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iA Global Asset Management

2025 Outlook: The Times, They Are A Changin'

The start of 2025 marks a defining moment in the global economic landscape. With Donald Trump returning to the White House, China navigating internal and external headwinds, Europe striving to balance reform and fiscal sustainability, and central banks rethinking their policy frameworks, the stakes are high. Markets are grappling with questions of rotation, resilience, and risk taking, forcing investors to adapt to a complex and rapidly shifting environment.

This report explores five pivotal questions shaping the year ahead and explores a selection of trade recommendations, including contrarian plays, for those ready to seize the opportunities that lie ahead.

Highlights

- The year 2025 begins with major upheavals in the global economic landscape, marked by Donald Trump's return to the White House and the internal and external economic challenges faced by major powers.
- The main economic risk of the year will be Trump's tariff policies, which could trigger retaliation from trading partners, affecting global trade and increasing inflationary pressures.
- Despite the inherent risks, 2025 should offer interesting opportunities for active investors.

January 2025	--	-	N	+	++
ASSET CLASSES					
Money Market			■		
Fixed Income		■ ←			
Equities				■	
Alternatives			■		
RELATIVE EQUITY					
Canadian Equities				■	
U.S. Equities				■	
International Equities*			■		
EM Equities			■		
RELATIVE FIXED INCOME					
Government Bonds			■		
IG Corporate Bonds			■		
HY Bonds			■		
OTHERS					
Oil			■		
Gold		■			
USD (trade weighted)		→	■		
CAD/USD		→	■		

* Japan

Trump 2.0: What Can We Expect?

When Donald Trump first took office in 2017, the world braced for disruption — and it got plenty. His second term, however, arrives under different circumstances. With a solid mandate after winning the popular vote and (slim) majorities in the Senate and the House, Trump is poised to push through an ambitious agenda.

Regulation, Regulation, and Taxes

As discussed last month, the Trump 2.0 administration's first economic objective is to unlock the economic potential of the U.S. through deregulation and tax reforms. Trump is so far walking the talk, having already nominated policy hawks and regulation skeptics for most key administrative roles, and we fully expect Congress to approve most, if not all, of his nominations. On the tax front, expectations are that the 2017 Tax Cuts and Jobs Act (TCJA) will be extended, with hopes it will further bolster the economy, attract more domestic and foreign investment, and enhance the competitiveness of U.S. businesses on the global stage.

We expect the corporate tax rate to be cut again, from 21% to 15%, pushing corporate America's profit margins higher (2025 earnings per share on the S&P 500 would be $10, or almost 4% higher). Widespread deregulation should also support sectors such as banks and energy, pushing real GDP growth higher in 2025 and beyond.

Reducing Government Size

One of Trump's boldest ambitions is to reduce the size of the federal government by streamlining various departments and agencies through the Department of Government Efficiency (DOGE). That being said, this initiative is expected to face substantial legal challenges. Under the Impoundment Control Act of 1974, established during Nixon's presidency, the President is legally required to spend the funds appropriated by Congress. Thus, any attempt to cut government spending significantly without Congressional approval could lead to a myriad of legal battles, and the Republican majority in Congress might ultimately prove too slim.

We have considerable doubts about Elon Musk's objective of cutting the size of the government by $2 trillion (out of a budget of $6.8 trillion), a target that DOGE leaders Musk and Vivek Ramaswamy have suggested could come from firing 75% of the government work force, a proposition likely to face aggressive backlash in Washington.

Given that spending on social security, Medicare, Medicaid, and defense totals almost $3.6 trillion, the potential for massive reductions in government spending is limited. The current market consensus is that the U.S. government could eliminate some functions, hire more data analysts to make decision making more efficient, and invest more in fraud detection. If this is, indeed, the outcome of the DOGE, then we are looking at savings of $100-$200 billion dollars a year, a much smaller drag on U.S. GDP.

Tariffs and Trade Policy: The Wild Card

Tariffs and trade policy are THE wild card in our outlook. Although our initial guess is that Trump is threatening to impose tariffs on his allies mostly as a setup for coming negotiations, we fully expect that Europe (through its auto industry) and China (blanket tariffs) will be hit hard and are likely to retaliate, bringing global trade, and growth, lower.

The domestic impact of these policies is uncertain, however. Initially, U.S. growth would be supported by investment in domestic industries and less reliance on foreign goods, but global trade has a way of rapidly adjusting to any disruptive force. The likely outcome is that trade gets rerouted through friendly trading partners, partially offsetting the effects of tariffs, and that the bill for what remains is passed on in large part to consumers, leading to more inflation.

The key question is whether the benefits of protecting domestic industries and fostering growth will outweigh the inflationary pressures and potential trade tensions. Our expectations are that U.S. growth will be supported slightly by these measures in 2025, but that inflation will pick up notably, keeping the Fed on the sidelines (more on that later) and adding to the downward pressure on growth.

Bottom Line: We expect Canada to escape the brunt of tariffs, because the U.S. needs Canadian oil and gas, and the assertions about border security do not apply equally to Mexico and Canada. We do recognize that there is a low-probability, high-impact scenario whereby Trump's team moves forward with 25% blanket tariffs on Canadian exports, which would push Canada's economy into a recession.

But our take is that this is more about "the art of the deal" than actual economic policy, and that Canada will most likely be able to negotiate its way out of this threat by spending more money on border security and promising to ramp up defense spending (and, in all likelihood, purchasing more military equipment from the United States).

Ultimately, absent any trade spat with the United States, we think what is good for the U.S. economy is probably good for the Canadian economy, and that there are reasons for Canadians to be optimistic about 2025.

China: Can It Deliver Much-Needed Stimulus and Reforms?

China enters 2025 as a nation at a crossroads. Once the engine of global growth, it faces mounting challenges, both domestic and international.

A Balance Sheet Recession

In our November piece, we identified China's primary economic issue as a balance sheet recession, with households and companies alike prioritizing debt repayment over spending or investing, leading to economic stagnation due to less consumption and investment. The situation is further complicated by the ongoing housing crisis, with billions of dollars tied up in incomplete projects. This predicament not only leaves homeowners and investors in a state of uncertainty but also dampens overall activity as households prioritize saving over spending.

In such an environment, traditional monetary policy measures are insufficient, and rate cuts by the central bank are equivalent to pushing on a string. Instead, history advocates for direct fiscal stimulus as the most effective solution.

China Back To Its Pragmatic Roots?

In 2025, we expect the Chinese government to return to its pragmatic ways and take a proactive role by borrowing and spending to stimulate the economy. A key focus should be completing the unfinished housing projects, which would not only stabilize the housing market but also boost consumer confidence and spending. Additionally, we expect targeted investments in sectors that align with the government's long-term priorities, such as green energy and advanced technology.

To further address the issue of low consumer confidence, we expect China to implement policies that directly stimulate spending, such as direct transfers (in economic jargon, "helicopter money") and other measures designed to encourage households to spend rather than save, helping drive economic recovery and growth.

Finally, we expect the Chinese federal government to ramp up its debt-swap program and reform the business model of local governments, removing the current unsustainable incentive to sell ever more land for housing projects, thus diversifying the economy away from real estate.

Our take on China is that there is an effective playbook to exit the balance sheet recession, but that it will take bold, coordinated fiscal policy to achieve escape velocity. We think that, by focusing on fiscal stimulus and targeted investments, China can overcome its current economic difficulties and set the stage for sustainable growth.

Investment Opportunities

Despite the challenges, China offers pockets of opportunity for risk-seeking and contrarian investors.

First, Chinese equities quietly outperformed the S&P 500 and the NASDAQ at some point in 2024 and could continue to catch up if Chinese authorities deliver on the stimulus and reforms discussed above. The Chinese stock market is trading at an attractive valuation, and the gap vis-à-vis global equities could prove valuable for investors looking to capitalize on the potential upside.

Second, at a more granular level, sectors aligned with government priorities, such as green energy and advanced technology, are ripe for exploration:

- Green Energy: China's dominance in solar and battery technology offers long-term growth potential. The country is the largest producer of solar panels and batteries, and its commitment to reducing carbon emissions ensures continued investment and innovation in this sector.
- Advanced Technology: The artificial intelligence and semiconductor sectors benefit from robust state support. China aims to become a global leader in AI by 2030 and is directing substantial government funding to research and development in this field. Similarly, the semiconductor industry is receiving significant investments to reduce reliance on foreign technology and enhance self-sufficiency.
- Rare Earths: China owns a significant share of vital components required for modern technology, including rare earth elements essential for the manufacture of electronics, electric vehicles, and military equipment. The strategic importance of these materials ensures that companies involved in their extraction and processing will continue to play a crucial role in the global supply chain.

Bottom Line: Even though China faces significant economic challenges, it offers an intriguing opportunity for risk-seeking investors. Risks remain, but the upside potential of Chinese equities and strategic industries makes a compelling case for contrarian investment.

Success for Chinese authorities will depend heavily not only on timely and efficient implementation of fiscal policies and reforms, but also on external factors, such as global economic trends and geopolitical tensions.

Monitoring shifts in consumer confidence and spending patterns will be crucial to gauge the success of stimulus measures. China's long-term economic health depends on a balance between short-term fixes through fiscal stimulus and investing in sustainable growth.

Current valuation vs. 10-year historical (percentile)

	EV/Sales	EV/EBITDA	Price/Book	FCF Yield	P/E	Dividend yield*	Median	Change in median vs last month
S&P/TSX	71%	50%	91%	70%	72%	88%	71%	-15%
NASDAQ	99%	97%	85%	3%	88%	90%	89%	-1%
S&P 500	94%	87%	98%	1%	90%	98%	92%	-4%
MSCI World	89%	82%	96%	1%	82%	97%	85%	-7%
MSCI Japan	59%	40%	95%	87%	38%	55%	57%	3%
Russell 2000	73%	63%	30%	38%	90%	39%	51%	-19%
MSCI EAFE	53%	25%	65%	87%	16%	56%	55%	-14%
MSCI ACWI	87%	82%	96%	3%	80%	96%	84%	-7%
MSCI China	58%	81%	28%	74%	20%	69%	63%	-1%
MSCI EM	74%	72%	67%	81%	47%	57%	70%	-5%

* Inverted
As of December 31, 2024

Europe: Opportunity or Value Trap?

Europe enters 2025 in a state of tension, caught between external pressures from the United States and internal challenges stemming from fiscal constraints and political instability. Some see Europe as a value trap — a region plagued by low productivity, demographic decline, and fractured unity — whereas others argue that these challenges could spark reforms that lay the groundwork for long-term growth.

Trade Risks: A Renewed Front with the U.S.

Donald Trump's return to the White House has reignited trade tensions, particularly with export-heavy European economies. Tariffs remain the key risk, with Trump having threatened tariffs of 10%-20% on European auto exports, which could cost Germany and France a combined 0.5%-1.0% of GDP annually.

There is also potential for a broader trade war, given U.S. investigations into European digital taxes and industrial subsidies, which could escalate into broader tariff measures, affecting sectors such as machinery, chemicals, and consumer goods.

Europe's response hinges on appealing to Trump's deal-making instincts. European leaders have increased their defense spending to meet NATO commitments and are emphasizing the strategic importance of transatlantic ties. That being said, if negotiations fail, the European Union may resort to retaliatory tariffs, exacerbating economic uncertainty.

Fiscal Challenges: Balancing Growth and Stability

The EU's fiscal landscape is under strain. The war in Ukraine has stretched budgets across the continent, with many nations contributing significant aid to Kyiv. Their potential commitments of additional financial and military support total €50-€100 billion over the next two years, but they must also try to ensure they can defend themselves in the future AND raise their defense spending to the NATO target of 2% of GDP.

At the same time, internal fiscal challenges loom large:

- Aging populations and low productivity growth are eroding long-term fiscal sustainability.
- Efforts to boost the European defense industry, as championed by European Commission President Ursula von der Leyen, face funding constraints.
- The need for creative financing solutions, such as joint EU bonds, is gaining traction but remains politically divisive.

France: A Bellwether for European Stability

France's political landscape will play a pivotal role in shaping the EU's trajectory in 2025. President Emmanuel Macron's government faces mounting challenges on multiple fronts:

- **Domestic Unrest:** Persistent protests over pension reforms and labour laws have weakened Macron's approval ratings, fuelling public discontent. Strikes have disrupted key industries, from transportation to energy, creating economic headwinds.
- **Rising Populism:** The far right under Marine Le Pen continues to gain momentum, with polling suggesting a tighter race in future elections. This rising tide of nationalism could challenge France's traditionally pro-EU stance, complicating negotiations on collective EU policies.
- **Geopolitical Leadership:** Despite domestic issues, Macron remains a vocal advocate for stronger European integration, particularly in defense and climate initiatives. France's ability to maintain its leadership role amid internal turbulence will be critical for the EU's cohesion.

The big question in 2025 will be whether other countries, such as Germany, undergo a political crisis of their own, which would cast even darker clouds on the outlook for Europe's economic performance.

Contrarian View: Europe's Long-Term Potential

Despite the headwinds, Europe may offer hidden opportunities for investors willing to look past the near-term uncertainty:

- **Undervalued Markets:** European equities are trading at a wide discount to their U.S. counterparts, presenting a compelling entry point for long-term investors.
- **Structural Reforms:** Political and economic pressures could actually turn out to be bullish for the European economy over the long term if they force reforms in areas such as labour markets, industrial policy, and green energy.
- **Green Transition:** The European Green Deal, backed by €1 trillion in investment commitments over the next decade, is a cornerstone of Europe's growth strategy. Sectors such as renewable energy, battery technology, and electric vehicles are poised to benefit.

Equity Indices, Next 12-Month P/E Ratios

As of 11/2024, FactSet

Bottom Line: Europe faces several significant risks that could affect its economic stability. Continued political fragmentation threatens to undermine EU-wide policies and stifle growth. Additionally, a worsening trade war with the U.S. may amplify recessionary pressures in key economies. France's political instability, particularly with the potential rise of Le Pen's influence, could have ripple effects across the continent. These factors collectively pose challenges but could also lay the foundation for much-needed change.

Although our outlook for Europe in 2025 is cautious, we are keeping an open mind and a curious eye on cheaply valued European assets.

The Fed and the BoC: How Low Will They Go?

Central bank policy remains once again at the heart of market dynamics in 2025, as both the Federal Reserve and the Bank of Canada face the delicate task of navigating economic resilience alongside inflationary pressures. With markets pricing in rate cuts, the debate over how low rates will go — and how quickly — has critical implications for both economies, their currencies, and their asset valuations.

The Federal Reserve: Balancing Growth and Inflation

The Federal Reserve enters 2025 with a relatively strong U.S. economy, buoyed by robust consumer spending and corporate investment. Even so, the path of monetary policy remains uncertain, shaped by competing forces:

- **Trade Policy:** President-elect Trump has been clear about his intentions to use tariffs to service the cost of U.S. debt and has started to acknowledge in recent interviews that this policy should be inflationary. Depending on the policy choices made and, more important, on whether and how trade partners retaliate, the Fed might be forced to stop cutting early or even revert to rate hikes along the way.
- **Neutral-Rate Debate:** Discussions around the neutral rate — often seen as a theoretical anchor for policy — highlight the complexities of the current environment. Improved productivity, spurred by digitalization and automation, has raised questions about whether the neutral rate is higher than historical norms. Recent Federal Open Market Committee (FOMC) estimates place the neutral rate between 2.5% and 3.5%, suggesting that the Fed may have limited room to ease aggressively.
- **Market Expectations versus Fed Signals:** As the year ends, markets have priced in about 25 basis points of rate cuts for 2025. Yet, with inflation expectations anchored and fiscal policy remaining expansionary, the Fed may adopt a more cautious approach. Any deviation from market expectations could trigger significant repricing across currencies, fixed income, and equity markets.
- **Other Risks to Watch:** Upside risks to inflation, particularly from energy prices or supply-side disruptions, could push the Fed to halt or reverse cuts, keeping monetary conditions tighter than expected.

The Fed's balancing act — supporting growth while managing inflation and maintaining financial stability — will be a key driver of global asset flows.

The Bank of Canada: Walking a Tightrope

The Bank of Canada faces a distinctly different set of challenges. Even though Canada's economy benefits from strong commodity exports and a relatively stable fiscal position, structural vulnerabilities loom large.

First, with household debt levels among the highest in the G7, Canada's housing market remains acutely sensitive to interest rate changes. Rising rates in recent years have slowed housing activity, but the five consecutive rate cuts in 2024 (with two jumbo cuts of 50 basis points to close the year) could reignite concerns that shelter inflation will make a comeback. We remain skeptical about flaring housing prices in 2025, given the recent changes to Canada's immigration policy, which should result in subdued demand for housing, but we are keeping an open mind.

Second, unlike the United States, Canada's smaller and more export-reliant economy faces unique risks from exchange-rate fluctuations. The Canadian dollar (CAD) has depreciated against the U.S. dollar (USD) in 2024, given the widening gap in perceived and realized economic performance by both countries. Even so, as the year comes to an end, we think a lot of relative bad news is already in the price, and that the loonie could actually be an interesting contrarian buying opportunity. Still, the BoC must carefully balance its message and action in the coming quarters to avoid the perception of excessive divergence from Fed policy, which could exacerbate CAD weakness and volatility.

Third, Canadian inflation has moderated more quickly than we expected and has come down more than the rates in other countries. Meanwhile, growth is expected to reaccelerate to 1.5%-2.0% in 2025, slightly below its long-term rate. With sizable risks of an inflation undershoot, the BoC will need to evaluate carefully whether it needs to move below its estimated neutral range of 2.25%-3.25% or whether it can afford to stay within that range through 2025.

Bottom Line: Central bank policies in 2025 are pivotal for market dynamics, with the Federal Reserve and the Bank of Canada navigating economic resilience and inflationary pressures. The Fed's balancing act between growth and inflation, influenced by trade policies and the neutral-rate debate, contrasts with the BoC's challenges of managing housing-market sensitivities and exchange-rate fluctuations. Investors should watch for sector-specific opportunities in equities, relative value in fixed income, and tactical currency plays, particularly involving the loonie.

The effectiveness of central bank policies will depend on timely execution and communication, as always, but trade policy could ultimately be driving the show.

	Current Rates		Level of Fwd Policy Rate			Expected Policy Rate change		
	Effective policy rate	10Y bond	6M fwd	12M fwd	24M fwd	6M fwd	12M fwd	24M fwd
USA	4.40	4.54	4.07	3.91	3.88	(0.33)	(0.49)	(0.52)
EUR	2.92	2.38	2.02	1.85	2.02	(0.90)	(1.07)	(0.90)
JPN	0.23	1.10	0.57	0.73	0.85	0.34	0.51	0.63
GBR	4.70	4.56	4.40	4.16	3.95	(0.30)	(0.54)	(0.75)
CAN	3.32	3.20	2.67	2.56	2.53	(0.65)	(0.76)	(0.79)
AUS	4.34	4.38	3.79	3.51	3.52	(0.55)	(0.83)	(0.82)

As of December 31, 2024

Equities: Global/Sectoral Rotation or U.S./Tech Domination?

For more than a decade, U.S. equities and technology giants have reigned supreme, delivering outsized returns and solidifying their place as global market leaders. But, as 2025 unfolds, we must ask ourselves: Is the landscape shifting?

U.S. Equities: The Waning Dominance of Big Tech?

The Magnificent Seven tech stocks — behemoths such as Apple, Microsoft, and Nvidia — have driven much of the S&P 500's performance in recent years. Even though their strong fundamentals and cash flows remain attractive, the narrative of limitless dominance is at risk.

After another solid performance in 2024, earnings convergence might catch up to the market. The consensus has shifted to a narrowing gap in earnings growth between the big tech leaders and the remaining S&P 493, with margins for tech companies facing pressure from rising costs while corporate America benefits from tax cuts.

Concerns about valuation are also creeping in. Mega-cap tech stocks continue to trade at elevated multiples, with a forward P/E ratio surpassing 30x, versus 22x for the broader S&P 500 Index. The sustainability of this disparity in a higher interest rate environment might come into focus throughout the year. Adding regulatory risks to the list brings layers of uncertainty, with antitrust actions in the U.S. and abroad possibly hindering the growth trajectories of major tech firms.

That said, the U.S. market remains resilient. Its unmatched dynamism, consumer-driven economy, and dominance in innovation ensure that it will remain a cornerstone of global portfolios.

Global Equities: Sectoral Opportunities

In 2025, we may see some broadening of market leadership as sectoral rotation gains momentum.

- Energy and Industrials: Although at risk of a rollback of the Inflation Reduction Act by the Trump administration in the U.S., both sectors stand to benefit globally from recent government incentives and private investment in decarbonization and infrastructure. Government initiatives worldwide, such as Canada's Green Infrastructure programs and Europe's Green Deal, have catalyzed billions for clean energy projects and should add further momentum in 2025. Additionally, the push for renewable energy sources and sustainable industrial practices is expected to drive significant growth in these sectors, as companies and governments alike invest in technologies that reduce carbon footprints and enhance energy efficiency.
- Financials: Global banks and insurers are well positioned to capitalize on higher interest rate spreads, despite some lingering concerns about credit quality in a few slowing economies. With global central banks pressing forward with more synchronized rate cuts, the steepening of sovereign yield curves should benefit banks through higher net interest margins and increased lending activity.
- Health Care: After an unfavourable year for health care, the themes of an aging global population and an increased focus on biotechnology innovation continue to offer growth opportunities in multiple regions. Advances in medical technology and pharmaceuticals, rising demand for health care services, and the development of personalized medicine and telehealth services, among others, offer interesting prospects. Additionally, increased health care spending by governments and private entities is expected to support the expansion of health care infrastructure and services, making this sector a key area for long-term investment.

Emerging Markets: Reform-Driven Growth

After a prolonged period of underperformance, the time has come to take a deeper look at emerging markets, which are staging a quiet comeback. Reforms in key regions are creating pockets of opportunity, particularly in sectors tied to commodities, energy, infrastructure, and consumer spending.

Commodity-exporting countries, such as Brazil and Saudi Arabia, are experiencing significant benefits from higher energy prices and investments in decarbonization technologies. These developments are boosting their economies and positioning them as key players in the global energy market. In Brazil, the focus on biofuels and renewable energy sources complements its traditional oil exports, while Saudi Arabia's Vision 2030 plan is driving investments in solar and wind energy, as it aims to diversify its economy and reduce dependence on oil.

India's ambitious $1.2-trillion infrastructure drive, along with efforts by the Association of Southeast Asian Nations (ASEAN) to enhance regional connectivity, is creating substantial opportunities for long-term investors. The major initiatives include highways, railways, and urban development, which are expected to drive economic growth and development across the region. ASEAN member states, such as Indonesia, Thailand, and Vietnam, are prioritizing infrastructure to improve trade links and to boost economic integration, making the region an attractive destination for investment.

Furthermore, in countries such as Indonesia and Vietnam, rising incomes and urbanization are fuelling growth in the consumer sector. The expanding middle class in these nations is driving demand for a wide range of goods and services, presenting lucrative opportunities for businesses and investors alike. In Indonesia, the growth of e-commerce and digital services is transforming the retail landscape, while, in Vietnam, the increasing urban population is leading to higher demand for housing, education, and health care services. These demographic trends are expected to sustain robust consumer-sector growth in the coming years.

Emerging markets also trade at a significant discount to developed markets. This valuation gap, coupled with structural tailwinds, makes emerging markets an attractive contrarian bet in 2025.

Bottom Line: As we look ahead to 2025, the investment landscape is marked by both risks and opportunities. Macro uncertainties, ranging from geopolitical tensions to inflationary pressures, are likely to drive periods of heightened volatility. But this environment also creates opportunities for disciplined investors, with many geographies and sectors poised to benefit from the valuation gaps that have formed, and from the many thematic currents shaping the market landscape.

Even though the U.S. remains a dominant market, valuation discrepancies across regions suggest a potential rebalancing. Europe and emerging markets, despite their risks, could outperform on a relative basis if growth expectations align with reality.

Wrapping Up the Outlook: Trade Ideas for 2025

Investors enter 2025 in a landscape marked by heightened macroeconomic uncertainty, shifting monetary policies, and evolving sectoral dynamics.

Given our views expressed in this piece, we will flesh out a few trade ideas and recommendations for positioning throughout the coming year.

We agree with the consensus on a few trade ideas, given our base-case scenario of continued decent growth, the potential for inflationary surprises from global trade, and a general climate of uncertainty as the Trump 2.0 era gets under way.

Our Most Consensus Trade Ideas: Riding Established Trends

- **Overweight U.S. Equities:** The U.S. remains the cornerstone of global equity portfolios and should continue to hold the crown in 2025.
  - While the dominance of the Magnificent Seven is moderating, earnings expectations remain solid as corporate America continues to benefit from strong consumer spending, stable margins, and fiscal tailwinds.
  - Productivity gains and robust labour markets underpin a resilient U.S. economy, even as monetary policy tightens.
  - Despite elevated valuations, the structural advantages of U.S. markets — innovation, dynamism, and liquidity — make them a preferred allocation for many institutional investors.
- **Underweight Global Fixed Income:** Our macro expectations for 2025 lead us to take a cautious approach to fixed income.
  - We expect global yields to move higher in 2025, given the potential for a higher neutral rate and persistent inflation.
  - Current bond prices already reflect market expectations of easing, leaving little room for additional gains unless the macro-outlook deteriorates dramatically.
  - We expect investors to favour short-duration and inflation-protected securities as hedges against rate volatility, leaving little demand for long-duration assets.
- **Overweight Alternative Investments:** Alternatives offer interesting thematic opportunities in a fast-changing world.
  - Infrastructure and real estate offer inflation hedges and stable cash flows in a low-growth environment.
  - Strategies focused on macro trends, relative value, and market-neutral approaches (hedge funds, for example) are well positioned to capitalize on volatility.

Contrarian Trades: Thinking Beyond the Consensus

Beyond the consensus ideas listed above, our framework identifies a few contrarian trade ideas worth a fresh look as we enter 2025. These views could complement our consensus views listed above and act as a hedge for the underlying policy and market risks we have identified.

- **Overweight U.S. Treasuries:** Despite our recommendation for an underweight in global fixed income, we see an opportunity to overweight U.S. Treasuries, given that the current positioning is stretched at historically low levels. This context hints that the consensus is widely confident in the success of coming reforms and creates an opportunity for those betting on reform disappointments.
    - Flight-to-safety risk is elevated from geopolitical tensions or financial instability, which could both drive a rotation into high-quality U.S. government bonds.
    - U.S. long-duration bonds could outperform as the Federal Reserve cuts rates more aggressively than the market expects in 2025.
    - Disinflationary forces could continue to dominate despite the tariff threats, while slower global growth, particularly in Europe and China, could support bond prices.
- **Short Gold:** Although gold has benefited from geopolitical tensions and fears of financial instability, contrarian investors may find opportunities to go short.
    - Resolution of major conflicts, such as the war in Ukraine, could reduce safe-haven demand as geopolitical risks fade.
    - A resilient greenback, supported by stronger U.S. growth and higher real rates, could weigh on gold prices.
- **Long EUR/USD:** The euro zone's battered reputation may present opportunities for investors willing to take a contrarian stance.
    - The euro remains undervalued relative to its historical averages, even as structural challenges persist.
    - Political and fiscal pressures in Europe may drive necessary reforms, particularly in labour markets and energy policy.
    - Europe's efforts to diversify trade relationships and invest in strategic autonomy could support the currency.
- **Long CAD/Short USD and/or Long CAD/Short EUR:** The Canadian dollar offers an intriguing contrarian opportunity, supported by structural and cyclical factors alike.
    - The Bank of Canada has cut rates more aggressively than the Federal Reserve in 2024, limiting further downside for the CAD against the USD. Against the EUR, Canada's relative fiscal discipline and robust trade ties with the U.S. provide additional support.
    - The EUR remains pressured by low productivity, demographic decline, and ongoing geopolitical uncertainty. Meanwhile, Canada's expected economic resilience positions the CAD as a more attractive alternative.
    - These views still carry ample risks. First, unexpected weakness in energy markets or a sharp correction in Canada's housing sector could challenge this position. Second, faster-than-expected fiscal reforms in Europe or stronger-than-expected growth in the U.S. could also limit the upside for the CAD.

Conclusion: Opportunities Abound

The interplay of policy shifts, geopolitical dynamics, and market realignments will test investors' conviction and adaptability in 2025. For those who can look beyond the noise, the opportunities are significant — whether in contrarian trades, undervalued regions, or thematic plays. The path ahead may be challenging, but, as always, it is the prepared and proactive who will rise to the occasion.

Monthly Positioning

In terms of current portfolio positioning, we continue to prefer equities over cash and bonds, with a particular focus on Canadian and U.S. equities. The earnings outlooks for both markets remain robust, and we are not yet seeing a slowdown in earnings growth that would adversely affect valuations.

Market sentiment on Canada is relatively negative, driven by a poor federal fiscal outlook, dubious policy choices, the risk of tariffs from the new U.S. administration, and an uncertain political context with a government on the way out. That being said, the Canadian earnings growth outlook has improved significantly in recent months, bolstered by aggressive Bank of Canada easing (175 basis points in less than six months, with more to come). These rate cuts will flow through to the economy in the first half of 2025, boosting demand. Should the threat of tariffs materialize, we expect the Bank of Canada to respond even more forcefully by easing further. Canadian equity valuations remain attractive in relation to other global markets, making Canadian equities appealing.

From a contrarian perspective, we are also looking for the right opportunity to overweight the loonie against its U.S. counterpart, as the currency market is extremely pessimistic about Canada's prospects. Even though we agree that the backdrop has been challenging, we think the investor consensus has become too one-sided. Our plan for 2025 is to opportunistically take the other side of this consensus view. We have not yet implemented this view in the portfolios but will look to do so once we think the point of maximum pessimism on Canada has been reached and when the catalysts for improvement have become more obvious.

In the United States, even though valuations are more demanding, we continue to see a favourable earnings outlook. Much of the Trump deregulation drive has been priced in (notably in sectors that would benefit from deregulation, such as financials), but we think there is still significant upside potential for earnings as we move further into 2025. The AI theme remains in its early stages in terms of its impact on overall U.S. earnings growth. As long as U.S. activity is at or above trend, the backdrop for U.S. equities remains favourable.

On the fixed income side, over the medium term, we think the higher yields available on fixed income assets can provide effective hedging to an equity-centric portfolio. Even so, more tactically we remain underweight fixed income owing to continued strong growth and sticky inflation. The outlook for the Federal Reserve's easing campaign has become uncertain owing to the resilient U.S. economy.

With strong growth and slightly above-target inflation, the Fed may need to reconsider its current stance, affecting the fixed income landscape, a consideration that has become evident in recent Fed communications; its conviction regarding significant further rate reductions is now low, and the central bank is no longer committing to a much lower interest rate path.

Thus, we think bond yields are probably stuck in a range over the near term. We do not see outright losses on fixed income instruments but, from a return perspective, we would rather allocate risk to equities until we develop more conviction that a significant move lower in interest rates and bond yields is coming.

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Market Performance

Total returns as of December 31, 2024, in $CA

	MTD	QTD	YTD	1Y
EQUITIES (LOCAL CURRENCIES)				
S&P 500	-2.4%	2.4%	25.0%	25.0%
S&P/TSX	-3.3%	3.8%	21.6%	21.6%
NASDAQ 100	0.4%	4.7%	24.9%	24.9%
MSCI World Net	-1.9%	1.9%	21.0%	21.0%
MSCI EAFE Net	0.4%	-0.6%	11.3%	11.3%
MSCI EM	1.2%	-4.2%	13.7%	13.7%
COMMODITIES (USD)				
Gold	-0.7%	-0.4%	27.2%	27.2%
CRB	0.1%	-0.7%	5.1%	5.1%
WTI	5.5%	5.2%	0.1%	0.1%
FIXED INCOME				
FTSE Canada Universe	-0.7%	0.0%	4.2%	4.2%
FTSE Canada Long Term	-2.7%	-0.8%	1.3%	1.3%
FTSE Canada Corporate	-0.1%	1.0%	7.0%	7.0%
CURRENCIES				
DXY	2.6%	7.6%	7.1%	7.1%
USD/CAD	2.7%	6.4%	8.6%	8.6%
USD/EUR	2.2%	7.5%	6.6%	6.6%
USD/JPY	5.0%	9.4%	11.5%	11.5%
USD/GBP	1.7%	6.9%	1.7%	1.7%

	MTD	QTD	YTD	1Y
SECTORS S&P/TSX				
Financials	-1.6%	6.6%	30.1%	30.1%
Energy	-3.6%	6.6%	24.0%	24.0%
Industrials	-3.7%	-0.4%	9.7%	9.7%
Materials	-5.3%	-4.7%	21.4%	21.4%
Information Technology	-4.2%	22.2%	38.0%	38.0%
Utilities	-3.2%	-1.5%	13.7%	13.7%
Communication Serv.	-9.2%	-19.2%	-21.1%	-21.1%
Consumer Staples	-0.6%	3.6%	18.9%	18.9%
Consumer Discretionary	-2.9%	0.8%	11.9%	11.9%
Real Estate	-6.1%	-10.5%	5.5%	5.5%
Health Care	-4.3%	-3.7%	8.2%	8.2%
SECTORS S&P 500				
Information Technology	1.1%	4.8%	36.3%	36.3%
Health Care	-6.2%	-10.3%	2.6%	2.6%
Consumer Discretionary	2.4%	14.3%	30.1%	30.1%
Financials	-5.5%	7.0%	29.9%	29.9%
Communication Serv.	3.6%	8.9%	40.2%	40.2%
Industrials	-8.0%	-2.4%	16.9%	16.9%
Consumer Staples	-5.1%	-3.4%	14.0%	14.0%
Energy	-9.5%	-2.4%	5.7%	5.7%
Utilities	-7.9%	-5.5%	23.4%	23.4%
Real Estate	-8.6%	-7.9%	5.2%	5.2%
Materials	-10.7%	-12.4%	0.0%	0.0%

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Rooted in history, innovating for the future.

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

General Disclosures

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