



Global Asset Allocation Viewpoints

The View from Canada

May 2025

Outlook

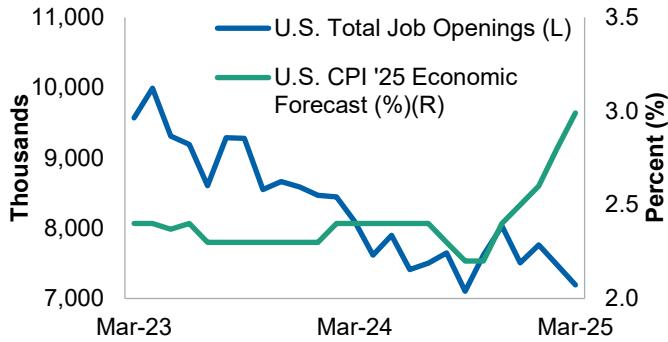
- We remain cautious on risk assets as trajectory of global growth and inflation face potential challenges from disruptive trade policies.
- U.S. growth expectations continuing to slow as negative sentiment surrounding tariff impacts weighs. Despite tariff threats on growth, Europe, Canada and China supported by fiscal stimulus and monetary easing.
- Disruptive trade policies could force central banks to make uneasy choices whether to support growth despite threats of higher inflation, which is most pronounced in the U.S.
- Key risks to global markets include escalating trade wars' impact on growth and reaccelerating inflation, central bank missteps, and geopolitical tensions.

Themes Driving Positioning

Dueling Mandates

While the Federal Reserve has faced challenges in its dual mandate of maximizing employment and price stability in the past, today's environment may soon become acutely difficult. After nearly reigning in what they mistook as "transitory" inflation post-COVID, they could now be facing new inflationary pressures from tariff-led trade policies. These same policies, however, could also weigh on economic growth and lead to rising unemployment. Higher prices, lower growth and rising unemployment are an unwelcome confluence for Fed policymakers also facing political pressure to lower rates. For now, the labor market remains intact allowing the Fed to stay on the sideline. This could change quickly, though, and markets are already betting that rate cuts may be coming sooner than later as trade policy weighs on growth. Given the Fed could soon find itself dueling its dual mandates, we're cautious on risk with a tilt toward inflation-sensitive assets.

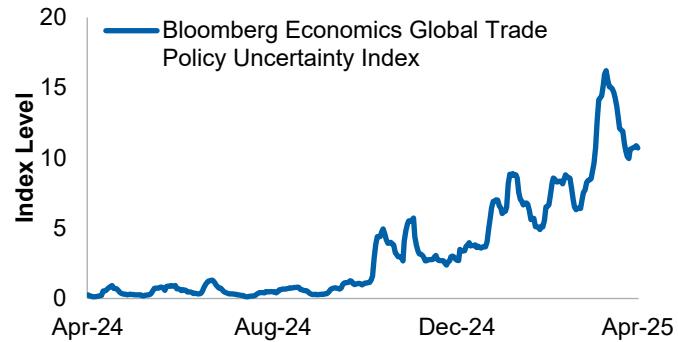
Double Trouble



Spring Thaw?

What had started with targeted tariffs toward China back in February by the new administration quickly escalated into a global trade war, especially after the April 2nd "Liberation Day" announcement of a baseline 10% tariff and reciprocal tariffs. A week of extreme volatility followed and the administration seemed to relent by announcing a 90-day pause, which was cheered by investors hoping that the extreme tariff measures were just part of a negotiating tactic. Recent headlines suggest that maybe it is working, with many countries seeming to be in negotiations with the U.S. And most notably, it appears that China is open to talks while also exempting some goods from its recently imposed retaliatory tariffs on the U.S. While much uncertainty remains on the impacts to growth and path of the negotiations, there have been some signs of thawing tensions in Washington, D.C. this spring. Against the still uncertain path ahead, we've moderated exposure to risk assets.

Trade-off?



Performance data quoted represents past performance which is not a guarantee or a reliable indicator of future results.

Data as of 30 April 2025 unless otherwise noted.

Sources: Bloomberg L.P.

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Asset Class Positioning



- Aligning with our view on moderating risk, we lowered our equity allocation to a neutral position and added to cash given potential headwinds to growth from tariffs and trade.
- Within equities, we continue to favor value-oriented sectors, which are supported by more reasonable valuations and should benefit from a continued broadening away from U.S. large-cap growth.
- Within regions, we see better opportunities outside of the U.S. on more compelling valuations as well as improving sentiment supported by increased fiscal spending and accommodative central banks.

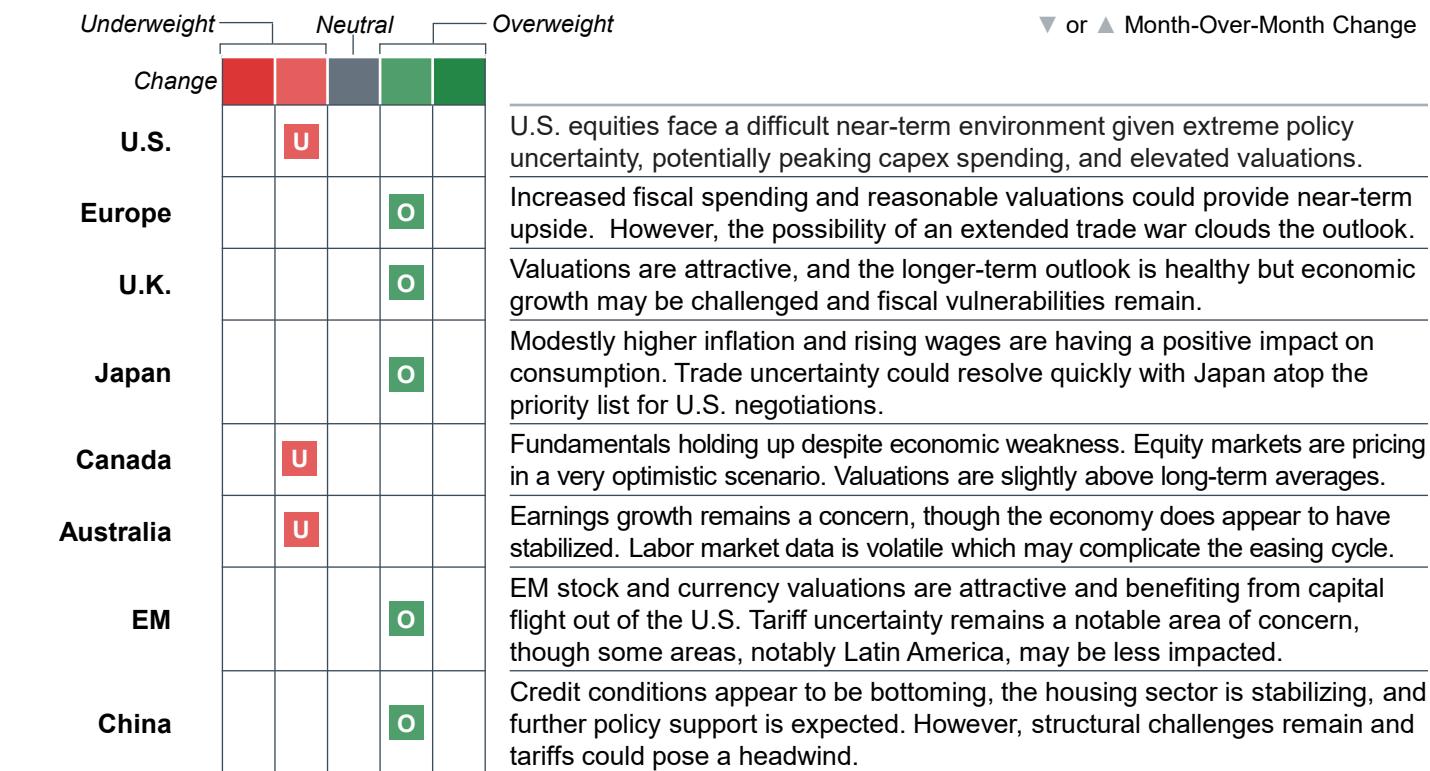


- We maintain an underweight position to bonds given potential for upward pressure on U.S. interest rates reflecting potential for increased supply to accommodate U.S. fiscal policy.
- In line with overall derisking, we trimmed exposure to spread sectors including high yield, emerging market bonds, and floating rate loans. While fundamentals remain broadly supportive, spreads could be vulnerable to disruptions associated with trade policy.
- We increased inflation sensitivity and trimmed U.S. duration by adding to short-term TIPS and increasing hedged global ex-U.S. bond exposure, funded from long-end U.S. treasuries.



- We remain overweight cash, as it still provides attractive yields and liquidity.
- Cash could provide liquidity to take advantage of market opportunities amid expected volatility.

Equities: Regional Views



These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
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Equities: Style & Capitalization Views

	Underweight	Neutral	Overweight		
Change	Red	Red	Grey	Green	Green
Global Ex-U.S. Growth	U				Growth stocks' valuations are more expensive and are more levered to global trade. Persistent consumer weakness in emerging markets presents another headwind.
Global Ex-U.S. Value			O		A paradigm shift in the fiscal spending outlook combined with still dovish monetary policy and a normalized interest rate environment should catalyze improvement.
U.S. Growth	U				AI monetization and capex spend continues to be scrutinized though Mag 7 earnings have largely held up. Valuations remain elevated despite recent sell-off.
U.S. Value			O		Potential for support from deregulation, continued broadening earnings growth as well as prospective fiscal policy support and re-shoring; however, tariffs could pose a significant economic growth risk.
Global Ex-U.S. Large-Cap	U				Trade uncertainty and geopolitical risk remain concerns, however, improving stimulus outlook and stabilization in Chinese growth offers support.
Global Ex-U.S. Smid-Cap			O		Monetary easing, weaker dollar, and less exposure to trade policy could provide tailwinds with still very attractive valuations.
U.S. Large-Cap		N			Elevated valuations and concentration risks remain a concern. However, strong fundamentals and healthy free cash flow levels offer a buffer against economic slowdown.
U.S. Small-Cap	U				Economic growth uncertainty and lack of pricing power could pose challenges. However, potential for deregulation and stronger M&A activity supportive.
Real Assets			O		Sector offers protection against sticky inflation. Increase in precious metals prices has been beneficial. Recent overproduction by OPEC has been a short-term drag on oil prices.

Bonds: Regional & Sector Views

	Underweight	Neutral	Overweight		
Change	Red	Red	Grey	Green	Green
Canadian Investment Grade	U				Yields biased higher on fiscal spending prospects. BoC easing likely to continue, but is already reflected in short-term yields.
U.S. Investment Grade (IG)	U				Softer growth weighing on yields, while sticky inflation could keep upward pressure. Credit fundamentals supportive, with spreads reflecting uncertainty.
Dev. Ex-U.S. IG (CAD Hedged)			O		Hedged yields more attractive with potentially less upward pressure on longer end than U.S. Treasuries, while central banks have more room to cut.
U.S. Long-Term Treasuries	U				Despite lower growth expectations, increasing concerns around stickier inflation and prospects for increased issuance to sustain fiscal deficits may bias yields higher.
Inflation-Linked		N			Inflation could remain sticky or surprise higher due to effects from tariffs, while recent drop in oil provides an attractive entry point into short-term breakevens.
Global High Yield			O		Spreads are more reflective of current market uncertainty, but sector still offering a healthy yield with supportive fundamentals and still muted default expectations.
Floating Rate Loans		N			Valuations have become more reasonable, however, liquidity considerations amid increased uncertainty likely to weigh on the asset class.
EM Dollar Sovereigns		N			Despite attractive yields, risks to EM include tighter financial conditions from potentially higher U.S. interest rates and tariff uncertainty.
EM Local Currency Bonds			O		Recent U.S. dollar weakness has been supportive, though path forward for USD and fiscal challenges from tariffs both remain uncertain.

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