STRATEGY DASHBOARD: REBALANCE SUMMARY Q2 2025

In the weeks leading up to Donald Trump's re-inauguration as US president, investors were well-versed in the playbook for the next 4 years. Free trade? Out. Protectionism? In. Regulation and big government? Out. US security guarantees? Gone. Do-it-yourself defense? The new multi-polar order.

The outcome in financial markets seemed predestined. "America first" foreign policy and business-friendly domestic policy meant an extension of the all-American bull run, with its outperforming mega-cap tech businesses, persistently strong currency and rising treasury yields.

Instead, something very different is unfolding. In the first 3 months of 2025, trendlines have been breaking everywhere. Previous leaders are struggling, while many asset classes left behind in the last decade have surged. The standout performers? Gold. Copper. Emerging market equities. Even European stocks are outperforming.

These are still early-stage shifts. However, given their speed and scale, ignoring the price signals would be a big mistake. The key question is whether all of this is merely a spectacular short-term blip or the start of a lasting trend.

Was something missing from the investor playbook? By our estimation, it was very light on what we have dubbed "the protectionist paradox" in our annual Super Trends report, whereby tariffs and other aggressions lead to a surge in national pride and pro-growth policy responses in targeted countries. While the US maintains a hefty global influence in numerous categories (geopolitics, trade, security, finance, etc.), the assumption that the primary response of other countries would be to simply make concessions was wide of the mark.

Examples to the contrary are stacking up. Germany and China have ramped up fiscal stimulus measures. Mexico and the European Union modernized and expanded upon their existing trade agreement. Here in Canada, focus has shifted (at long last) to dismantling inter-provincial trade barriers, diversifying our export base and identifying productivity-enhancing infrastructure projects. The list goes on.

The protectionist paradox has thus boosted the growth outlook for a number of countries outside of the US and provided a critical offset to the rising likelihood of a US-led trade war having a deleterious impact on global growth. After a prolonged period of US outperformance, we expect the leadership shift to international assets has room to run. But with the US shifting from an economic growth driver to a source of uncertainty, the need for portfolio ballast has risen simultaneously.

Cash and Currencies

Modestly increasing cash exposure

- Despite falling domestic short rates, cash remains a viable source of portfolio stability during market turbulence.
- However, instead of solely holding excess cash to offset equity risk, we have elected to implement a diversified approach of cash, increased (and longer duration) fixed income allocations (see below) and gold.
- Cash has been increased modestly in client portfolios.

Global Equities

Overweight European financial sector equities

- The fiscal impulse in Europe has gapped higher, as Germany and the EU have recently made significant commitments to defense, security and infrastructure spending.
- With central bank rate cuts already easing monetary policy, a pivot to fiscal expansion should help offset trade and geopolitical uncertainty and provide a much-needed growth impetus for the continent.
- With business and household loan growth already improving, pro-cyclical European financial sector stocks are well-suited to benefit from this pivot and have been added to this quarter.

Adding to Chinese equity exposure

- Fiscal policy is also a key theme in China, as increasingly aggressive stimulus measures are critical to pulling business and consumer sentiment out of a protracted slump.
- While China has thus far been a primary target of US tariffs, industrial policy implemented since the first Trump presidency has greatly improved the nation’s resilience.
- A position in onshore Chinese “A-share” equities has been added to balanced and growth-oriented strategies this quarter.

Global Fixed Income

Raising developed markets fixed income allocation

- US trade policy is contributing to investor anxiety, elevated volatility and a wider range of potential economic outcomes.
- Additional “shock absorption” is thus warranted in client portfolios.
- Developed markets fixed income exposure has been increased this quarter.

Increasing duration on US bond holdings

- Our US bond strategy has maintained a long credit, short duration positioning in recent years, as resilient growth and sticky inflationary pressure tightened corporate spreads and created an asymmetric risk profile at the long end of the curve.
- The investment case for this positioning has weakened of late, as on-and-off tariff impositions are fueling business uncertainty and attempts to rein in the government deficit have weakened the US' fiscal tailwind.
- US bond duration has been increased back to benchmark (approximately 6 years) in client portfolios.

Opportunity Investment Highlights

Liquidating US residential REITs and biotechnology equities

- Residential REITs may struggle as rising property oversupply is driving vacancy rates higher and limiting rental price growth.
- The appointment of Robert F. Kennedy Jr. as US Secretary of Health and Human Services introduces regulatory uncertainties for the biotech space, while cautious capital allocation from big pharma is dampening the prospects for M&A activity.
- We have elected to liquidate targeted US equity holdings in the residential REIT and biotechnology industries this quarter.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
NET GLOBAL ASSET MIX				
Cash		✓		Increased
Total Equity			✓	Decreased
Total Fixed Income	✓			Increased
Commodities			✓	Increased
CANADA INVESTMENTS				
Bonds		✓		Unchanged
Stocks		✓		Unchanged
U.S. INVESTMENTS				
Bonds		✓		Increased
Stocks	✓			Decreased
INTERNATIONAL INVESTMENTS				
Bonds	✓			Decreased
Stocks			✓	Increased

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