

2025

**MARKE  
T  
OUTLOOK**



**MACKENZIE**  
Investments

**BLUE BOOK**

## GLOBAL MACRO OVERVIEW

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# Goldilocks triumphed over the bears

### SUMMARY POINTS

- 1 The inflation battle is over...for now.
- 2 Expect monetary policy divergence.
- 3 Pockets of value remain in US market.



**Steve Locke**

CIO, Fixed Income & Multi-Asset Strategies



**Lesley Marks**

CIO, Equities

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# Living in a fairytale

**Reflecting on the past year, it's clear that investors experienced success across the board. With equity and bond markets delivering strong returns, 2024 was a highly profitable year.**

The battle against the final phase of inflation appears to be largely won, opening the door to potential globally coordinated central bank easing. With inflation rates declining in most major developed economies, the groundwork has been laid for a continuation of this favourable investment landscape for equities while the outlook for bond markets is more nuanced.

The rate cutting cycle began with the Bank of Canada, European Central Bank and the Bank of England all cutting policy rates in the second quarter, with the Federal Reserve eventually joining the rate cut party. From their 2024 peak in April, Canadian and US 10-year government bond yields dropped by more than 100 basis points by late summer, before experiencing a rebound. Canadian bond investors were rewarded with a modest yet positive 3% return on the FTSE Canada Universe Bond Index through October.

For equities, although the year began with the Magnificent Seven (Mag 7) dominating stock market returns that is not how things ended, as investors began to rotate beyond the narrow confines of the Mag 7 towards broader areas of the market. This group of mega-cap stocks peaked in early July and experienced negative returns while the S&P 500 went on to reach new highs. Although there were periods of volatility, (such as the two-day Japanese summer correction and next day reversal), none of those concerns prevailed and global equities surged higher over this past year with the MSCI World Index (in Canadian dollars) delivering a 23% return to the end of October.



**The battle against the final phase of inflation appears to be largely won.**

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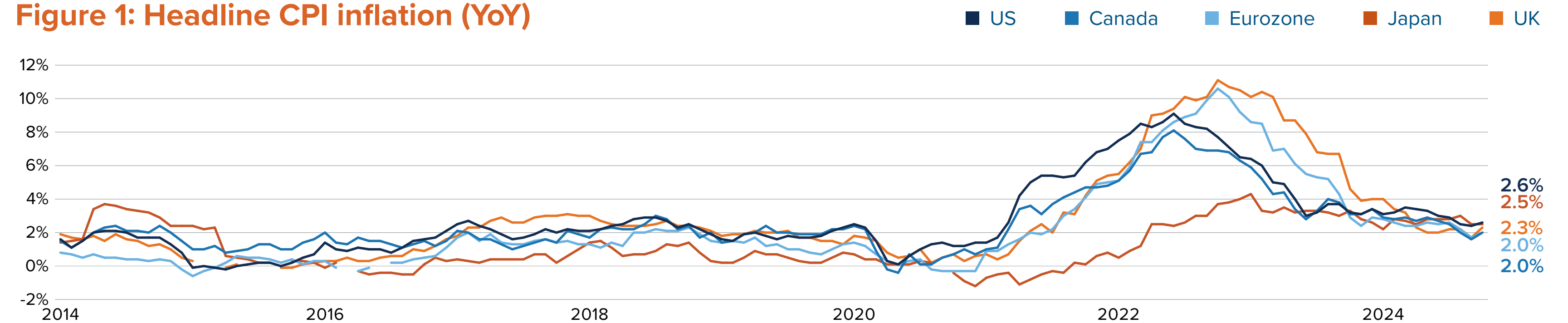
The economic backdrop proved to be benign with regions like Canada, Europe and the UK continuing to experience the economic slowdown that began in 2023. This translated into flat or negative earnings growth for these regions. Ordinarily this would prove to be a bearish headwind for these equity markets, but the second half rotation into interest sensitive names as rates fell, provided a boost to equities in areas outside of the United States, despite weaker relative growth.

For more interest-rate sensitive economies like Canada, the effect of high interest rates has dampened economic growth substantially. Although real GDP growth has remained positive overall, when factoring in the population growth rate, Canadian real GDP per capita has had a negative growth rate in most quarters since 2022. This garnered attention from economists, investors and journalists and prevailed as an overhang for the prospects of the Canadian economy.

For the Federal Reserve, it was the combination of inflation trending lower and a gradual weakening of the labour market that gave the green light to lower the Fed Funds rate (Figure 1). September's 50 basis point cut underscored for the market that the Fed is serious about maintaining the soft landing of economic growth. The US economy continued to stand out from the crowd — achieving true “Goldilocks” status with earnings growth maintained in the low double-digit range that was projected at the start of the year.

Our decision to neutral weight equities and bonds was based on the view that a moderation in tight monetary policy would be constructive for both bonds and equities. We held some reservations on the prospect for greater volatility because of the ongoing conflicts in Ukraine and the Middle East, as well as the uncertainty surrounding the policy impact from the US election.

Figure 1: Headline CPI inflation (YoY)



Source: Bloomberg, October 2024.



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# Outlook for 2025: Protecting the golden goose

**This year our attention was captivated by the projected outcome of the US election but given the historical trend of robust equity markets in the fourth year of an election cycle, regardless of the outcome, this was just a distraction.**

Now that election day has passed, it might take a while to determine what the markets have already factored in. Nonetheless, Trump's decisive victory is expected to have potentially significant implications for geopolitical risks and trade flows, and for the outlook for various asset classes and sectors.

For the US bond market, the election outcome could produce some larger shifts in government policies that in turn have the potential to change the US inflation and yield curve picture significantly. If tariffs are implemented widely, supply chain disruptions and higher US import prices are likely to resurrect inflation. Alongside this, the lowering of tax rates and ensuing larger deficits are likely to steepen the yield curve. Stricter immigration policies could tighten labour market conditions, leading to higher wage inflation. If these policies are implemented as promised, the Fed may abandon its rate cutting posture in 2025, opting to maintain or even increase interest rates if inflation expectations rise.

The outcome of the US election could have far-reaching impacts, as global economic prospects for 2025 are being bolstered by an expected continuation of the monetary policy stimulus from many central banks, and by the lagged effects of 2024's actions. With markets having embraced the idea that inflation is likely to remain contained, central banks in slowing economies like Canada and the EU are expected to lower policy rates much further. Canada's economy may need rates to fall by more than other G7 economies to stimulate a rebound in domestic demand and close the output gap. This means that the Bank of Canada may need to cut more aggressively than the Federal Reserve in 2025. Canadian bond yields are also more likely to decline relative



**The Bank of Canada may need to cut more aggressively than the Federal Reserve in 2025.**

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to US yields. We expect this will put continued downward pressure on the Canadian dollar.

After a strong year of performance across the board in 2024, corporate bonds are still offering attractive yields to investors. Corporate bond spreads in both investment grade and high yield bond markets are not forecasting any broad-based deterioration in fundamentals. With Trump's election to the Oval Office, we should expect to see a deregulation agenda emerge and the policy environment turn friendlier to banking. While corporate yield spreads are not cheap by any historical measures, maintaining an overweight position with a bias toward higher quality is likely to reward credit investors next year.

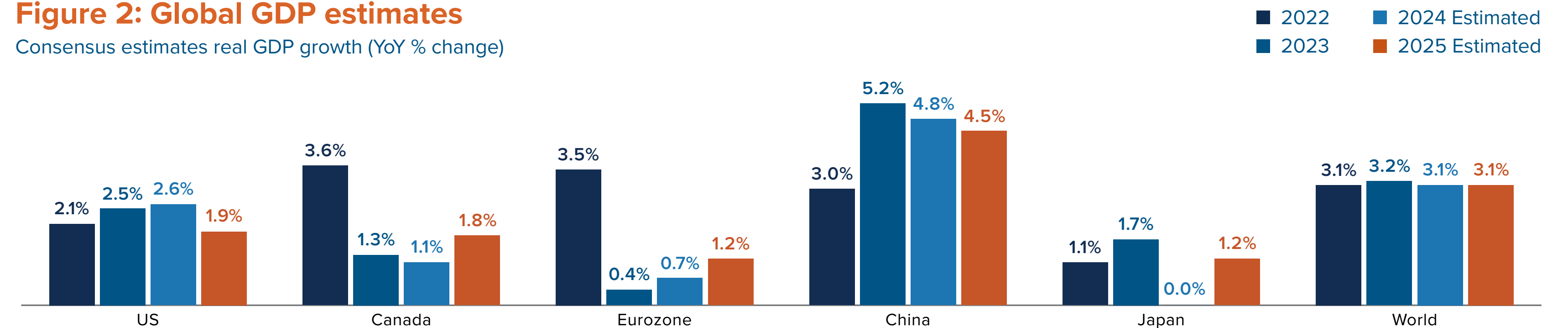
Looking forward to 2025, the global equity market is poised for a year marked by both opportunities and challenges. Our equity outlook is

grounded in the fundamentals driving the state of the economy — earnings growth expectations, and the multiple we should pay for those earnings. After the disruptions that arose from the pandemic and associated recovery, runaway inflation and central bank tightening, we can expect to enjoy a more stable phase of economic growth. However, depending on the pace and degree of policy changes to be implemented by the Trump administration, estimates of global GDP growth rates for 2025 could see upward revisions in the months ahead (Figure 2).

At face value, the stable economic backdrop and our positive outlook for corporate profits supports a bullish outlook for equities in the coming year. In addition, central bankers, feeling like they have won the inflation battle, have turned their policy attention to boosting economic growth with continued easy policy which should also support equity returns.

### Figure 2: Global GDP estimates

Consensus estimates real GDP growth (YoY % change)



Source: Bloomberg, October 31, 2024.

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But this won't be without risk and potential for heightened volatility. Although the last inflation battle appears to be won, as discussed, another fight may be around the corner with the onset of tariffs and onshoring contributing to a resurgence in inflation.

We are also watching carefully the recent policy shifts from the Chinese government which included monetary easing, reduced mortgage rates and support for stock buybacks, as the outlook for Chinese economic growth has an outsized impact on global growth expectations. We believe that greater fiscal support will be needed to offset the downward pressure from the property market in China but the recognition that the economy needs this policy support is undoubtedly a necessary condition for a sustained upward move in Chinese equities.

Turning to valuation, almost universally, markets are trading close to long-term historical average multiples, with one exception being the S&P 500. The concentration of the US stock market in mega-caps and the large exposure to the technology sector hides the fact that there is still attractive value to be found in the remaining "S&P 493" stocks and US small and mid-cap companies. While aggregate valuation may lead you to shy away from US equities, we believe that opportunity still exists for capital appreciation with careful stock selection. As we expect interest rates to fall faster in the rest of the world, this should help support multiple expansion and in turn higher share prices in regions like Canada and Europe as well. With the support of lower interest rates, cyclicalities will be an important factor in sector allocation across portfolios.

Despite the strength we've experienced in global equity and bond markets over the past year, opportunities will still emerge across various asset classes. However, challenges from potential inflationary pressures, geopolitical tension and unforeseen risks remain key considerations for investors. To successfully navigate this environment, adopting a balanced and diversified approach – spanning different asset classes, geographies and sectors will help mitigate the effects of expected market volatility and provide a more stable path forward for investors.



**We believe that opportunity still exists for capital appreciation with careful stock selection.**



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# Asset class views – around the world

**The past year was one of rapid recovery from the global inflation shock. In 2025, the markets will require a more selective approach.**

Our portfolio managers weigh in on fixed income and equities from around the world, providing their insight into how the current environment will unfold. This includes the interplay between major economies and potential divergence in monetary policy.



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# Canadian fixed income

**Konstantin, what are your thoughts about the Canadian economy as we enter 2025?**

**Konstantin:** I think there are worrying signs that point to economic growth slipping. On an aggregate basis, growth has been decent, but immigration has been a powerful tailwind. On a per capita basis, which is what people feel, we are already in recession. There are multiple areas of stress in the economy that will play out in some way in 2025.

**How do you think the Bank of Canada (BoC) views the current economic situation?**

**Konstantin:** Up until the October meeting, the Bank seemed reasonably comfortable in their position with measured 25 basis point cuts. But they changed their tune with a 50 basis point cut at the October meeting.

**Could the BoC already be behind the curve?**

**Konstantin:** Yes. The economy is weak and inflation is already at the midpoint of the Bank’s target range. But, at the start of Q4, inflation was actually running at 1.1% if we stripped out mortgage interest costs. We think the Bank still might be underestimating potential economic challenges, and it may need to implement more drastic measures that could, potentially, reduce the benchmark policy rate to 2% or less by the end of 2025.

**What’s the role of housing in a potential recession?**

**Konstantin:** Very high — 2025 is a big year for mortgage renewals and let’s see how that plays out on the household balance sheet. But housing is more than people renewing mortgages. It’s the role of developers and the construction industry. There’s a trickle down to real estate agents, notaries and other professionals in the ecosystem. I don’t think 100 basis points of lower rates will just magically turn this around.

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# Canadian equities

**Shah, what are your thoughts about the Canadian economy as we enter 2025?**

**Shah:** I share a lot of the concerns Konstantin expressed. The consumer represents the largest part of the economy and they're in a tougher spot compared to their US counterparts. The Bank of Canada has commenced its easing cycle, but it takes time for this relief to be felt in the broader economy.

**Shah, what do you think about the Big 6 Banks in Canada with respect to mortgage renewals?**

**Shah:** The Canadian banks are best of breed globally but in this environment, you have to be selective about the names you own. Unsecured portfolios such as credit cards, personal lines of credit, or even automotive loans are where we could see delinquencies increase and we are starting to see an uptick given the strain on the consumer. A name we like is RBC. They have consistent underwriting standards throughout the cycle. They have a strong wealth management franchise, which is one of the most attractive parts of the business as it's a higher ROE, higher fee income, lower capital intensity platform. Plus, they have the strongest deposit franchise which lowers overall cost of funding.

**What is your perspective on consumer stocks as we enter 2025?**

**Shah:** We've been cautious about discretionary spending, particularly big-ticket items. Companies in that camp like BRP or Canadian Tire face headwinds and lack catalysts. Conversely, there are opportunities

where the consumer is trading down and/or looking for value. Dollarama and Loblaws are names that look compelling.

**Will, which sectors do you find are the most attractive right now?**

**Will:** It's really a stock specific market. The S&P/TSX Composite Index is trading near the midpoint of its historical valuation range. On the one hand, this suggests multiple expansion is possible if declining interest rates lead to continued money flows into equities. But, on the other hand, slowing growth in earnings may serve as an offset.

**What's the risk/reward profile right now from your perspective? (We explore resources from a thematic perspective with Benoit Gervais in this publication.)**

**Will:** At the end of 2024 we're seeing a geopolitical risk premium priced into certain commodities, particularly oil and gold. Oil is likely to remain rangebound given the demand/supply dynamic. Demand growth has softened in 2024, particularly in China, but policymakers have recently announced stimulus efforts to strengthen their economy.

**What's your view on gold?**

**Will:** Declining interest rates, continued geopolitical uncertainty, stronger energy prices and a weaker US dollar are supportive of gold prices. But high prices will eventually constrain demand, whether that be from individual investors or central banks.



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# Global fixed income

**Konstantin, what are your thoughts about the central bank policy in the US?**

**Konstantin:** It's a very different situation versus Canada. Inflation is running higher and is looking stickier, especially with respect to services. The Fed has expressed concern about the labour market, but the economy is still consistently creating jobs, albeit at a slower pace.

**Is there a risk of cutting too much and reigniting inflation?**

**Konstantin:** Yes, I think it's a risk and that's why the Fed doesn't need to be as aggressive as the market has been pricing in. The more you cut, the greater the chance of inflation coming back.

**Hadiza, what can we expect from Europe's economy in 2025?**

**Hadiza:** Europe represents a stark contrast to the US as well. Financial conditions are restrictive for the consumers and corporates, and there is a need for lower rates. If economic data softens further at the start of 2025, the European Central Bank may adopt a more accommodative stance if core inflation remains well below the 2% target.

**What's holding back growth in core Europe?**

**Hadiza:** Germany's heavy reliance on China for trade is a key factor. As one of its largest trading partners, China's slower growth has been a drag on Germany's exports. However, Germany has fiscal space to stimulate its economy, and there is growing political pressure to move away from its fiscal conservatism. That's in contrast to France, which has a fragile fiscal situation and is at risk of a ratings downgrade in 2025.

**Let's move over to Asia and talk about Japan, which is actually raising rates.**

**Hadiza:** Japan struggled with persistently high inflation through 2024, particularly due to imported inflation and a weaker yen. The Bank of Japan is likely to continue its gradual rate-hiking cycle into 2025. Japan's policy shift could have broader implications for global markets – especially if the Japanese yen appreciates materially or yields on Japanese government bonds rise, as we saw in August 2024.

**What about the emerging markets?**

**Hadiza:** I remain optimistic about select emerging markets, particularly in Asia. We could see dollar depreciation in 2025 as the Fed cuts rates, which would provide a tailwind for emerging market currencies. Second, Chinese stimulus measures, particularly fiscal and credit support, could have knock-on effects for trade-dependent neighbours.



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# US equities

### Katherine, how should we think about the US equity landscape?

**Katherine:** Markets are telling us the Fed has so far been successful in the mitigation of recession risks. Falling rates, a healthy labour market and slower inflation should provide a constructive backdrop for stocks.

### What are you seeing in terms of the US consumer?

**Katherine:** Aggregate consumer spending has surprised to the upside. Wealthier households continue to do well and I think this will continue into 2025. On the lower end of the income scale, we can see clear signs of retrenchment and trade down. Recent management commentaries from McDonald's and Dollar General corroborate the view that consumers are focusing more on essentials and eschewing discretionary items.

### What are you looking for in a stock given this backdrop?

**Katherine:** We're looking for company specific stories where the returns more than offset the idiosyncratic risk because it's these returns that add value to a portfolio. The US equity landscape has become a stock picker's market as rates have risen from the COVID lows. Walmart is doing very well, as is Costco, which is more upmarket but hardly a luxury name. Yet, other household names such as Starbucks, Nike and Lululemon have struggled.

### Richard, as a value investor, how do you feel about the consumer space?

**Richard:** We like consumer cyclicals. I'll share examples linked to housing because that's a space we like. Millennials are now in the family formation life phase and also in their high-income earnings years. There's a shortage of homes in the US. We like DR Horton, which is a leader in entry level homes. The stock has a low valuation, and the company will benefit from stronger demand as rates fall. We also think lower rates will spur greater home improvement spending. This is in part why we like Lowes, which has lagged its main rival, Home Depot, and trades at an attractive valuation.

### What else do you like?

**Richard:** You may be surprised to learn we are finding value opportunities in technology stocks linked to AI. As the AI application build-out continues, many companies will need greater processing power, networking equipment and storage. We're finding stocks exposed to the AI spending cycle in networking and storage trading at less than 10x earnings. Western Digital is a name we like. The company manufactures the hard disk drives needed in data centres to store the enormous amounts of data feeding large language models (LLMs).

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# European equities

### Seamus, what are your thoughts about the investment opportunities in Europe for the next 12 months?

**Seamus:** Germany's economic model, which relied on importing cheap energy for manufacturing goods for export to China, has been disrupted at both ends. France saw its economic momentum slow in the second half of 2024 with political uncertainty likely to persist into 2025 and continue to weigh on sentiment. The peripheral economies have performed much better on a relative basis, but ultimately Europe needs improved performance from the core countries for the region to grow at trend. Yet valuations are at relatively low levels across the region.

### Are there any bright spots?

**Seamus:** The UK. We have a combination of slowing inflation, falling interest rates and rising real wages, while housing is firm. Equity valuations are a significant discount to long-term averages and stabilization on the political front is creating opportunity. We want domestic exposure, so we own some of the home builders. Taylor Wimpey is such a company, and it is benefiting from improving affordability as mortgage rates fall and real wages rise.

### Which sectors look attractive?

**Seamus:** We see pockets of opportunity in health care, consumer names and financials. In health care, we hold UCB, which has made significant strides in developing treatments for psoriasis. Our research, along with insights from medical professionals we've consulted,

has strengthened our confidence in the potential of this opportunity. In the consumer space, Inditex, the parent company of brands such as Zara, stands out for its highly efficient sourcing model, which allows them to deliver fashionable yet affordable clothing. Within financials, Munich Re, the world's largest reinsurance company continues to demonstrate solid financial performance supported by favourable industry pricing.

### Richard, as a value investor, what do you see in Europe?

**Richard:** We like select European industrials because they are cheap and sensitive to a rebound in Chinese economic growth that should materialize with recent stimulus announcements. Siemens, which sells equipment to factories all over the world, is poised to benefit. It's the world's digital factory leader. Software driven controls and automation are needed in every factory and Siemens is a technology leader in this regard. Add in resilient US demand and rate cutting cycles in many major economies and the backdrop is positive for the company.

### What's another name you like?

**Richard:** Daimler Trucks. Daimler is a world leader in industrial commercial trucks and the company's stock is very cheap. The company is poised to not only benefit from higher industrial activity, but also from the theme of electrification. As environmental regulation gets tighter around the world, they will also benefit because they've established themselves as the leader.



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# Asian equities

**Nick, what are your thoughts on China’s recent stimulus initiatives?**

**Nick:** Many longer-term structural issues remain. But the stimulus in September is the most coordinated response we have seen. Use of central government debt to help local governments’ balance sheets and to buy housing inventory is a positive initiative.

**Do you feel like there could be more stimulus?**

**Nick:** Yes. There are various policy meetings through the balance of 2024 including a Politburo gathering in December that will likely bring additional policy measures. One desirable outcome would be to restore confidence of the Chinese consumer who has increased savings and lost confidence in residential housing as a store of value.

**What do you think Canadian investors don’t appreciate about Chinese companies?**

**Nick:** The maturation of corporates, with many cutting costs, pairing back marginal investments and employing appropriate capital return policies. For example, Alibaba has become an attractive value proposition by shrinking its equity base by 8% in 2024. Trip.com which is China’s dominant online travel agency, cut costs during COVID so the company is now very lean with huge operating leverage. The company has unparalleled customer service with a lower cost base versus global players and is successfully expanding throughout Asia.

**What’s an Asian emerging market that you’re bullish on? (Stock picking within the emerging markets is explored by Arup Datta in a thematic piece we’ve included in this publication.)**

**Nick:** India. This is a multi-year story and one of the best equity stories in Asia. Prime Minister Modi may have a weakened coalition, but it’s still one focused on reform and infrastructure-led development. Investors might be wary of valuations in the short-term, but the country is on the cusp of becoming a manufacturing export powerhouse over the next decade.



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# What's in store for 2025?

## The markets will be guided by key themes in 2025, with some convergence among these.

Electrification of the global economy is expected to build momentum, but distribution remains challenging. We believe this will fuel greater demand for resources, as will geopolitical concerns. With change in the air, our investment leaders discuss how these macro themes will affect their areas of focus. We also look at the growth of quantitative investing as a means to identify opportunities, regardless of the market environment, as well as what is driving growth within private markets, ranging from equity and credit to infrastructure.

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- 3 A quantitative approach to shifting markets.
- 4 Private markets have become more accessible.

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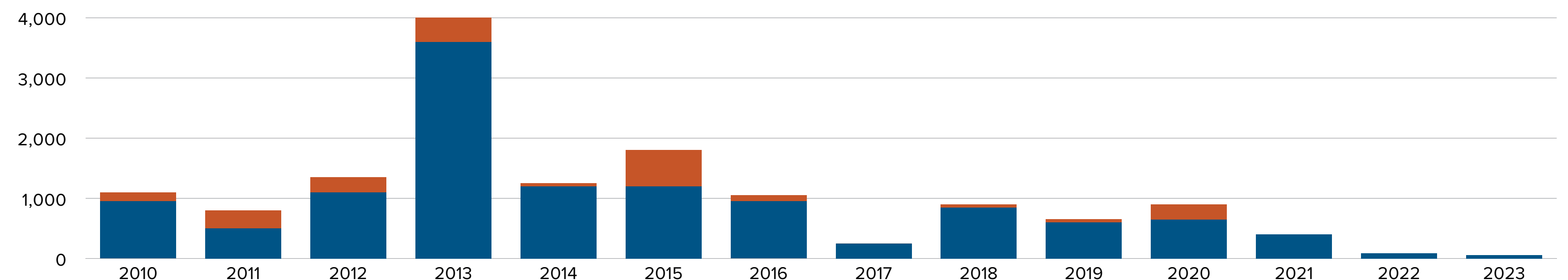
# The grid: overlooked and underinvested

As we enter 2025, the electrification of the global economy remains a compelling investment theme. In fact, we believe this theme has a multi-decade runway for growth, driven by a shift to a low carbon economy.

The International Energy Association (IEA), in its base case scenario, projects total global electricity demand to reach 54,000 TWh in 2050,<sup>1</sup> more than doubling from 25,000 TWh in 2021. Investors seeking opportunities in the electrification theme can choose from sectors across its supply chain, ranging from cable/wire providers and equipment suppliers to utilities and engineering firms. Opportunities also abound in infrastructure requirements (such as charging stations) and manufacturers of in-demand products (such as electric vehicles and heat pumps).

Electrification was always going to be the lynchpin of the energy transition, so it is encouraging that annual investment has been trending higher for almost a decade (Figure 3). However, what the market may not have fully factored in is that new energy sources and new end uses will require an upgraded transmission grid. The world's aging electricity grids, built during a time when the world ran mainly on large, centralized electricity generation, will require significant capital spending to meet this need. The stakes are high. The grid requires a bigger slice of the investment pie than it is getting and has now become a bottleneck for new renewable connections.

Figure 3: Miles of 345 Kilovolts (KV)+ transmission lines added each year



Source: Data is based on Grid Strategies analysis of FERC, Office of Energy Projects, Energy Infrastructure Updates.

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While investments in renewable energy have nearly doubled since 2010, global investment in grids has not kept pace, remaining barely changed at around \$300 billion annually.<sup>1</sup> According to the IEA, this figure will need to increase to about \$600 billion by 2030, and then reach \$800 billion per annum over 2040-2050,<sup>1</sup> to power growing electricity demand globally. There are currently over 1,000 gigawatts of advanced-stage renewable energy projects waiting for a grid connection, as per the IEA<sup>2</sup> and the main reason for the holdup is the lack of transmission.

Wind and solar projects are often located far from populated areas and require a significant build out of transmission lines to deliver the power they generate. Investment in transmission lines, which has only expanded at around 1% per year over the last decade, needs to more than double to 2.3% per year based on a recent Princeton University study.<sup>3</sup> Encouragingly, in the past year we have observed that large power utilities are already shifting capital expenditure (CAPEX) from renewable installations to transmission and distribution. Our belief that the attractiveness of the risk-adjusted return on grid investments is shared by utility executives.

The Mackenzie Greenchip team has been investing in grid suppliers and operators since the foundation of our team, as it is essential to integrating new renewable electricity supply and to the environmental case for the electrification of transport and other energy-intensive industries. About one-third of our portfolio is currently exposed to direct grid investment. In our view, investments into high, medium and low voltage infrastructure must keep pace with each other to avoid exacerbating system imbalances. While investor attention has disproportionately focused on low and medium voltage opportunities so far, we note that our utility holdings are directing more CAPEX to high voltage equipment which is increasingly backordered, in some cases by as much as four years.



**The grid requires a bigger slice of the investment pie than it is getting and has now become a bottleneck for new renewable connections.**

1. Source: Net Zero by 2050 – Analysis - IEA

2. Source: Lack of ambition and attention risks making electricity grids the weak link in clean energy transitions - News - IEA

3. Source: [https://repeatproject.org/docs/REPEAT\\_IRA\\_Transmission\\_2022-09-22.pdf](https://repeatproject.org/docs/REPEAT_IRA_Transmission_2022-09-22.pdf)





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## THEME 1 ELECTRIFICATION

We invest in several attractively valued companies that are mainly focused on the higher voltage space, including Siemens Energy, Hitachi and Mitsubishi Electric Corporation. In the case of Siemens Energy, the world's second largest provider of such equipment (after Hitachi-ABB, both of which are Greenchip investments), the order backlog has more than doubled since 2021 and is equivalent to two years of sales at current rates. The company recently raised its guidance for revenue growth in its grid division to a range of 32%-34% and is investing in a new transformer manufacturing facility in Charlotte, North Carolina. Hitachi-ABB and GE spin-off Vernova (which

ranks third in the world) are following suit. The team also added Nexans, one of the largest transmission cable manufacturers in the world, to the portfolio in early 2024.

Electrification is an attractive multi-decade investment theme, with an incredibly rich and diverse set of investment opportunities with multiple entry points and the potential to diversify risks and potential returns. However, not all stocks will be long-term winners. Greenchip will continue to focus on attractively valued companies in the space and avoid over hyped stocks which trade at higher valuations without the backing of solid fundamentals.

### An allocation to Mackenzie Greenchip strategies helps provide:

- Diversification of country exposure within equity allocation of portfolios.
- Direct exposure to the energy transition mega-trend.
- Ballast for portfolios that possess a growth tilt.

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## THEME 2 RESOURCES

# Resources to gain from multiple tailwinds

**There's no better spot than gold to begin our 2025 outlook on resources. We believe that many of the factors that underpinned demand for gold in 2024 will prove durable through 2025 and perhaps beyond.**

To start, Russia remains at war with Ukraine. For some investors, this type of geopolitical risk is enough reason to own more gold. But the war has resulted in significant economic sanctions against Russia that include its banks being excluded from the Society for Worldwide Interbank Financial Telecommunications payments system (SWIFT) and a freezing of the foreign reserves of the Central Bank of the Russian Federation, representing nearly 50% of its total reserves. These sanctions have resulted in some expected consequences, such as Russia looking for dollar alternatives to trade, and some unexpected consequences, such as China taking steps to reduce its exposure to US dollars.

China must look toward the West with a feeling of trepidation. Rising trade barriers and a repatriation of manufacturing production by the West, a long-term theme we describe as onshoring, have hurt growth. But the freezing of Russia's US dollar assets was likely the impetus for policymakers in China to diversify its own reserves, lest it be subject to similar restrictions in the future. Gold purchases by China's central bank, the People's Bank of China, slowed in the summer of 2024 after robust purchases in April and May, but we believe this pause may prove temporary. The rise of an alternative currency to the US dollar is not only in the interest of China, but also many other countries, including Russia and Iran. There simply aren't many safe fiat currencies available in size to satisfy China's needs and this has led to our belief that gold should have a strong demand driver into 2025.



**From gold to natural gas and lumber, we expect resources and resource equities to be well-bid in 2025.**

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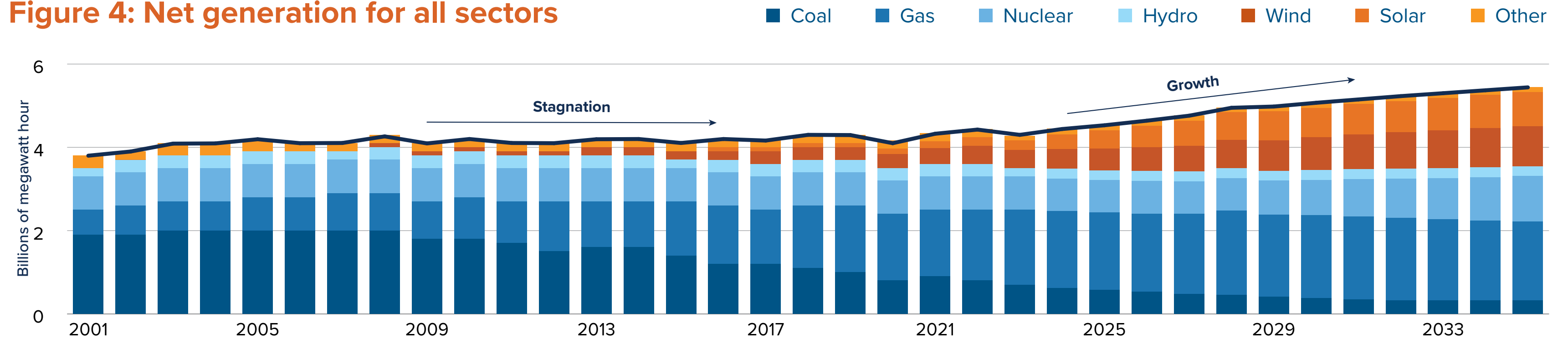
Lastly on gold, central banks are generally in an easing cycle across much of the developed world. Direction matters more than level. We can't predict the level where rate cuts will end but an easing cycle itself is positive for gold prices. Real interest rates in the US are currently in excess of 1.5%. Arguably, this level is restrictive and the US Federal Reserve could cut rates such that they fall to a range of 1%-1.5% in an attempt to avoid a recession. Compensation from holding US dollars falls as rates decline, which is yet another reason investors may look to gold, given it is independent of the economic cycle and doesn't have earnings or falling income.

Natural gas is another resource with a bullish underpinning as we enter 2025 (Figure 4). The Mackenzie Resource team believes that North America is on the precipice of a major shift in supply, as multiple

liquefied natural gas (LNG) terminals come online, providing the ability to meet strong overseas demand. Demand growth for natural gas could be double the growth rate of GDP, which is significantly higher than most other resources that generally run at growth rates much lower than that pace. The demand for this energy source seems insatiable as Europe seeks to diversify away from coal, and Japan and China strive to meet their energy needs. LNG Canada is set to open its terminal in Kitimat, British Columbia by the middle of 2025, with other terminals set to come online in the US by 2026 in Plaquemines, Louisiana and Corpus Christi, Texas.

In our view, domestic demand should remain robust as the energy transition, as well as data centres equipped to meet the demand from AI applications, require ever greater energy sources. Currently, North

Figure 4: Net generation for all sectors



Source: SSR, LLC; BNEF; Mackenzie estimates.

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American operators can break even at \$3 gas prices. We believe there's a case to be made that, by 2026, we could see gas prices consistently at the \$4 level, which would allow many companies to generate significant earnings and cash flow. The jump to \$4 gas will not happen overnight but the backdrop heading into 2025 is constructive.

Oil is one resource that will likely remain rangebound. The geopolitical risk premium jumped in early October, and we saw West Texas Intermediate (WTI) push north of \$70 (USD). But, from an overall fundamental perspective, there's a lot of potential supply both inside and outside of OPEC that could come online. We see demand remaining stubbornly low and as a result WTI may likely stay rangebound between \$65-\$80, barring a hard landing of the economy or a strong rebound.

Two final areas of the resource market that are going to be front and centre in 2025 are copper and lumber. Copper demand has been running at one time GDP and we believe that pace likely to increase to two times global GDP. Copper is the cheapest, most efficient way to carry electrons and the longer-term themes of the energy transition and onshoring are very bullish for copper. Copper prices have come down from the highs for the year but are still up approximately 15% from

the start of 2024. The supply/demand fundamentals of copper have resulted in the floor for copper prices moving from \$2.50 (USD) less than 10 years ago to about \$3.50 today. Longer-term, we believe we're on a journey to a \$5 floor on copper but that may not happen overnight. In fact, it may not happen in 2025. We might trade at \$5 in 2025, but we probably won't have prices consistently north of that, which would incentivize new mine investment next year. But we will eventually get to that level. When we finally get to a place where the US, China and Europe are all growing at a healthy clip, we expect a new price range for copper between \$5 and \$7, and 2025 will be a place in that journey.

Closing our outlook on resources with lumber, which is tied to the US housing market, we believe lumber is poised to have a great year, provided we see sufficient economic growth south of the border, because lower rates are going to help unlock pent up demand. Higher rates post COVID-19 hurt housing affordability, but 30-year mortgage rates in the US are down nearly two full percentage points from the peak. That represents a significant level of savings on mortgage payments. Combine those lower rates with wage gains on the demand side, along with tight supply, and we have the recipe for new housing starts and associated demand for key inputs such as lumber.

### An allocation to Mackenzie Resources provides:

- A core building block for resource allocation within Canadian equities.
- Access to active management which seeks opportunities for alpha, which are a function of idiosyncratic risk and market inefficiency.
- Full coverage of resource industries exposure owing to global investment approach.

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## THEME 3 QUANTITATIVE INVESTING

# A quantitative approach to shifting markets

**What a time to be a stock picker. We believe that 2025 will likely bring rate cuts across much of the developed world and yet growth rates across these countries will vary widely.**

Some countries such as Canada and Germany may slip into recession, while the US will likely hum along at a decent pace of growth. Dispersion in emerging markets will be no less stark. India will continue along its secular growth path, but investors will likely wrestle with valuations. Meanwhile, in China, investors will have to determine if stimulus measures announced in 2024 are enough to shore up consumer activity and to what extent this is reflected in valuations.

As stock pickers who utilize a quantitative approach, we expect 2025 will be as good a year as any. Our investment process is designed to be a core, all-weather solution built to thrive in all these scenarios. We believe stock markets are driven by different styles — value, growth and quality — at different times. Our quant models utilize factors that allow us to identify the best ideas, and we trade on them, daily.

Investors familiar with our commentaries will know we congratulate those who have been overweight US large cap equities, especially large cap growth names, for the better part of the last 15 years. But they'll also know that we've been encouraging investors to adjust positioning now, because the next 15 will be different from the past 15. Let the new year of 2025 be another impetus to act. There are two reasons to believe we are likely in the midst of a regime change in equity markets.

First, while the Federal Reserve Board is in the midst of an easing cycle, we are not expecting a recession in the US, nor are we expecting a return to the ultra-low rates



**This normalization of interest rates, has real economic implications for corporations and investors alike.**



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we experienced for so long coming out of the financial crisis.

This normalization of interest rates, on its own, has real economic implications for corporations and investors alike.

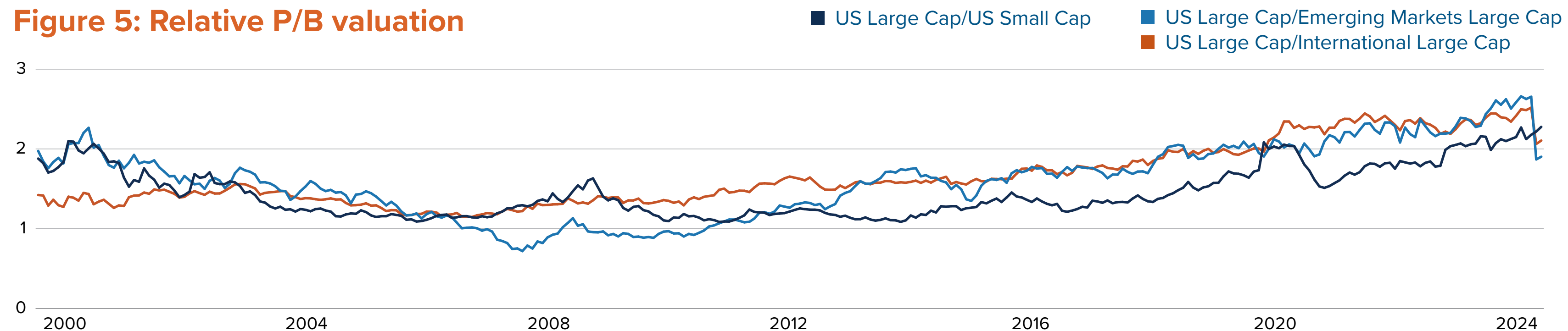
Second, and perhaps overlooked by many individuals, is how inexpensive equities across much of the globe have become as the “Magnificent 7” gobbled up so much capital because rates were so low for so long (Figure 5). In early October 2024, many investors were surprised by the sharp rise in Chinese equities on the heels of stimulus measures announced in late September. While that’s understandable, few were talking about how cheap Chinese stocks had become, with many trading at less than 10 times forward earnings.

But on this point, we didn’t need to invest heavily in China. US small caps have been under-loved for years and there are several terrific businesses trading at very attractive valuations. A quant-based

approach allows us to assess a broader universe and trade in a timely manner. We are not bears on the Magnificent 7 — these companies generate enormous amounts of free cash flow and have strong moats. We aren’t making a call on these businesses as we enter 2025, but instead are pointing out that the gap in returns is unlikely to repeat itself going forward.

Our ability to uncover investment opportunities based on factors linked to value, growth or quality extends beyond developed markets. Our models assess a universe of 10,000 emerging and frontier markets, twice, every single day. We are investors focussed on alpha generation and this represents a significant advantage given this part of the universe is large, varied and much less efficient. Let’s compare two countries — India and Korea — to show the advantages of a quantitative approach.

Figure 5: Relative P/B valuation



Source: Mackenzie Investments.

Represents the investable universe by region for the Mackenzie Quantitative Equity Team. Relative price/book data from December 1999 to August 2024.

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On the surface, some market watchers look at India and conclude it's an expensive market. We can understand that, but as stock pickers we would observe it's looked expensive for quite some time and that, on its own, is not a reason to stay away from investment opportunities at the right price. Prime Minister Modi remains in power after 10 years and while his coalition looks different, it appears that progress on economic reforms remain high on the agenda. Our growth factors not only measure momentum but also earnings, revenue revisions and long-term growth and innovation. Simultaneously, our quality and value factors are also identifying opportunities that would be more difficult for a fundamental investor to uncover.

Conversely, some market watchers have described the Korean market as cheap, but we would argue it's felt perennially cheap for some time. Again, as stock pickers, we are not making decisions based on a high-level market call. Instead, we are using technology to identify the best ideas when a lack of information flow would make it very difficult for a fundamental investor to do so. As mentioned, we analyze 10,000 emerging and frontier market stocks, twice daily. The universe of stocks is so large and varied that the efficacy of our models alongside the rise in computing power provide us with an edge we will continue

to utilize in 2025 and beyond. The factors we utilize in our process are not static. In recent years we have incorporated machine learning and natural language processing (NLP) techniques to develop new factors that enhance the process, which will continue to help us uncover the best equity opportunities in developed, emerging and frontier markets.

Saving the best for last, we are most bullish on our process. Over 30 years as a quant investor leaves its battle scars as the markets keep you humble. But those battle scars represent learning opportunities. In the 1990s, I wasn't long Amazon and in the 2000s I was not long Starbucks. I learned the quantitative models at the time were not picking up on "category killers" and adjusted accordingly. I believe we'll be successful in the future because we are always looking at the markets. We don't change our philosophy, which is always the core, but are always working to become better at how we pick and value companies. We beefed up our growth stock picking model and that's why we have been long NVIDIA, Eli Lilly and Novo Nordisk. Right now, we don't know what stocks will work tomorrow. But we are confident our model will know.

### Allocating to Mackenzie Global Quant funds provides:

- Access to an expanded investable universe (20,000 stocks analyzed 2x/day).
- An alpha driven approach powered by cutting edge technology and gains in computing power.
- Diversification of idiosyncratic manager risk due to investment process.

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# Private markets have become more accessible

Over the past decade, demand for private equity, private credit and private infrastructure has surged. Since 2013, private equity assets have jumped by more than 500% to over \$10 trillion (USD) globally,<sup>4</sup> while private credit has swelled nearly 300% over the same period to over \$1.7 trillion (USD).<sup>5</sup>

Investors have been drawn to the private markets for their enhanced alpha potential, uncorrelated returns and diversification. With new fund structures coming to market, this space has become more accessible to investors than ever.

At the same time, numerous tailwinds will continue to accelerate interest in this space.

### Private equity

Private equity offers significant opportunities, as more than 90% of companies in the US are privately owned.<sup>6</sup> Businesses that would have once gone public are staying private, partly a result of increased regulation, but also to allow the company to focus on its business, rather than dealing with short-term-focused shareholders or having its growth plans scrutinized by analysts on a quarterly basis. Companies also see staying private as a more attractive way to access capital while tapping into the expertise of private investors to support their growth. Since 2006, there has been a 180% jump in private equity-backed companies, while the number of US publicly traded companies has been cut in half (Figure 6).



**As private markets become more accessible, we believe they can be powerful portfolio construction tools.**

<sup>4</sup> Source: Preqin, as of December 31, 2023

<sup>5</sup> Source: <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

<sup>6</sup> Source: Capital IQ/NAICS association data as of March 2024. Sample size of 185,000 largest US companies.

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Figure 6: Staying private for longer

Number of US private and public companies 2006-2023



Source: Pitchbook/LCD; Capital IQ/NAICS association

This decade-long expansion is only expected to increase as the benefits of staying private — plus the increase in attention from investors — become more widely known. Several macroeconomic factors are driving demand as well. As interest rates and inflation ease, we expect deals will further increase, spurring renewed activity in this space — something we’ve already seen in the first three quarters of 2024.

Within private equity, interest in the secondary markets has been strong. The slowdown of M&A activity in 2023 resulted in reduced private company exit opportunities, which has led private equity managers to look to the secondary market to free up cash flows, help investors rebalance exposures and manage risk.

We expect all these larger trends to continue driving secondary activity and for investor interest to grow, causing the private equity space to expand substantially from here.



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### Private credit

The private credit market has grown significantly, partly because many banks reduced lending to private borrowers in the years after the global financial crisis to comply with stricter regulations. The 2023 US regional banking crisis made financial institutions once again review their practices, which caused lending to retrench further. The growth in private equity-backed companies has also helped this part of the market expand.

Private credit assets under management are on pace to rise by nearly two-thirds to \$2.8 trillion (USD) by 2028.<sup>7</sup> As large a jump as that may be, there is ample room for growth considering the \$16 trillion (USD) private market sector (a figure that comprises equity and debt) only accounts for 5% of total capital globally.<sup>8</sup>

As investors are finding out, private credit comes with many advantages. It's predominantly a floating-rate asset class, meaning borrowers pay a variable amount above a fixed base rate. With base rates in the US around 5%, senior secured loans to high-quality mid-market companies are generating low double-digit returns

with relatively strong downside protection due to substantial equity cushions and strong lender protections.

Despite a higher cost of debt, there have been far fewer defaults than many had expected. As of Q2 2024, the trailing 12-month default rate by issuer count in the Morningstar LSTA US Leveraged Loan Index was 1.6%, which remains in line with the 10-year average despite a higher cost of borrowing.

Although most borrowers are performing well, those who are highly leveraged or within cyclical industries are facing challenges, making it important to understand the underlying loan portfolio construction. We believe there is a significant opportunity within private credit for individual investors, particularly in the current economic environment, where we expect to see long-term interest rates remain at higher levels than we've seen over the past decade. Because these are longer-term investments with less liquidity, the asset class has offered investors a return premium to public fixed-income investments, along with strong rates of capital preservation and lower volatility.

<sup>7</sup> Source: <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

<sup>8</sup> Source: Preqin, December 2023; Reuters, 2023; World Federation of Exchanges (WFE) and the Securities Industry and Financial Markets Association (SIFMA) 2023.

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### Private infrastructure

Several tailwinds are propelling the private infrastructure space forward. First, many of the critical assets that economies run on — bridges, roads, ports and more — have fallen into disrepair, and governments, struggling with increasing debt loads, are turning to private markets for the trillions in necessary capital investments.

Secondly, countries are facing pressure to create new infrastructure to meet the increased need for powerful data centres and to modernize the energy grid as more electric vehicles and renewable power come to market. It's estimated that between now and 2030, \$3.3 trillion (USD)<sup>9</sup> in average annual capital will be required to meet demand.

Large capital requirements such as these represent an opportunity for investors to provide funding, either through private ownership or

private-public partnerships of critical assets. Investors can share in the economic and societal returns these investments will generate over the coming decades. We're already seeing a significant number of transactions in the mid-market, which typically focuses on projects with an enterprise value below \$1 billion (USD).

As private markets become more accessible, we believe they can be powerful portfolio construction tools. At a time when public markets seem driven as much by emotion as fundamentals, investing in assets that come with long-term commitments can help reduce panic selling while rewarding patient investors with the potential for lower risk, reduced drawdowns, potentially higher returns and enhanced yields relative to public market asset classes.

### A Mackenzie Northleaf private markets allocation can provide:

- The potential for higher returns with low correlation to public markets.
- The potential for lower portfolio risk, reduced drawdowns, and potentially enhanced yields relative to public market asset classes.
- Access to Northleaf, a global private markets specialist firm with a successful long-term record.

<sup>9</sup> Source: McKinsey analysis; McKinsey Global Institute analysis

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Mackenzie Investments Global Investment Committee

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# Equities

We expect equities will continue to rise in 2025. This outlook is driven by the expectation of solid corporate earnings growth across developed markets in the coming year. Additionally, central banks are likely to lower policy rates towards their neutral levels, easing financial conditions and supporting higher equity valuations.

## Canada

Canadian equities are positioned to perform well, benefitting from the ongoing widening market breadth that began in the latter half of 2024. While domestic economic growth prospects remain modest, Canada should benefit from a boost in US growth. A deteriorating domestic economy should also accelerate the Bank of Canada’s path toward a neutral policy stance, supporting domestic demand and improving corporate earnings prospects. This should allow room for modest valuation expansion.

## US

US equities are expected to outperform global stocks. A Republican congressional sweep is viewed as business-friendly due to the expectation for tax cuts, deregulation and a more favourable banking environment. These policies should provide a fertile growth backdrop, allowing corporate America to maintain its momentum heading into 2025. While some concern is warranted due to trade and tariff policy uncertainty, fiscal policy and inflationary risks, on balance there remains attractive value available in many of the overlooked stocks in the US market that did not participate in the mega-cap rally.

## International

The European economy stands to gain from lower interest rates. In addition, conservative corporate earnings expectations could yield positive surprises if global growth remains resilient. We maintain a constructive view on Japanese equities, where ongoing regulatory reforms and shifts in corporate behaviour are driving efficiencies and profitability. Although inflationary pressures have forced a more hawkish stance from the Bank of Japan, the recent financial instability caused by a stronger yen will likely result in a more patient approach from the Bank of Japan. Overall, the outlook for international stocks remains uncertain in the short term due to President Trump’s stated trade policies. Nevertheless, modest valuations and diversification benefits may present an attractive entry point for longer-term investors.

## Emerging markets

Despite the recent surge in Chinese equities, more forceful follow-through on fiscal measures is needed to tackle the structural challenges in the economy, particularly the slumping property sector, depressed domestic consumption, and weak consumer sentiment. While policymakers appear committed to meeting growth targets, ambiguity around potential measures has raised concerns, erasing some of the recent gains. With a stronger dollar and heightened geopolitical tensions anticipated under a second Trump Administration, a challenging environment for the Chinese economy is expected, underpinning our tactical underweight stance in emerging market equities.

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>Equities</b>			●
<b>Canada</b>		●	
<b>US</b>			●
<b>International</b>		●	
<b>Emerging markets</b>	●		

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# Fixed income

The outlook for fixed income has become more mixed heading into 2025. While global central banks are anticipated to continue rate cuts, the pace of cuts will likely vary among them. Persistent US economic strength could set a floor for US interest rates, with possible upward pressure on the long end of the yield curve if policy changes push up US inflation expectations. Overall, bond markets have priced-in reasonable expectations of interest rate reductions to come in 2025.

## Sovereign bonds

Anticipated policy changes under the incoming US administration could renew inflationary pressures amid a surge in domestic-led economic growth. This may limit the Federal Reserve’s need to reduce interest rates as much as previously anticipated. US protectionist policies may hinder growth in other global economies that are major exporters. This dynamic is likely to widen the gap in economic growth forecasts between the US and other nations, driving a divergence in monetary policy. As a result, we anticipate global central banks to reduce interest rates by more than the US Federal Reserve.

## IG corporate bonds

The additional yield pickup, lower central bank policy rates and stable spreads backed by resilient corporate fundamentals present a favourable outlook for investment-grade corporate bonds. An overweight exposure to investment-grade credit remains a relatively attractive position for additional yield and solid risk-adjusted returns within a fixed income portfolio.

## HY corporate bonds

Within the high-yield bond market, lower quality issuers may face deteriorating fundamentals as their coupons reset higher in 2025. We expect this to gradually increase default rates and widen credit spreads in the lowest-quality segments of the high-yield bond market. By focusing on higher-quality bonds within this space, portfolios can still benefit from additional yield.

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Fixed income	●		
Sovereign bonds		●	
IG corporate bonds			●
HY corporate bonds		●	

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