesting from a number of perspectives. The first is is that they do from a demographic standpoint and from a compositional perspective, have higher systemic levels of growth and will probably be able to sustain that. What you're looking at here is basically what distinguishes the emerging markets from developed markets is, is that that Orange and Green Line shows you basically the headline inflation in the core CPI.

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And what you see is it's come back down into that colored band, which is that tolerated range on the part of central banks. And this is where, where emerging market central banks are very different from developed markets because developed markets, particularly in the case in the US, have not gotten back to their target range, which makes the Fed's job much more difficult at this point, because they can't simply ease based on the fact that they've got target, they've got their inflation back down to target levels.

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But in the cases of Europe, of emerging markets, central banks, they are well within their confines to be very accommodative and ease more aggressively, which means that they are in a better position to provide support for their economies. And this is a one of the key distinguishing characteristics between the emerging markets and, and the developed markets.

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But after all is said and done, what we've have is a world where we are seeing greater volatility. And in equity markets, and as uncomfortable as, as corrections are, as disconcerting as market market weaknesses are, not going to give you a lot of comfort, but corrections are normal. Corrections occur on a pretty annual basis. I think this was a pretty stunning chart.

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When you think of since 1980, the average drawdown that is the high of the year versus the low of the year has been, on average, 14% in any calendar year. And despite that, three times out of four the US market will return and it will basically have positive returns. And that positive return on on average has been around 10%.

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So in 2025, we did reach actually bear market, territory in the US, we got down a little bit more than 20%, before we saw a very, very sizable, sizable correction, to that downtrend. But basically the key takeaway here is this is that corrections are normal. You're going to go through periods of time over which there's going to be heightened anxiety.

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There's going to be people who will be, you know, more, more inclined to sell than to buy. And these and it's just part of parcel of having that longer term perspective that it's so important. But when you get those periods, you know, there's a pretty good a pretty good rule of thumb that you want to do it. Because when we're past, you know, what do you what do we do today?

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You know, when markets seem like they're in really bad shape? There's a lot of fear. There's a lot of anxiety. What do we do today? Well, the next slide you can see that we're looking at levels when that fear index that I just referred to the VIX. You know during periods of time this is an index that basically, you know sort of averages of, you know, around 10 or 15 and sort of is is one of those ones that sort of bounces along.

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But when you get situation when that goes above 30, and just to for memory, it just recently hit 60. What this is, is that this is an extraordinarily good time to be more of a buyer than it is a seller. You know, I, as Warren Buffett says, you know, when when people are greedy, you want to be fearful.

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And when people are fearful, you want to be greedy. So you can see that the scenario or the situation where we find ourselves in with the VIX having hit in excess of 30 and over the last 2 or 3 weeks, means that on average, based on a six month forward return or one year four return, or a two year forward return, is that you get very outsized gains.

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You get gains that are basically, you know, double the long term average. So the key takeaway is I know it's difficult. I know it's disconcerting to go through these corrections, but they are normal. And where those those corrections very typically present pockets of opportunity.

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