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GLOBAL

STRATEGY DASHBOARD: REBALANCE SUMMARY Q3 2025

Should investors buy or sell America? Markets can't seem to decide. But "sell America" chatter is back after Moody's Ratings stripped the American government of its AAA rating, wagging a finger at Washington for a ballooning budget deficit it claims shows no sign of narrowing. Add April's tariff theatrics - Trump's opening shot, partial retreat, and fragile truce with Beijing - and you get a messy cocktail of fiscal sprawl and trade angst.

If all of this has given you a macro migraine, then you are not alone. Concerns around tariffs, trade, and debt are now crowding out normal market dynamics. Keeping up feels more like full-contact forecasting than traditional analysis.

But for the "sell America" camp, Trump's tariffs are seen as a triple threat: slowing growth, pricing instabilities and a souring global appetite for Treasuries and the dollar. For the "buy America" side, an influx of investment into US manufacturing will spur growth and make it easier to service a debt pile that the Congressional Budget Office recently warned was on track to surpass record debt levels set after World War II, reaching 107% of GDP by 2029.

The current market turbulence bears resemblance to the Covid cycle - both are policy-induced crises, not balance-sheet-driven collapses like 1999 or 2008. This is a confidence shock, triggered not by structural excesses but by extreme policy decisions. As such, markets are trading off policy pivots rather than economic fundamentals.

The Trump administration's approach - based on flawed economic narratives and a fundamental misunderstanding of the global economy (e.g., the push for balanced trade with smaller nations or reshoring low-wage manufacturing) - is not sustainable. These policies risk engineering a deep recession.

Meanwhile, consider the resilience of the global economy. While the US remains the world's largest economy, its share of global goods imports has shrunk to 13% - down from nearly 20% two decades ago. It remains a major player, but no longer the primary driver of global trade growth. That role now belongs to Europe and, more recently, China - both of which remain committed to advancing free trade.

And forget comparisons to the 1930s. The world has changed. The US now commands a far smaller share of global GDP, and the perils of protectionism are well understood. Just as Trump's policies have fueled a surge in Canadian patriotism and sparked a geopolitical and fiscal awakening among Chinese and European leaders, his tariffs are more likely to serve as a cautionary tale for other governments than a model to emulate.

Cash and Currencies

Increasing US dollar hedge

- The US dollar appears to be at a critical inflection point; rolling over against most major currencies from a starting point of over-valuation.
- At the same time, the recent change in Canadian leadership marks a shift to a more business-friendly, pro-growth political landscape.
- We have increased the Canadian dollar hedge on US asset class exposures in client portfolios.

Global Equities

Maintaining equity overweight

- Global equity markets are learning to cope with erratic policy communications from the US government, after a panicked response to the “Liberation Day” reciprocal tariffs in early-April.
- While uncertainty remains elevated, the likelihood of spiraling global trade wars has decreased significantly since the White House announced a pause and willingness to negotiate with trade partners.
- We have maintained a modest overweight to equities this quarter.

Trimming US mid-caps

- Smaller US companies typically have weaker balance sheets, less operational flexibility and limited lobbying influence, making them more exposed to supply chain disruption risks and elevated financing costs.
- Forward earnings confirm these vulnerabilities, as weakening revisions flash warning signals for the small and mid-cap cohorts.
- We have trimmed exposure to US mid-cap equities in client portfolios.

Global Fixed Income

Keeping fixed income underweight

- Longer-term government bond yields in most major markets continue to grind higher as investors demand a larger term premium to compensate for inflation and fiscal largesse concerns.
- While the higher yields improve the risk/return trade-off, we believe the adjustment at the long-end of the curve has further to run.
- Fixed income exposure has been kept below benchmark this quarter.

Decreasing US bond exposure; adding to EM

- Fiscal profligacy concerns and policy risk are impacting US asset prices, with US bonds and the dollar coming under pressure.
- Simultaneously, the weak dollar and relatively prudent fiscal policy in most emerging market (EM) countries have created a favourable outlook for local currency-denominated EM debt.
- We have added to existing positions in EM local currency sovereign bonds and trimmed exposure to US aggregate bonds (both hedged and unhedged) this quarter.

Opportunity Investment Highlights

Initiating India and liquidating Brazilian equities

- The Reserve Bank of India has pivoted to a more accommodative stance, initiating a rate-cutting cycle supported by moderating inflation. This has helped turn around foreign investor confidence, with net inflows resuming this year.
- Conversely, Brazilian equities have done remarkably well year-to-date, but the lagged impact of sharply tighter monetary policy on the domestic economy has created vulnerability looking forward.
- We have elected to take profits on the position in Brazilian equities and initiate a new position in Indian equities in growth-oriented strategies this quarter.

Liquidating US mortgage REITs

- With the US Federal Reserve unlikely to deliver aggressive easing absent a material economic slowdown, a further bull steepening of the yield curve appears constrained.
- As a highly leveraged and rate-sensitive asset class, mortgage REITs are particularly vulnerable to fiscal uncertainties and tariff-related shocks, with higher hedging costs eroding potential returns.
- A high-yielding position in US mortgage REITs has been trimmed in income-oriented strategies and liquidated in balanced strategies this quarter.

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

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