FORSTRONG GLOBAL

STRATEGY DASHBOARD: REBALANCE SUMMARY Q4 2025

Donald Trump's former adviser Steve Bannon once described the president's media strategy as "flooding the zone" — saturating the airwaves with announcements, provocations, and reversals to distract, confuse, and deter scrutiny.

Recent months have offered a masterclass. Tariff threats and impositions have continued at a rapid pace, affecting supply chains and creating operational challenges for US customs agents. In a rare move, Trump dismissed Bureau of Labor Statistics' Erika McEntarfer, who was overseeing the compilation of the latest US jobs report. And prior to the Fed initiating rate cuts, Trump publicly criticized Chairman Powell (using several strong and colourful descriptors). Powell's term runs until next May, but Trump's patience may not.

All this, of course, has consequences for markets. In a predictable policy environment, investors can price equities with some confidence — projecting demand, costs, and interest rates into the future. But Trump's protectionist agenda has sent the US economic policy uncertainty index near record highs. Constantly shifting deadlines, fiddling with duty rates, and tying tariffs to open-ended negotiations make it nearly impossible to mark assets to market (not to mention the fundamentally-flawed notion that running a current account deficit with another nation constitutes "losing").

Usually, this policy uncertainty moves in lockstep with expected equity market volatility (as measured by the CBOE Volatility Index or "VIX"). Not this year. Since January, uncertainty has surged while the VIX's amplitude has stayed relatively calm. This phenomenon was last seen in Trump's first term, when a Booth School study found markets struggled to price risk because White House messaging was "difficult to interpret."

Meanwhile, US equities continue to surge, even as growth forecasts moderate, tariffs rise, and fiscal risks mount. Investors may be clinging to recent "positive" developments — tariff delays, reductions, and deals — or drawing comfort from strong Q2 earnings and AI investment momentum. This fits with human nature: we prefer known risks to unknown ones (ambiguity aversion) and feel averted losses as wins.

But looking past political noise, what are the biggest risks and opportunities to monitor? For the US, tariff-driven inflation may only be starting, equity expectations are stretched, and the economy is clearly cooling, especially in housing, labour and wages. From a global perspective, the sustainability of Europe's recent growth momentum, China's ability to escape self-reinforcing deflation and monetization efforts of the companies deploying massive artificial intelligence capital expenditures will be key focal points over the coming months and years.

Cash and Currencies

Increasing US dollar hedge

- The US dollar has depreciated against most major currencies this year, defying expectations that US-initiated tariffs on major trading partners would have the opposite effect.
- If an inflection point has been reached, the US dollar has considerable downside risk as it remains overvalued according to conventional metrics such as real effective exchange rates.
- A partial Canadian dollar hedge on US assets has been increased in client portfolios.

Global Equities

Decreasing developed Asian equity exposure

- Developed Asian equities have performed well year-to-date, despite their inherent export sensitivity and the impact of US tariff uncertainty.
- However, valuation multiples are now expensive relative to historical averages and strong momentum appears vulnerable to a reversal.
- We have trimmed our overweight exposure to developed Asian equities this quarter.

Liquidating US mid cap equities

- Smaller US companies tend to be more exposed to slowing domestic growth conditions and have less pricing power to combat the impact of tariffs.
- A weakening US dollar trend may further exacerbate input price pressures, while a higher proportion of domestic sales is a disadvantage relative to large-cap peers.
- We have liquidated US mid-cap equity exposure in client portfolios, awaiting a better entry point.

Global Fixed Income

Maintaining modest fixed income underweight

- With most major equity markets running hot this year (and outpacing their underlying fundamentals), maintaining a healthy level of fixed income exposure as portfolio ballast is warranted.
- However, with plentiful global liquidity, fiscal expansion in numerous major markets and continued central bank rate cuts, risk appetite should be well supported for the time being.
- Fixed income exposure remains modestly underweight this quarter.

Increasing US bond exposure

- US bond yields remain attractive on an absolute basis versus most other developed markets.
- The outlook for longer-term US bond yields is mixed, as positive factors including ebbing growth momentum and Fed rate cuts must be weighed against fiscal profligacy concerns and imported inflation risks.
- US bond exposure has been increased to a near-neutral level in client portfolios.

Opportunity Investment Highlights

Trimming gold exposure

- Gold prices have been supported by rising central bank purchases, a weak US dollar and heightened geopolitical risk.
- Gold remains a critical portfolio diversifier and tail risk hedge, but has become overheated in the short-term relative to most other commodities.
- We have elected to take some profits and trim exposure to gold in growth-oriented strategies this quarter, however remain structurally positive on the metal.

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

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