Tuesday, April 29, 2025

Why advice matters: Navigating equities in 2025

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So, Jimmy gave you, a broad overview of how to think, of the markets as, as a whole. I'll be speaking from an equity perspective. I oversee, a number of, equity funds, and, we take a very bottom up fundamental approach. But we do pride ourselves on being macro aware and understanding some of the implications now.

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The market has, been weak, in, in the last, couple of weeks, especially in the US, especially, large cap tech. But if we see, if we look at the next slide, we can see that, overall, it's it's a small blip relative, to the strong performance of the last few years.

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And so everybody remembers we came into, 225, with almost a sense of euphoria, around markets. The Trump election was a good development. The development of I was driving more enthusiasm towards, stocks in general. Given the anticipation of more productivity gains, somewhere down the road. But things have reversed quite, materially.

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And, we just go to the next slide. I would say you have to remember the markets to get emotional. We do believe that fundamentals win out in the end. However, the market in the short medium term, tends to, dramatically overshoot in terms of, call it expectations, sentiment, be, Uber positive to, being depressed to being, quite, quite negative.

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And we're definitely in a period where the market is now focused more on the negatives, namely tariffs. Not dismissing tariffs as, as a risk. Certainly not. But we always have to remember those always, good things happening and always risks. In the backdrop. I always like to think of myself as an eternal optimist, but be careful.

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And from an optimistic point of view, I guess we could point to the fact that, we're coming from a point of strong fundamentals. If companies are well managed or highly profitable, employment as as proven, quite, resilient. All of all said. The policies of the Trump administration do include, tax cuts, sizable tax, which is generally good for, equity markets.

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They do have, focus on deregulation and reducing the size of government, which, does typically mean that, there's more risk taking more animal spirits, coming to the forefront, which again, is is good for equity markets. And we do expect productivity to continue. The change in AI and we're not seeing, focus on AI stocks, which is seeing the broad application of AI, definitely has the potential to continue, to, to, push, productivity in the right direction.

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Now, in terms of headwinds, there are certainly, some in the more immediate being, tariffs especially, I would say, the chaotic rollout of tariffs. It may be, some of the policies in the Trump administration, such as being focused solely on trade deficit, using, tariffs to to try to rectify or rectify the changed the global landscape, which does introduce more volatility, more risk, uncertainty.

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As well as we could point to items such as immigration reform, where, it is a labor pool, which has helped to contain inflation in the US. So, so definitely some negatives, but let's not forget the positives. And I'd like also to say that, some of the Trump policies, as disruptive as they are, may actually have a potential, positive impact.

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In, in at the end of the day, in other jurisdictions, I think many countries, Europe, Canada as well are kind of realize that, they do need to focus, on productive growth, closer to home in Canada. I think we're all aware that, on, a global perspective, the per capita wealth creation we have lagged behind for a number of years.

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And, productivity is often pointed to as being the culprit where productivity has been. Quite low relative to, to other markets. And therefore governments, including Canada, probably has an incentive, have an incentive to focus on productivity. We went through an election yesterday irrespective of the outcome. There there is some hope that, the new government will have a focus on creating, product, productive growth, real wealth creation, for, for Canadians, which means, liberalization, maybe less regulation, focus on what we do.

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Well, in Canada. So let's not forget the pauses. Now, that said, there's always reasons for optimism, reasons for, for pessimism, meaning opportunities, risks. But the one thing that we can't control or we're aware of is valuation. And if you go to the next slide, we can see that, even though the markets have pulled back, there is the sense that especially in the US and we'll come to, what the world looks like a little later.

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The valuations are not, necessarily cheap. They're probably, fair close to fair value, at best. Which means that buying the market in the aggregate, you will end up buying probably some expensive names. In fact, there's some pockets, in the market that still stay, there are still quite, expensive. And it's very difficult over the long term to outperform if, you start off by overpaying, for, some shares, which in all likelihood, there's a number of shares out there that, that are quite expensive.

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It's important to buy quality, names in our mind. That can compound, value, that can grow, value, but also to focus on what you're paying for, upfront, hence be, quite, quite, disciplined on, on on valuation. Especially in, in this time where the risks maybe, more elevated.

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For example, when we speak specifically about tariffs, the impact it can have can be quite detrimental, to, global trade. You see, on the next page, global trade has been, supportive of creating strong economic value, globally in the aggregate, and through a number of means, meaning, opening up markets, having access to, new products, but also, allowing, better efficient manufacturing by tapping into lower cost labor pools, maintaining inflation.

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They are making lower cost products, available. And a reversal of that would definitely have, detrimental impact. And the the other the other item as well is the case, the rollout of the tariff announcements and some of the policies, though they may be well intentioned in certain ways, is having a detrimental impact.

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Businesses within the US notwithstanding, their exposure to potential tariff costs or, higher input costs. We just look at the next page, will see that, business confidence is declining. We may not have seen it in the real numbers. Everywhere. But that but that drop in confidence at the business level, but also at the consumer level can translate ultimately, to, to a real impact.

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And if we look at the next stage, we'll see that that real impact could count down, which is already, a serious issue where, manufacturing has been weak, for quite some time, globally, even in the US, there has been a slowdown. There is resilient growth, but quite muted, low growth. In many areas.

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And that, that that combination of the potential direct impact of tariffs, of having to pay, tariff costs, if you're exporting to certain, countries that have imposed tariffs and reciprocal tariffs, or higher input costs, because you may not be subject to tariffs, but maybe your inputs are subject to it. As well as uncertain business investment, decisions and a general slowdown could have a significant impact.

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On on the profitability of companies. If we look on the next page, you'll see that profitability is actually improved quite materially. Post, even post Covid, we were near, all time highs and that's decline. And that's really our, worry would be that profitability, would be impacted. Certain companies. And we're seeing that tariffs could have a real impact.

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We're in earnings season. Today, two companies, one in a large auto manufacturers and another, a large, manufacturer sticker, reported and both, we're very, reticent to provide guidance for the rest of the year, because of the uncertainty around tariffs. We could have a material, negative impact, and they're quite uncertain about, the potential impact, especially as the terrorist will continue, to change that.

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We see that, flowing through into earnings expectations if we see on the next page, typically earnings expectations, mean that fundamental, that they help to drive fundamentals. You want to see earnings to go up. But we're seeing some weakness, in terms of, earnings expectations meaning the expectation more and more is that earnings, are will be weaker.

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Maybe not necessarily negative, but not not as as possible. Now, the way that, we would suggest to handle it is really know the stocks that you're investing in from a bottom up fundamental, perspective. And if you take a risk like tariffs, it really means, to, to analyze, each name individually and understand, first and foremost, are they subject to tariffs?

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Explicitly? Secondly, are there it would cost, impacted. And thirdly, and very importantly is do they have pricing power? Are they in a market where, because of, of the industry landscape, their competitive position, they're able to pass those costs on, and protect, their margins? Or are they forced to absorb the margin?

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The profitability, will come down. Those are all factors that are important to know. And something not to forget is, if they are able to pass on pricing or if terrorists do cause, a slowdown to a recession, what's the impact, on on the demand for those products. So there's multiple facets. And what we really, ask ourselves is, is the risk existential?

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And if it is, is probably a name that you really want to be careful with and maybe not on to, maybe it has a dramatic negative impact. But lastly, but not not not and very importantly is how much of it is in the valuation because maybe it is in the valuation. It maybe it is a good buying opportunity.

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So it's really case by case. Now, on a note on tariffs, we're seeing a lot of news. I would say the more recent news is an alleviation of, the, the rigidness, or the extent of the tariffs, which is definitely has been definitely, brought, about a positive sentiment, in, in the markets where, there's an increasing belief and maybe rightly so, that, the current policies are an unsustainable and unsustainable path.

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And ultimately, maybe many will be reversed or applied in a more, structured, in more specific fashion, which will be manageable. We always have to remember, companies, businesses are typically very, flexible, as long as they know the rules of the game. Initially, the belief was that the tariffs would be imposed, for example, solely on China.

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And for a number of years, a lot of manufacturers have been shifting their manufacturing away from China. But the blanket imposition of tariffs definitely brought about a heightened risk, where if you moved your, your, your manufacturing from China to, to Vietnam, unfortunately, you were subject to tariffs where it goes, it's very difficult, to tell I don't believe anybody, has the answers, but the best is really, again, to control the risk, at, the security level and to really understand, but the valuation and put those on your side.

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And just a last word on valuation. If we go to the next slide, we talk specifically about the US. I will point out that, there are discrete sections in, in, in, in the US that are very, that are, that are expensive. That goes for the case for all markets. But again, it's important to be careful because almost all markets, don't offer real value, valuations maybe cheaper in other market, but they're not necessarily, cheap in themselves.

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And relative to past history, the, the, the, the, almost all markets trade above past historical. So again, important to really understand each name, that you're buying and you understand the risk as well as the opportunities, but especially what's priced into the shares and not overpay, but try to put as much valuation, on your side.

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And that's the best way really to control, volatility or risks in the market is really to make sure your valuation is there and can absorb some of those risk if they go against you.

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Great. Thank you. Thank you both. I think I spent all the time that we have, so again, just want to thank Patrick and Jamie.

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You guys are very seasoned investors. You've seen these markets, maybe every time, a little bit different. But you've you learn through these types of markets before. And I think the, the comments that you've had on on how to best prepare, we're, we're quite wise and hopefully, some of us can take those away and apply them to our day to day.

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So, and I also want to thank everyone else for joining us. I appreciate everyone's time. I hope you found the discussion informative and useful. So please enjoy the rest of your days and we'll speak to you again soon for that, enjoy your day. Thank you.
