

Sam

Thank you for joining us today. I'm Sam Febbraro, President and CEO of Canada Life Investment Management, and welcome to our Mid Year Outlook Event. It's hard to believe we've already reached the midpoint of 2025. In fact, it's the perfect time to reflect on what's happened so far and what might lie ahead. Market uncertainty has been a defining theme and it's likely to continue over the next hour. We're going to hear from leading wealth industry experts as they share their insights and offer practical takeaways you can use whether you're here to sharpen your perspective or gather ideas for upcoming conversations. We're glad you've joined us. So to help get the most out of today's event, we encourage you to ask questions throughout the session. The Slido instructions for logging in are on your screen. You can also vote on questions submitted by others to prioritize them so that we can get to those questions quicker. And we're going to do our best to answer as many questions as we can during the Q and A period. And for those of you listening in live, CE certification credits are going to be available and provided in the coming weeks. For those who are going to attend the full session, and for Quebec Advisors, a CE quiz will appear on screen after the call ends. Now that we're all set, let's turn our attention to the heart of today's discussion. As we reach the midpoint of 2025, we see markets continuing to shift. A cooling global economy, evolving central bank strategies, and heightened geopolitical uncertainty are just a few of the forces driving change across the markets. This mid year check in is a timely opportunity to assess how these developments are shaping investor behavior and more importantly, how you can position for what's ahead. Whether you're managing risk or identifying new areas of growth, staying agile and informed will be essential for navigating for the months to come. I'm thrilled to be joined by two outstanding guest speakers who bring deep expertise and unique perspectives to this discussion. First, we welcome Patricia Nesbitt, Senior Vice President and portfolio manager at Mackenzie Investments. Patricia will offer her perspective on portfolio positioning, sector resilience, how investors can remain agile and opportunistic in a rapidly evolving market. Joining Patricia, we have Paul Mielczarski, head of Global Macro Strategy at Brandywine Global. Paul brings a wealth of experience in macroeconomic analysis and he's going to share with us his views on global trends, central bank policy shifts, and the broader macroeconomic forces shaping the investment environment. Welcome to you both. And thank you very much for joining us today.

Paul

Thank you. Glad to be here.

Patricia

Oh, it's our pleasure.

Sam

Okay, so let's begin our conversation. We've got a number of people who are on the line and watching us today. So I'm absolutely excited about the fact that we can get into our conversation. And I'm thinking we could start things off with a quick look back at the year so far. So, Paul, I'm going to start with you. What were some of the most defining economic trends in the first half of 2025, both globally and here in Canada?

Paul

No problem. So maybe I'll focus on the global trends and Patricia can add some comments on Canada now. To me, what's remarkable is that despite a very large global trade policy shock

with U.S. tariffs rising to the highest level since World War II, both U.S. equity markets and U.S. 10-year bond yields are today pretty much where we started at the beginning of the year. Now why is that? I think one factor which has allowed the US Equity market to recover from April lows is these expectations that the tariff hit ultimately won't be that bad. Investors believe that either the tariffs will be significantly reduced through negotiations, or the global economy can withstand the impact of higher tariffs. And I think these assumptions are going to be really tested going forward. And I do believe that the US Higher US Tariffs are here to stay. Very important factor which has helped US equity markets to recover is AI. Now the largest seven companies in the S&P 500 are all technology stocks and they're all benefiting from this massive investment boom in AI related infrastructure. Now whether these investments ultimately generate significant returns to shareholders is still an open question, but at least during the build out phase, spending on AI is boosting earnings of technology companies which dominate the US Equity market. Now, thinking about bond yields, they're also roughly unchanged since the start of the year. And to me that's probably less surprising because there are multiple cross currents affecting the US Bond market which are sort of currently balancing each other out. On one hand, tariffs lead to higher inflation but also slower economic growth. And that leaves the Fed stuck in the very near term. On top of that, we're getting some additional US Fiscal easing at a time when government debt level is already very high. Then finally, one market which has moved significantly in last six months is the currency market with a dollar down more than 10% versus a broad basket of currencies. Historically, that is a very large move. I think there are a few reasons behind this. At the start of the year, the dollar was the most expensive in 40 years. And even after the sell off we've seen the last six months, the dollar is still generally overvalued versus most currencies. But in part due to the overall Trump policy mix, I think investors now expect a significant convergence in relative growth rates between the US and the rest of the world after a long period of US Growth exceptionalism. On top of that, global investors are sort of structurally overweight US Assets and there are both economic and geopolitical reasons for reducing these exposures over time.

Sam

Yeah, Paul, you raised some really good points, and I want to make sure that we get Patricia's viewpoint on here. Would you like to add anything to set the foundation?

Patricia

Sure, you bet. Thanks, Sam. Certainly as we entered 2025, the economy was in a pretty good position. It was really a bit of a Goldilocks environment. Not too hot, not too cold for most North American economies. And you know, as Paul articulated so well, as we moved through Liberation Day was obviously a wake up call for, for, for everyone as we saw just a tremendous spike in volatility with such a significant sell off in, in equities and bonds and certainly the 90 day pause on tariffs that President Trump and yesterday as we were talking about further, further pauses and further tweets as we've moved through the last period of time, we've seen an incredible rally in global equities. Really, you know, that uncertainty has lingered as to what's next and where will we land in terms of a final tariff rate. And so, we've seen business confidence, consumer sentiment, a lot of the, the soft data points that we would, would watch carefully, leading indicators generally have, have really turned quite soft. And so, we have to watch and see how that data translates into ultimately the hard data, the, the data as we move through the back half of the year, what will ultimately the economy, what will the inflation rate start to look like as we move through the back half of the year? All of these things will take time

because of some of the front loading that many companies did in anticipation of some of these tariffs being imposed. And so a lot of uncertainty and cross currents at this point in time. I would add in terms of another important variable for Canada has been the political transition that we underwent. The new and improved liberal government, I guess one could call it, and some of the new plans that have come out of the government, both Bill C5 in terms of an infrastructure plan or at least a framework for improving interprovincial trading, fast tracking approval for major infrastructure projects. So, a number of reasons to be optimistic in terms of the Canadian economy and the multiplier effects that some of those infrastructure projects, again, some of this is longer dated, but at least a renewed sense of optimism about how we might improve the productivity within the country. And so and that's obviously having an impact on some of the key sectors within the Canadian market that are tied to some of that, some of those thematics And I guess the other item we have to speak to and that is the geopolitical turmoil and some of the escalation that we saw in the Middle east during the period. And so, no shortage of headwinds, that's for sure, as we've seen started the year.

Sam

I think that's very true. And you know we're looking at the back half of the year. We want to focus on the road ahead for sure. But before we get there, I'm wondering if we could just dig a little deeper into the market performance. And Patricia, you mentioned sectors and you touched on it and I'm thinking maybe, maybe you could expand on this. What sectors or asset classes have surprised you so far this year, either due to the, their unexpected resilience to the market conditions or the under, under I guess, unexpected underperformance. What do you think?

Patricia

Well, I mean as we just talked about, like wow, could you have believed we'd be where we are given some of the headwinds that we've articulated as we, you know, post Liberation Day, there was no shortage of reasons to be concerned and reasons to sell as we saw right off the hop. But we've seen almost every global market move back to or close to through all time highs, which is, is extraordinary. I think the S&P has posted what a 29% rally from the low in April and that is the fastest recovery of a greater than 15% correction in history. So, the ultimate V bottom that we've witnessed here in the last couple of months, the NASDAQ up 37% from its low. You know, it had a number of headwinds, not just Liberation Day, but it had the deep seek. If you recall the real concern earlier in the year when a new what looked to be a cheaper version of ChatGPT Deep Seq, the Chinese version. Ultimately, it turned out it wasn't as cheap to develop as many thought and we've seen since all of the major hyperscalers, Google, Microsoft, Amazon come to market with or announcements about significant investments in AI infrastructure. And so that whole thematic has roared ahead once again signaling real growth and confidence in that growth. And then I think you have to highlight Canada, you know, in terms of the standout of the relative performance out of the TSX Composite index year to date up over 9%, almost doubling what we've seen out of the S&P. So really a nice change to see the Canadian market perform well. Some of that's been driven by gold. Canada obviously has almost 10% of the market tied to gold stocks and with gold rallying as strongly as it has, that's obviously been a big boon for the index. But we've seen pretty good performance out of a number of sectors. Consumer discretionary, we've seen some of the insurance stocks performing very well. Griffiths Leipco we have to shout out to very strong performance of the mothership. I guess one area I would highlight as a disappointment would be the oil market. The commodity hasn't been strong across the board. Given actually seeing a shooting war breaking

out in the Middle East. The Middle east with the US, Iran and Israel involved in the conflict, one would have thought you'd see better performance out of oil. It had a sharp, quickly rallied to \$75 and then sold off as soon as that became clear that that was going to de escalate fairly rapidly. So, you know, that's, that's clearly a market that's well supplied and we have supply that is beyond the traditional OPEC regions and it's more of a resilient now to some of these regional conflicts than it may well have been. So those are a few things I might add.

Sam

Yeah, I think that's a very good perspective on a deeper view of the market performance and I'm glad you pointed out Canada, Patricia. But Paul, I want you to build on Patricia's point. I know you've got more of a macro global view. How does this align or differ from what you're observing?

Paul

Sure. So, I mean the only thing I would add is that to me one of the biggest prizes for the year has been a strong performance of emerging market local currency bonds. So, for example, Mexican bonds denominated in pesos. The overall index is up about 12% year to date in terms of total return, outperforming most major equity markets and pretty much all other fixed income asset classes. And I think this is just a reflection of attractive valuations that at least not all of the emerging market bond markets. But there's certain markets across Latin America in South Africa, certain markets in Central Europe just offer very attractive real yields with high nominal yields, low inflation and on top of that, you know, global investors generally have quite low exposure to this asset class. I mean, this was an asset class which was very popular in 2000s, early 2010s. But just given the sort of the strength in the dollar over the last 12 to 15 years, it's natural that the asset class underperformed. I think in the short term, just given how much we moved, we may see a bit of a period of consolidation, particularly as some of the tariff threats continue. But in the medium term, I do think that emerging market local currency bonds are pretty well positioned to benefit from potentially a more long-lasting decline in the dollar and growing interest among global investors to reduce U.S. asset concentration. I think most global portfolios are very heavily skewed towards US assets at this point in time. And I think there's genuine interest to look to diversify some of these exposures going forward.

Sam

Yeah, yeah, Paul, it's a good point. We've kind of looked at the back half or the front half of 2025. Patricia kicked it off to talk a little bit deeper in some of the market performance. I think now we could shift our focus on the road ahead and maybe Paul will come back to you and just have you kick this one off. What are the key macroeconomic risks and opportunities that investors should be watching for in the second half of 2025? We'll take a view from your vantage point, Paul.

Paul

Sure. Look, I mean my concern is that the US Economy is going to look more so stagflationary in the second half of the year. So, this combination of both weaker growth but also higher inflation at the same time. US Equity valuations are near historic highs and corporate bond spreads are generally quite tight. So, for us, like our portfolios, we're looking to be a little bit more defensive going into second half of the year, potentially holding more allocation, higher allocations towards cash and some of the safer parts of the fixed income universe. And the US

Economy has actually started to slow in the first half of the year. At the end of 2H24, the US GDP growth was around 2.5% to 3%. I think the first half will probably come in somewhere between one and one and a half. So, we've already had a meaningful slowdown and I think there is sort of further to go in the second half of the year. And it's just a combination of factors driving this. Ultimately tariffs are like a tax and this tax like impact will lead to slower consumption. We do think that the trade policy uncertainty leads companies to defer making investment and hiring decisions. And we certainly Seeing that on the employment side, where the companies may not be firing very quickly, but they're certainly more reluctant to hire new workers. And on top of that, the economy is facing a number of additional smaller drags. One is the fairly significant reduction of the federal workforce. This was part of the DOGE effort. And the layoffs are sort of being sort of spread over a number of months. We've seen a sort of a very sharp decline in immigration just due to a combination of just much stricter border enforcement and also potential deportation, deportations. And then on top of that, as most Canadians know, very large decline in international tourism. If I look at the inflation data so far, we haven't seen that much of an impact of tariffs in the inflation data, but I think that will change in the coming months. I think companies have been able to maybe protect consumers from. From the impact of tariffs initially by sort of stocking up ahead of the tariff increase. And we did see a sort of a surge in imports in the first few months of the year. And they were sort of hoping to wait until some sort of a steady state on trade policy has emerged and potentially ideally with lower tariffs. But I don't think we are going to get much lower tariffs from where we are today. If anything, they're going to be higher on number of countries and number of products. So I don't think companies can really wait much longer. And the cost of the tariffs will ultimately need to be passed through to consumers. And now the challenge, obviously, for the Fed will be that if you're seeing this combination of weaker growth on the one hand, but potentially higher inflation, it just makes it difficult for them to cut rates until they see more clear signs of weakness in the economy. And then just maybe to finish off with a comment on tariffs, I mean, obviously this is a very fluid situation, and we're probably getting announcements as we're doing this call. But the one thing I would point out is that at the start of the year, the US tariff rate, the average tariff rate was around 2.5%, which was a historically very low level. I think going forward, it very much looks like we're going to have a 10% tariff on all countries, perhaps with exception of Canada and Mexico. In some ways, Canada and Mexico could benefit from that 40% tariff on imports from China. But also in addition to that, tariffs of somewhere like 20 to 30% on Southeast Asian countries, so Vietnam, Cambodia, Thailand, maybe Malaysia, which are actually a very significant source of US Imports. And on top of that, we already have, and likely to have more industry level tariffs. So we have already tariffs on imports of autos and steel and aluminium. In the future probably we'll likely have tariffs on semiconductors, pharmaceutical products, lumber, commodities like copper. So ultimately, I think to me the bottom line is that the average tariff rate will probably end up somewhere in a sort of 15 to 17% range as a steady state compared to, to, As I mentioned, 2.5% for the start of the year. So that is a very large drag or tax like drag on economic activity. And I don't think we have fully seen the impact of that tax working its way through both on, in terms of the sort of economic numbers, but also in terms of corporate earnings as well.

Sam

Yeah, Paul, it's funny, I was just looking at my newsfeed just to see if there was anything that came out in the last 20 minutes that we've been on air and I didn't see anything significant. But we're, we're certainly seeing things either at a country level, sector level, and so we have to

keep an eye on that. I think, Patricia, this might be a good time maybe to get your input from a vantage point, you know, any additional risks or opportunities that maybe stand out for you and how these might be reflected in portfolios. And I think that's ultimately what we're looking for as financial advisors as we move forward with our clients.

Patricia

You bet. Well, certainly Paul's highlighted a lot of the key risks that we are facing as we move through the back half of the year. A lot of uncertainty around what is the ultimate landing point for our tariffs. I guess I would highlight that Canada is in a relatively good spot given I think in April our effective tariff rate was 1.9%. So relative to major, other major trading partners with the US we are, we're sitting in a pretty good spot. But obviously much yet depends on the final negotiation. I guess. July 21st is, is currently the timeline, the deadline for a final deal and, and we remain hopeful that we'll see something there that is of, you know, is beneficial for everybody. But lots of uncertainty around inflation and as certainly as Paul's talked about is, you know, how might that complicate the central bank's approach to ongoing cuts in rates as we move into the back half? Inflation obviously being their concern. And how do they manage and balance that slower growth with potentially stronger inflation numbers? Geopolitical tensions obviously remain at work. Certainly, the US Deficit, can they fund it? I think we've probably asked and answered that question already and everybody's moved on. So, from my vantage, it's going to be ongoing volatility, but the market's shown itself able to manage through that volatility and price and move forward. I think every market brings opportunities and I think I would highlight a couple of areas of key interest for us would be technology markets. I would first preface by saying let's be mindful that this market's had a spectacular move off the lows of April. Nasdaq as I said, up almost 40%. All markets have had huge moves. So, one couldn't be surprised to see some consolidation in these markets as we move through. July generally seasonally is a great month. August, September not so great. So, you know, we wouldn't be surprised to these, these markets cool markets can correct in two ways by time or price. And, and they can just certainly go sideways for a while as they digest. Some of the news is probably going to be hitting us and some of the volatility headlines in the next little bit. But you saw yesterday, even with a, you know, imposition of tariffs on Japan and Korea market, you know, took that in its, in its stride and really didn't, didn't react to too negatively. So, I think there's a sense that we've put the bounds of where we might land in terms of tariffs in place and we're checking off sort of the worst tail risks as we've moved through this period. But I would highlight technology certainly anything leveraged to. I, I think that remains a key focus for, for the portfolios anything that is related to power. Obviously, AI is an important demand source for, for power. So we continue to look at anything that is, you know, be it natural gas or nuclear, any, anything like that infrastructure that might go around that. I think gold still plays a role in terms of a portfolio hedge in the midst of this type of an environment. And so, for Canada we'll talk about that maybe in a minute. But there's lots of reasons for optimism in terms of some of the sector emphasis that Canada has and represents. And then again as I mentioned, we're pretty constructive on the new plans that the Canadian government's bringing forward in terms of new infrastructure and large projects build. I had a chart that I thought was interesting. It's just a 20-year picture of the S&P TSX Composite if we might put that up. And I think it's always in the midst of some of this chaos. It's always great to just step back and look at the performance of the market over the last 20 years. It's always an eye opener of a chart to me and it is particularly so given what we've seen since April 2, and the significant sell off and then rebound from that low. It's easy to get panicked by some of these headlines and think, oh, I should be doing

something right. And the problem with that is if you're selling, you also have to buy it back. And being right twice is incredibly difficult. And so, this is a chart. This shows, had you been fully invested over the last 20 years, what was your annualized compounded rate of return? And that was an 8.7% return. Had you been fully invested through that period, if you missed just 10 of the 10 best weeks, and I probably could distill this down to the 10 best days. And I'm sure many have seen this chart. But again, it's always great to be reminded of it. Had you missed just 10 weeks, the best weeks of those 10, 40 weeks, your annualized return was 4.9%. So, a 44% reduction in your annualized return from that asset class over that time period. So, just critically important to, you know, stick to our plans, don't panic, don't get caught up in the headlines and stay the course. So, I thought I'd share that again with you.

Sam

I think it's very valuable. I know many of us have seen this before, but we do forget in the moment. And I think you raise a really good point. Being twice right? Never mind once but twice is very difficult. And I think these are important tools that we need to share with our clients and the investors that we support. I think that's great. What's funny is I was just reading a couple of texts from a few people in the audience and members of the team, and believe it or not, there was a tariff increase on copper about 15 minutes ago. So that just goes to show you how live things are and how difficult it is to, to track this. But over time, we'll get there. We both mentioned tariffs and, and inflation, and I think this is a good time to talk a little bit about, you know, the direction of monetary policy. And I know there's, there's some interest in this, perhaps even a debate on the direction of monetary policy here and abroad. But the Bank of Canada has held interest rates steady after two rate cuts earlier this year. Maybe Paul will come back to you. And the question is, where do you see rates headed for the remainder of the year? First in Canada, and secondly, let's see if we can give the audience a little bit of a view on the US and the European Union, given the continued Uncertainty around economic growth and inflation. What are your thoughts?

Paul

Sure. So, look, I mean Patricia mentioned some of the potential medium term growth positive factors for Canada like this of the infrastructure investment build out, looking to reduce inter provincial trade barriers, looking at to increase investments in affordable housing. But in the short term the underlying growth in Canada has actually been quite weak. And this has been due to the impact of tariffs on the manufacturing sector, both the actual direct tariffs, but the uncertainty from the tariff policy and the sort of the ongoing weakness in the housing market with very low transaction volumes and gradually falling prices. So overall the unemployment rate in Canada has actually increased a lot more than in other developed markets. And we may see further rise in the unemployment rate in the coming months. At the same time, the bank of Canada has already cut policy rates by more than 200 basis points over the last 12 months. And the last few inflation prints have been a little bit higher which have led the bank to sort of to put rates on hold of this at this point in time. So, I do think maybe we'll see one or two more cuts later this year from bank of Canada. But we're probably not far from sort of a steady state or from this kind of level where policy rates trough unless we have a very large negative global growth shock going forward. Now in terms of the Fed, if I am right that in the next few months we do see a mix of both weaker growth but also higher inflation, I think the Fed may have to wait until October or December before cutting rates. I think timing this is very difficult. It really depends whether the negative growth surprise is potentially bigger than the inflation surprise or

vice versa. But I think the key message to take away is that the Fed is going to be more reactive as opposed to proactive because of a short-term inflation risk. They almost have to wait until the clear sign of weakness in the labor market before they can cut policy rates more aggressively. And often by the time you wait for that, by the time you wait for a more meaningful increase unemployment rate, it's often too late to prevent a deeper slowdown. And then finally the ECB like the bank of Canada has cut policy rates a lot over the last 12 months. We may get again like bank of Canada, maybe one more cut later this year, but we probably not far from some sort of a steady state level. I think what's important is that unlike in the us, Europe will not be experiencing an inflation shock from higher tariffs. And this allows the European Central Bank to be a little bit more proactive in supporting economic growth. The impact of those rate cuts are already starting to show up in the data. We are starting to see signs of stronger housing demand, pick up in credit growth. And on top of that, another factor which I think is going to really support European growth going forward is that in March the new German government announced this of a massive multi year plan to increase both governments spending on infrastructure and defense. This is worth almost 2 or 3% of GDP over, you know, for each year, 2 or 3, 2 to 3% GDP boost for each year. So, this is something that's going to really support European growth going forward. And potentially, you know, it does mean that the ECB doesn't have to do that much more in terms of delivering further rate cuts.

Sam

Yeah, no, that's helpful Paul. And I love the combination Paul, that you could provide that global macroeconomic view. And Patricia, I always like to bring it back to so what does that mean for us? What do we do about that? And so therefore from a portfolio management standpoint, interest rate direction is an important consideration in positioning strategies. We know this. And so how are you thinking about where rates might head next first here in Canada and then in the US and Europe? And what do we do about that?

Patricia

Right. Well you know our views are very similar to what Paul's already articulated. I wouldn't say we're that, that different at all in terms of our thoughts about Canada. Obviously as he said, you know, we've already begun a bit of a slowing trajectory and would certainly look to see the bank of Canada ease a little bit more. Maybe another 25 basis points in September, maybe another 25 before the end of the year. Again, lots of uncertainty about the ultimate tariff impact on the economy. But Canada with such deep bilateral ties there were very exciting exposed. And so I think that's going to be important to see how what we ultimately get hit with. And then how does the new pro growth agenda by the Kearney government that start to translate into multiplier effect on the economy as we move through 2026. But we certainly would though still look for slightly lower rates as we move forward through the year and positioning around that one would hope for some of the interest sensitive stocks to start to, to act a little bit better. But again, what's your expectation for growth? And so for the banks for example, we're actually quite constructive on some of the major banks in Canada given slightly lower rates. And from what we can tell so far, they remain very confident in terms of you know, loan loss, provisioning, what they're seeing, they're not concerned at this point. In terms of taking serious losses in any particular area for the United States, we would similarly look for another, maybe another 25 to 50 basis point cut by the Fed as they continue to try to navigate this slower growth and potentially higher tariff environment as we move through the year along with tweets from their president about what he wants them to be doing. So, a complicating factor. And then in the

European markets, I think similarly they've done a lot of lot, probably maybe another 25 as we move into the back half of the year, but again have already eased substantially and you know, fiscal spending, be it in Canada, the U.S. and Europe, as Paul has mentioned, is significant. And the one Big Beautiful Bill has got a lot of pro growth elements to it as much as there are detractors on it. But there is going to certainly be some follow-on benefits from that as that gets instituted towards the back half of the year. So generally looking for slightly lower rates by the central bankers, what that does in terms of actual market rates is going to be interesting. We've seen US tenure basically been in a trading ban now for four or five years it seems. So, it doesn't always translate into the market. But yeah, that's kind of our thoughts.

Sam

Okay. No, that's helpful. And I, and I want to make sure that the audience knows we're going to get to their questions in a few minutes. We've covered half of the, the first half of the year. We've got to the back half of the year. We talked a little bit about interest rates as a result of tariffs and some of the pressures that are that are there on inflation. And I think the next couple of questions, before we get to the questions from the audience, I think let's make them a little bit specific to excuse me each of you as we get to your perspective on the global outlook and where Canada's position and Paul, I'm going to come back to you. The question is how might the Canadian economy fare compared to other G7 countries in the coming months. And I think that will help us understand better what we can expect.

Paul

Sure. So, I think as we sort of, as I mentioned earlier, the Canadian economy has actually underperformed other G7 economies in let's say the last 12 to 18 months. Where that is really clear is in the performance of the labor market, where we essentially have seen almost no private sector jobs growth in the past two years and a relatively significant increase in the unemployment rate. Now the one factor that I think is sort of a significant drag on The Canadian economy is just this ongoing adjustment in the housing market. Obviously, what you're seeing in the condo market around Toronto and the GTA area, these are sort of significant drags on growth. And what's interesting is that it doesn't seem like the policy rate cuts so far have done much to improve either sentiment or actual transaction volumes. I mean, some of it is just a reflection of, you know, as many people have been highlighting for a long time, Canadian house prices have generally been very high. You know, rental yields, you know, maybe made sense when policy rates were sort of close to zero. But in a more normal interest rate environment, you have to go through this relatively large price adjustment and relatively lengthy adjustment. And on top of that, you know, obviously Canada has seen some very large population swings which, which also are sort of important factor in terms of driving housing demand. So, to me, you know, from a shorter term cyclical perspective, I mean, there's two sort of issues that I would focus on is one, you know, how do the tariff barriers ultimately impact the Canadian economy? And I agree with Patricia that, you know, maybe to some extent Canada will be better off comparing to some other countries. But at the same time, you know, Canada effectively had tariff free trading arrangement with the United States, you know, through NAFTA since 1994. And if you look at trade in auto, in cars and auto parts effectively since the 1960s. So even if Canada does get a somewhat more favorable deal, this is still a very significant shift. And clearly Trump administration, one thing they clearly want to do is effectively strong-arm global companies to shift production and investment from Canada towards the US I think, as you know, Patricia mentioned, since Mark Carney became the Prime Minister, we have seen sort of a positive

impact or sort of an impact on both business and consumer confidence. I think the plans that the government has, they're clearly the right ones and potentially could provide a sort of significant boost to the economy in the medium term. But it's just a question of implementation. You know, this has to come down to, okay, realistically, you know, how quickly you can deliver on some of these plans in a way that starts to impact Canadian growth in a sort of a positive way. Because for now the economy is facing a number of sort of significant cyclical drags.

Sam

Thanks Paul. Patricia, I'll come back to you. Now most experts will agree that economic and market uncertainty will likely continue for the main of the year. We know this and it's going to lead to a range of possible outcomes for investors to consider. So where do you see emerging opportunities in this environment in the near term, whether by sector, asset class or geography. I think Paul touched on a few. What are your thoughts?

Patricia

Right. Well as a Canadian growth investor I'd be remiss if I didn't waive the Canadian flag in terms of opportunity. We have to remember a couple of things that the economy is not the market. And there's lots of ways to benefit from some of these thematic we see playing out globally that maybe not necessarily exactly what the economy does, but Canada makes a lot of what the world needs and I think ever more so is that going to be a theme that we are going to focus on in a world of deglobalization, renationalization of supply chains and geopolitical risks? Certainly, these sectors are really going to benefit from structural demand and constrained supply. I just looked at the price for copper. Copper's up 10% on that tweet about tariffs. So you know, you get to see all of a sudden there's pre buying happening. I mean there's all kinds of effects. Right. So I, I put in a chart just to not. It's not a great chart now that I see it, it's. But I just wanted to kind of highlight the, the, the sector weights of some of these key sectors in, in the TSX composite relative to the S and P. And you know we speak about energy, we speak about materials and industrials, utilities, some of these key thematic that are going to be playing out over the next number of years. And the weight of those sectors in Canada is very significant. You're 30, 40% of the market relative to the US which is obviously very underrepresented in those sectors. It's a technology driven market, there's no doubt about that. We still think there's room for growth in technology certainly, but for Canada I think it's going to be a real time of growth. And as we speak to gold, uranium, potash, natural gas, copper, all of these are Canadian export strengths. Even, even some of our nuclear capabilities in terms of consulting but strong demand as a result of the energy transition and these energy security themes, I think that's going to be continuing to be a factor. And certainly, Canada is an undemanding value valuation relative to our peers. It's always been the case but I think, you know, we have to ever more so as the US market has continued to progress. Canada trades at a multiple forward multiple of about 15 times a PE multiple against the US market that's north of 20 times and European markets around maybe 15 to 18 times depending on what you're looking at. And, and that's all also based on, I think, earnings expectations, expectations for Canada that are relatively conservative given some of this backdrop of slightly more muted economic growth. And so some reasons for positive earnings surprises we might see as we move through the back half of the year. And Canada is certainly underrepresented by global allocators within global portfolios, particularly after several decades of US tech dominance. It's been easy to allocate away from Canada. But as we've already seen year to date, you know, we, we can really perform when some of these themes are at our back. And so as, as global markets and,

and investors start to rotate towards more of these sort of real assets, Canada stands to disproportionately benefit. So, I think that's, that's really going to be something to focus on. And you know, and I would highlight relatively stable, transparent monetary policy free from interference, a rule of law that is unquestioned and so a really attractive investment destination compared to some of our, some changes afoot elsewhere. Right. And then again highlighting the infrastructure Plan and Bill C5 a number of reasons why there's going to be some renewed spending hopefully within the next number of years in many of these spaces. And Canadian companies are obviously going to benefit dramatically from some of this sovereignty focused spending. I think that's, that's going to be important for construction companies, engineering and consulting businesses, names like Atkins Realis, WSP Global, Stantec. I'm missing some, you know, some of these are obviously going to really work well. Utilities companies, renewables I think come back to the forefront and even the Canadian banks, right, they're going to be financing all of this big spending and so they will benefit as well as a result. So, I think there's lots of reasons for optimism about the Canadian market and it really is going to be, you know, positioned well for some of the themes that we see playing out over the next number of years.

Sam

I think that's very helpful. Patricia, we have a couple more minutes and we're going to go to the audience questions and I love the fact that, Patricia, that you're bringing a lot of tools that we can use to share with them. And you shared the missing the market periods and the North American returns by sector. I want to turn our attention now and maybe this will be the last question and then we'll go to the audience and I want to turn our focus on client support strategies. So, we've talked a little bit about some of the tools. Let's talk about some of the strategies in about a minute or so. And we'll get Paul in here to make sure he has it. Patricia, how can advisors help clients adapt with confidence amid these ongoing uncertainties and volatility? What are your thoughts?

Patricia

Well, this is certainly a time for the behavioral aspect of finance to come to the fore, isn't it? And I think there's a couple of time-tested tenets that I would reiterate and that is always diversification matters. You want to make sure that you invest across asset classes and within asset classes, you know, to capture those opportunities and, and manage the risk. I think that's ever more important as it is now. Short term performance shouldn't dictate or impact our long-term investment plans. Right. You stick to your knitting, you stick to the motherhood of, you know, what are your goals, what's your time horizon, what's your risk tolerance? Those things shouldn't be impacted at all by some of the volatility that we see in the marketplace. It's the old adage about time in the market, not timing the markets. Right. I mean, you hate to go back to these same motherhood statements, but it's so true. And then I did, I shared one more chart that is, I think it's interesting to see that how this is showing. It's a bit of a. Just explain what we're looking at here. It's really talking about how being invested for longer periods of time really dampens the volatility of your returns. And so, what you can see is a 1, 5, 10 and 20 year rolling compound annualized returns, your best period and your worst period in each of those 1, 5, 10 and 20 year periods over the last 60 years. So, you know, in a one year, if you're just looking at a one year slice, you could have had a minus 33% return, which those are fun conversations to have with clients, or a plus 30 or 44% return. So huge volatility and variability, we'll call it, within those returns. And as we move out the the time horizon, you really do dampen that volatility. Right. And so, on a 20 year rolling CAGR, your worst return was 6%. Your best was 13 and a

half. So, it really speaks to how important it is to review and rebalance your portfolio and really just stick to the discipline of the plan. That's what it's there for and that's why it really helps reduce your vulnerability to your emotions. When markets are as volatile as they have been over the last number of months. And quarters. So, I thought I wanted to share that chart with you.

Sam

Yeah, very helpful. And you can see how the volatility reduces over time when you look at that chart. I want to make sure, Paul, you get a chance to speak, you've got a maybe 30 seconds or so and then we'll get right to the questions from the audience.

Paul

Sure. I mean, the only thing I would add is sort of actually what Patricia already said, the importance of diversification. I think over the last 15 years we've seen sort of very strong outperformance of US equities versus the rest of the world. And the result, global equity indices are now dominated by us. But I think just given the starting valuations and given some of the challenges that the US economy faces, I think the next five to 10 years are going to look very different. So, I think there's a strong incentive to have a more globally diversified portfolio.

Sam

Yeah, good way to end our discussion. So, Paul, Patricia, thank you very much for sharing your insights so far. We're going to now move to the questions from the audience and I know Brian and the team have been quickly going through this and we're going to start with the very first one. And keep in mind you have the ability to actually vote the question up a little ahead. So, the first question that we're going to try and tackle is are there any leading indicators you're watching that could help us anticipate a shift in market direction before it happens? Maybe, Patricia, we'll start with you since Paul just finished.

Patricia

Okay. I think we divvied. Paul, were you going to speak to this one? I think we had talked about.

Paul

I'm happy to answer that. I mean, look, I wish there was a magic indicator that could tell me things ahead of time. It is quite hard, unfortunately. And look, I mean, obviously the economic and market cycles are often quite similar, but each one has its own unique elements. And I think there are two unique elements in this cycle. One is the tariff shock. We just haven't seen anything like that essentially since the Great Depression. So, we're very much focusing on this question of, okay, well, not only how high the tariffs will go, where they end up, but to what extent they'll be paid by consumers absorbed by margins. How will the trade uncertainty impact household and corporate decisions? To what extent they lead to some medium-term trade shift in trade flows and investment flows. So I think this is something that I'm watching very closely and potentially help to guide me in terms of are we following more of a sort of a slow soft-landing path or potentially tracking something that looks more like a recession. And I think sort of a key determinant in that. And I know one of the questions coming up too is this idea of how companies, what the companies do in terms of employment. If the companies generally are able to absorb the tariff shock maybe without triggering significant layoffs, I think that would more likely make the economy more resilient and leads us more towards a more benign soft-landing

scenario where equities can still perform relatively well. But if we do start to see sort of a more meaningful slowdown both in hiring but also potentially increase in layoffs, I think that's the, at that point we risk the economy. We risk this idea that the economy effectively starts to get closer and closer to a recession. And then the second, again, it's not sort of one indicator, but I think the second part of the, or the second element of the current economic cycle, which I think is different from what we've dealt with previously is just the US Fiscal situation. I think in the short term the stimulus bill does provide some short-term boost to growth, but the, the U.S. fiscal situation is incredibly difficult from a medium term perspective. I think it's very likely that at some point in the not-too-distant future we could be Talking about next 4, 5, 6 years US will face a significant fiscal crisis. And it's just a question of okay, well at what point do the markets price this and in what way?

Sam

Okay, Patricia, would you like to jump in or you want to tackle the next one?

Patricia

Which one are we on?

Sam

The very first one we just answered.

Patricia

Yeah, I think, I think Paul was covering 2 in 1. He was very efficient there. I mean I think the, the Big Beautiful Bill certainly had some major both, you know, infrastructure spending. It had, it had some significant tax cuts, a lot of which haven't really been talked about I think by corporations yet. As we move through, I think the second quarter earnings calls, I think we're going to hear a lot from us corporates about how the bill is going to impact their bottom line. And the reduction in corporate income taxes I think is going to be pretty significant. Doesn't necessarily make for great headlines, public opinion polls, etc. But I think for corporate earnings, corporate margins is going to be or bottom line is going to be quite significant and the ability to deduct as much capex as the bill affords I think is going to be significant in terms of growth that that might actually spur in terms of capital expenditure within the US So and that will obviously have significant multiplier effects. So, there's a number of real key positives coming out of the bill on the offset. There's obviously some social program spending cuts that are not necessarily that palatable to read about. But one hopes that there's supports in place to mitigate that. So yeah, certainly will have a very positive impact on the economy and on bottom lines for many corporates.

Sam

Patricia, we've got a couple more and then we'll try to conclude so that we stay on time for everyone. We're going to move to the next one, which is I guess a recessionary question in regards to the US i think Paul, you started touching on that. Maybe you want to just expand your thoughts on it.

Paul

Look, I think maybe in the short term some of the recession risks have diminished, comparing obviously to where we were in April where there was a lot of fear, there was very sharp declines in consumer and business confidence, very sharp declines, declines in equity markets, sort of

widening of credit spreads, like a very significant tightening of financial conditions. I mean at that point in time recession seemed like the most likely scenario. I think given the rebound we had when sort of in equity and credit markets and at least the short-term resilience of the economy or somewhat partial resilience of the economy, I think maybe recession risks are somewhat reduced. But I still again, I think the economy has slowed in the first half of the year and will slow further in the second half just due to the impact of tariffs and sort of number of other drags, you know, from I think as I mentioned, from sort of low immigration to decline international tourism, you know, the, the sort of fiscal policy that does provide with a sort of a shorter term boost that this will be more sort of apparent in 2026. But we do have some fiscal easing in the second half of 2025. So, I think again to me recession risks are elevated just because the economy's slowing. But at least for now maybe doesn't quite look like a central case scenario which are probably that's what I would have said two or three months ago.

Sam

Okay. Thanks, Paul. Patricia, I want to go to the next question because I've been watching how quickly this became isn't it popular question? Yeah, it actually superseded I think the previous question and I'll just read it out for the audience while you collect your thoughts. But with Canadian interprovincial trade barriers being lifted, do you see an uptake in the Canadian economy? And obviously there's they're talking a little bit about the view from the perspective within Alberta and the gas and oil industry, what are some of your thoughts?

Patricia

Well, I think, I think if some of my previous comments would, would say heartily yes to some of our views, you know, overall economic growth may still be somewhat muted in the back half of the year, but into 2026 we see some better numbers coming through. But various sectors will certainly benefit. Right. The commodity markets are, you know, energy particularly. It's, it's. Some of this is, is, is long dated. You know, to the extent we talk about building more offtake for our, our commodities out of Alberta, in Saskatchewan, oil and gas, you know, it takes a while to build a pipeline, is, it's fraught with all kinds of conflict and, and cost overruns, et cetera. But, but, you know, we've got one coming. You know, LNG Canada as an offtake for natural gas coming out of the Western Basin. That's just starting up now, that's going to be helpful. But these are markets that are relatively well supplied. We've got no shortage of natural gas in Canada, but to the extent that we can build any more, you know, pipeline access out of the province, I think is really, really going to be beneficial. So, we're not as keen as necessarily on, on crude oil, for example, but there's always great opportunities, you know, even if the commodity is relatively flat. You can find great companies, right, that have got a particularly compelling play, that are very, very well run, a low cost. You know, we've got a number of names that we are very, very keen on within, within the natural gas and, and crude space. And then, you know, we talk about some of the other areas of, of the market that we think are going to benefit from new infrastructure spend and some of these other fiscal policies that are being enacted.

Sam

I think that's great. Paul, anything to add or should we jump to the next question?

Paul

Maybe let's move on to the next one.

Sam

Okay, yeah, I think, Patricia, you covered that one. And maybe this is a good macroeconomic view. Back to you, Paul. Are emerging markets still a viable diversification play in the current environment? What are your thoughts?

Paul

Look, I think, you know, obviously emerging markets have actually performed quite well in last six to 12 months, despite the tariff uncertainty and the tariff impact. I think overall, I think I'll just come back to my sort of previous comments about the benefit of global diversification, that in the last 15 years US equity markets have delivered very strong returns, but this was starting from a very low valuation base with some significant positive growth tailwinds. I think Going forward, valuations now for US equities are much more expensive and the economy faces a number of challenges from sort of slowing population growth due to sharp decline in integration to some of the fiscal issues which I also discussed. So in some ways, again, like emerging markets are attractive were sort of attractive alternative. And I think it's important too that whereas before, if you look at the emerging market equity indices, they tended to be dominated by Chinese equities, whereas that weight of China has declined over time. So India now plays a significant role. Obviously South Korea, Taiwan, they still have relatively large weights. In some ways it's become a more diversified exposure on the equity side and on the fixed income side. To me, I think, as I mentioned earlier, you know, valuations for certain emerging market bonds are still very attractive and I think they would benefit from sort of from a tailwind of a weaker dollar over, you know, kind of over more of a medium-term time horizon. I think there's two things that I think are important on the dollar is like one, you're already seeing a pretty significant convergence and relative growth between us and the rest of the world. So, I suspect in 2025, US GDP growth will be actually very similar to GDP growth in the Eurozone. And you know, this comes after years, you know, a number of years where the US economy has generally strongly outperformed Europe. And then I think secondly, again, because as I mentioned before, the global investors are still structurally overweight U.S. assets. And I think they're looking to potentially diversify those exposures by investing in other developed markets and also looking at emerging markets as well.

Sam

Okay, that's great, Paul, thank you. And I'm going to ask one more question from the audience here. We see it in popularity, Patricia, that you've noticed at least 20 people have put up their hand for this one. And I love just bringing it back to so what does that mean? What do we do? What are some of the strategies? And the question here is what are some practical strategies to stay resilient without being overly conservative and bring some of those motherhood statements that we need to keep us alive and not forget. What are your thoughts?

Patricia

I guess I would reiterate some of my earlier comments about not getting caught up in the front page headlines. The noise now more than ever, right in the world of social media, ever more so, you know, those screaming headlines, generally they're going to fade quickly. They'll come and go depending on the mood of the day. And we have to remember that markets are discounting mechanisms, right? Today we're pricing in what we think is going to happen nine or 12 months from now. So what you're seeing on the front page of the paper or what's, you know, flashing on

your headline, that's probably already been discounted by the market. So it's, it's not that relevant. So, tune out the noise. Again, we've both said, Paul and I both have said, make sure you're well diversified across asset classes and across the risk spectrum. I think that's, that's ever more important, as much important as ever. And then you know, if you, if you need to dial your risk back within your equity exposure, for example, you don't need to necessarily sell down your total allocation to equities but perhaps upgrade what you own. Make sure you're owning high quality companies, strong returns on capital, great balance sheets, great managements, you know, fat margins, great growth prospects. Those are the kind of companies you should be owning if you're more concerned about the market at any given point in time. And then I would add, don't sit on big cash reserves. I think that doesn't bode well for long term returns. I think you want to be rebalancing into assets as they sell off, be methodical about it. As we looked at some of those prior charts, volatile environments really do give you the opportunity to rebalance and help you buy fear and sell greedy and that's where you can really add value to portfolios. So, I think those would be things to remember.

Sam

Yeah, I think, and it doesn't hurt to be reminded of those. I agree with you, Patricia. Obviously, Paul, I want to give you an opportunity for a couple of closing remarks. Is there any words of wisdom you'd like to share before I sign off for the day?

Paul

Look, I think, I think the one thing that investors have to recognize is that going forward we should be expecting significantly lower long-term returns, particularly from US equities. Over the past 15 years the US equity market has delivered a 10, 10 and a half percent annualized real return. Now the long-term average is about six and a half percent and you know, obviously as it expected. So, the periods of long periods of above average returns are usually followed by long periods of below average returns. And I think that's definitely the case if you sort of take into account valuations. So, in early 2010s and P500 ratio was roughly 10 to 12 times, whereas today it's more like 21 to 22. So, I think going forward for the next 10 years, expecting a real return from US equities somewhere in the 3 to 4% range is probably a lot more realistic. But at the same time, you know, fixed income valuations are generally more attractive. So, again, if you look at back in the early 2000 and tens, inflation adjusted cash rates and bond yields were generally zero to negative. Whereas today you can create a portfolio of fixed income assets which can deliver 2 to 3% real returns going forward. So, I think that is, you know, kind of overall, I would say, you know, again, and we're talking, you know, sort of next five to 10 years to generally have lower expectations from, from your equity portfolio returns, particularly for the US equities and then, you know, just have higher allocations towards fixed income just because the real expected returns are relatively comparing compelling particular stocks.

Sam

Okay. Very, very helpful. Patricia Paul, thank you very much for your insights and your thoughtful perspectives today to our audience. We hope you appreciated today's discussion, and it's provided a little bit of clarity and sparked ideas on how you could take that forward into your conversations and strategies with your clients. I do want to give everyone a quick reminder, especially those in the Quebec region. Reminder for Quebec Advisors. The CE quiz will appear on the screen after the call ends. Your feedback is very important to us. If you have a few minutes after the call, a survey link will appear on screen. Let us know what you think of this



event, how we can continue to improve and of course, thank you once again for being with us today. We look forward to welcoming you back for our next Market Connect event in September. And until then, enjoy the rest of your day and have a fantastic summer, everyone. Thank you again.