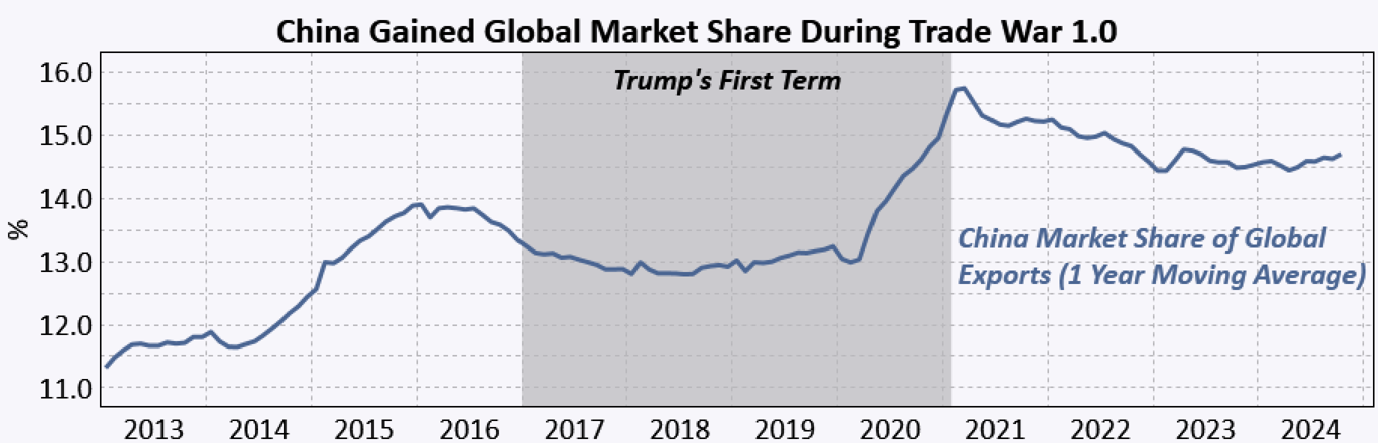
Tariff-ble Behaviour

The new US administration has wasted little time asserting itself with confrontational "America First" initiatives and rhetoric. Just over one month into the Trump presidency, investors have faced a flurry of actions: tariffs (both implemented and threatened), deportations, discussions of acquiring (and annexing) nations, strained relations with European allies, proposals for permanent displacement of Gazans and coercive negotiations with Ukraine for mineral resources, just to name a few. As Canadians, the threat of universal tariffs and being ridiculed as the 51st state by our closest ally have stirred emotions (Canada's overtime victory against the US in the 4 Nations hockey final offered some much-needed catharsis). But as with Trump's first tenure, it is critical to filter through the noise and stay focused on the big picture.

While the headlines may suggest that the global order is unraveling, Trump and his tactics are a known commodity. His playbook of making extreme threats, then using them to draw concessions in negotiations is well-documented. Countries and regions worldwide are thus better prepared for Trump 2.0 than 1.0. The caveat is that in his second term, Trump has appointed loyalists to key roles, meaning there may be fewer checks and balances to rein in some of his more impulsive tendencies.

As noted in our annual Super Trends report, the rise of protectionism has pushed governments worldwide to deepen domestic resilience. A prime example is China, who after being the focus of Trump's trade hostilities during his first term, invested heavily in key domestic industries; becoming world leaders in many of them. Per the chart below, China's market share of global exports has stabilized (after an acceleration during COVID lockdowns) at a higher proportion than the pre-trade war level. Heightened US nationalism will likely serve as a catalyst to embolden further fiscal stimulus initiatives around the world. Anecdotally, Canadian conversations concerning punitive inter-provincial trade barriers, export diversification and new infrastructure projects have (at long last) made it into mainstream media and political discourse. Tariff threats have thus spurred healthy debate and reinvigorated national pride in what was otherwise likely to be a divisive election year.

That is not to say that protectionist actions will not be impactful. While we maintain a healthy dose of skepticism that self-defeating worst-case scenarios like a sudden abandonment of the USMCA agreement will materialize, we must nonetheless be cognizant of the rising risk. The high degree of interdependence which has built up in the



Sources: Macrobond, IMF, Forstrong Global Asset Management Inc.

North American supply chain ecosystem means that the economic impact of trade barriers would be damaging for all parties involved. Irrespective of which threats ultimately materialize, the elevated uncertainty weighs heavily on business confidence in the interim. Spending plans for hiring and capital investment are likely to be deferred in many trade-sensitive industries. This will act as a dampener against an otherwise robust global growth trajectory.

With regards to portfolio construction, there are a number of important takeaways. With globalization becoming more fragmented, countries with the room (and political will) to invest in domestic industries and bolster self-sufficiency should be rewarded. A period of heightened uncertainty necessitates maintaining hedges such as gold for insurance against adverse outcomes. Lastly, it's critical not to lose sight of the myriad of other factors impacting the global economy and financial markets. Despite the Trump administration's protectionist rhetoric and actions dominating the headlines of late, stocks in developed and emerging markets outside of the North America have led the charge year-to-date; sharply outperforming the US.

Global Strategy Overview

Cash

Falling short-term Canadian yields continue to weigh on the attractiveness of holding excess cash. Hedges against equity risk are still well-warranted, but we have opted to initiate a position in gold bullion (see below) rather than increase cash holdings. Cash remains below benchmark in client portfolios.

Bonds

We continue to expect US growth and inflation to be resilient, which should keep a floor under longer-term US bond yields. However, after a very sharp rise last quarter, we expect US yields to soften this quarter. US bond exposure remains underweight, but has been brought closer to benchmark in client portfolios.

Equities

We remain more upbeat than consensus on the prospects for European equities, given their inherent pro-cyclicality. However, we believe that the capacity to deliver fiscal stimulus will be critical in the period ahead, as countries and regions will need to be tactical and nimble to compete against "America First" policies. With the French budget deficit facing growing scrutiny from the EU and the German "debt brake" unlikely to moderate, we have moderated our exposure to European equities this quarter.

Opportunities

We have elected to take profits on gold miner equities, following a run of exceptionally strong performance last year. We continue to like gold as a portfolio hedge against equity and geopolitical risk. Viewed in this context, gold bullion should provide a more effective hedge than gold equities, which necessitated a switch between the two asset classes this quarter.

FORSTRONG
GLOBAL ASSET MANAGEMENT INC

Strategy Dashboard: Q1 - February 2025

Forstrong Strategies	Inception Date	1 Month	Ytd	1 Year	3 Year	5 Year	10 Years	Since Inception
Balanced								
Global Income	30/06/08	2.39%	2.39%	13.05%	4.87%	4.47%	4.69%	7.31%
Global Balanced	30/06/03	3.70%	3.70%	16.78%	5.57%	6.69%	6.22%	7.17%
Global Growth	30/06/03	4.83%	4.83%	21.54%	7.02%	8.92%	7.96%	8.45%
Canadian Income	30/06/08	1.97%	1.97%	12.20%	4.42%	4.43%	4.31%	6.31%
Canadian Balanced	30/06/03	3.36%	3.36%	16.26%	5.80%	6.89%	6.00%	7.21%
Canadian Growth	30/06/03	4.31%	4.31%	20.94%	6.68%	8.78%	7.42%	8.27%
Global Equity								
Emerging Markets Equity	31/01/19	3.34%	3.34%	16.34%	1.20%	4.06%	NA	3.33%
Global Ex-North America Equity	31/12/19	5.21%	5.21%	17.42%	5.76%	6.55%	NA	5.94%
Alternative Income								
High Income Opportunities	30/06/22	4.86%	4.86%	14.15%	NA	NA	NA	12.20%

* Performance as of January 31st, 2025
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