



# **GLOBAL ASSET ALLOCATION PERSPECTIVES & INVESTMENT BACKDROP**

**THIRD QUARTER 2025 PREVIEW**

***Dynamic Funds***<sup>®</sup>  
*Invest with advice.*

# MARKET REVIEW

The second quarter of 2025 highlighted the value of patience and diversification. After a tumultuous start in April driven by tariff announcements from the United States, global equity markets sharply sold off only to experience one of the strongest rebound rallies in decades following a retreat in tariff plans by the U.S. administration. By quarter-end, global indices had not only recovered but reached new all-time highs, with Canadian and international equity markets outperforming. Meanwhile, fixed income returns were modest as interest rates held steady, reflecting a careful balancing act by central banks. Beyond public markets, alternative investments, including private equity, private credit, and real assets, continued to demonstrate their value. While deal activity in private markets slowed in some areas, opportunities remained in resilient sectors and strategies focused on long-term growth, stable income and portfolio diversification. Overall, the key lesson for investors this quarter is that staying the course through volatility can pay off, especially when portfolios are diversified across regions, asset classes, and strategies.



## FIXED INCOME

### Canada:

- The FTSE Canada Universe Bond Index fell -0.57% in Q2 2025 as the 10-year Government of Canada yield rose from approximately 3.0% to 3.3%.
- The Bank of Canada (BoC) held its overnight rate steady at 2.75% in both April and June, pausing after 225 basis points of cuts over the previous seven decisions. Policymakers cited mixed inflation data and global trade uncertainty as reasons for holding.
- Credit spreads, elevated earlier in the year due to tariff concerns, came under additional pressure in Q2. However, by June, spreads narrowed as market sentiment stabilized and investment-grade appetite returned.

### Global:

- The Federal Reserve kept the federal funds rate unchanged at 4.25% - 4.50%.
- During their June meeting, Fed officials noted overall uncertainty had diminished since their last meeting but maintained caution due to sticky inflation and more clarity needed around evolving trade policies.
- The European Central Bank (ECB) continued its easing cycle, cutting rates by 25 basis points each in April and June, marking eight total consecutive cuts since August 2024, and bringing its policy rate to 2.15%.
- ECB officials highlighted persistent trade tensions and uncertain global conditions for its decision.

To help guide the forward-looking positioning of Dynamic's managed asset programs, the Multi-Asset Management team meets regularly with the Portfolio Managers at 1832 Asset Management L.P. This preview captures the team's current views and portfolio positioning.

## MARKET REVIEW (continued)



### EQUITIES

#### Canada:

- Canadian equities outperformed, with the S&P/TSX Composite Index rising 8.5% and setting a record high driven by Shopify and large bank names.
- With the above in mind, the best-performing sectors were Information Technology (+14.2%), Consumer Discretionary (+13.4%) and Financials (+11.1%). All sectors posted positive returns.
- While economic fundamentals remain supportive, signs of softness emerged, including slower job growth and cautious business investment. Prime Minister Mark Carney emphasized reduced reliance on the U.S. through trade diversification and energy sector expansion.

#### Global:

- International equities delivered solid performance with the MSCI EAFE Index returning 6.25% in Canadian dollar terms and outpacing U.S. equities.
- Despite a tumultuous start, U.S. equities rallied strongly off April's lows following Liberation Day with the S&P 500 Index gaining 5.2% (C\$). The index reached a new all-time high near quarter-end.
- Top-performing U.S. sectors were Information Technology (+17.1%), Communication Services (+12.0%), Industrials (6.7%), and Consumer Discretionary (5.5%). Sector performance was uneven, with the remaining five GICs sectors posting negative returns.
- While U.S. stocks recovered, they lagged Canadian and international equities, in part due to earlier "sell American" sentiment and a softer U.S. dollar.
- Globally, growth outperformed value and the strongest regional contribution came from Asia Pacific ex-Japan, which gained 7.80%.



### ALTERNATIVES

#### Private Equity:

- Deal activity slowed as trade tensions and tariff uncertainties weighed on valuations in the primary market.
- Resilient opportunities remain in capital-light, service-oriented sectors such as Technology, Business Services, Financial Services, and Healthcare, where operational improvements and revenue growth are key.
- The secondary market presents attractive opportunities as pricing is being adjusted to match the uncertainty in the environment.

#### Private Credit:

- Yields in private credit moderated but remain attractive, with average gross yields around 10% as of quarter-end (Cliffwater Direct Lending Index).
- Credit spreads widened slightly, though private credit continues to offer a healthy premium over public market equivalents.
- Non-performing loans sit below long-term averages, reflecting solid overall health in the asset class.

#### Private Real Assets:

- Core private real estate continues to offer consistent income and lower volatility amid public market swings.
- Softer fundamentals in select property sectors due to tariffs have been offset by lower bond yields and favourable financing conditions, especially in Canada.
- 2025 is shaping up as an attractive entry point for Canadian real estate across residential, commercial, and industrial sectors. U.S. real estate opportunities include housing, modern logistics, advanced manufacturing facilities, and high-acuity medical offices.
- Infrastructure investment continues to shift toward energy transition and digital infrastructure. Data centers, driven by AI and cloud growth, are a key theme, balanced with a cautious view on valuations.

# GLOBAL THEMES FROM THE MULTI-ASSET MANAGEMENT TEAM



## ECONOMIC GROWTH

- The outlook for economic growth has improved in recent weeks with greater clarity around U.S. trade policy and its impact globally.
- We expect modest growth in the global economy supported by more accommodative monetary and fiscal policy, in particular outside of the U.S.



## BUSINESS CYCLE

- Soft data like consumer and business sentiment surveys and purchasing manager indices have converged towards better hard economic data in recent readings, indicating a modest ongoing expansion globally.



## MONETARY POLICY

- Central banks are more likely to look through near term price impact of tariffs and continue to ease rates as a broader disinflationary trend continues.



## INFLATION

- Tariffs are a supply shock, raising prices near term (inflationary); however, the impact on demand is likely to prevent prices from resuming a clear trend higher and is likely to lead to lower inflation once the one-time price increase has passed through the economy.



## COMMODITIES

- Commodity prices will remain under pressure due to heightened global economic uncertainty and ample supply, particularly in oil markets.



## CURRENCIES

- The U.S. dollar faces downward pressure from its elevated levels, yet interest rate differentials are likely to prevent a disorderly unwind.
- Stabilization in the trade war has removed left tail economic and market risks, making carry trades more attractive.



## RISK

- Political risk has abated recently but structurally it is likely to remain higher given the geopolitical backdrop.
- The resumption of lower volatility and more narrow credit spreads may continue as economic growth continues to progress and recession risks recede.

# ASSET ALLOCATION POSITIONING

	Outlook	Comments
<b>FIXED INCOME</b>		
<b>Overall Fixed Income</b>	–	The appreciation of bond prices, combined with the high coupon income that can now be earned, enables a positive outlook for the next 12-18 months across the global market. Given the global momentum toward stimulative fiscal policies and the recent, substantial easing by central banks—with further rate cuts possible in the U.S.—we believe equities currently offer greater upside potential than bonds.
<b>Rates</b>		
Canada and U.S.	+	We prefer to target long duration in the U.S. as the Bank of Canada has already eased significantly over the last year. The Fed hasn't needed to lower rates as aggressively, with the labour market holding up well. However, signs of U.S. growth starting to slow down have emerged, with job openings rising. The impact of higher mortgage rates and increasing layoff announcements could lead the Fed to deliver more cuts than the market is anticipating.
Global	+	Concerns around fiscal policy and government funding in the U.K. continue to keep the long end of the curve elevated. This creates an opportunity, as the recent slowdown in inflation and consumption, along with signs of labour market softening, justify greater easing than is currently priced in.
<b>Credit</b>		
Investment Grade	0	Credit spreads widened over the last quarter due to turmoil surrounding global trade, before recovering as policy was softened. With credit spreads now back to historically tight levels, we believe there are more attractive opportunities for Investment Grade bonds in the future.
High-Yield	0	Similar to their investment-grade peers, high-yield bonds staged a strong recovery late in the previous quarter, making them less attractive on a valuation basis. High-yield borrowers may come under pressure, as higher levels of debt maturing over the next few years will likely need to be rolled over at higher rates.
<b>EQUITIES</b>		
<b>Overall Equities</b>	+	Despite a plethora of negative headlines and erratic U.S. trade policies, the global economy is proving resilient and adaptive. Under the surface, technological progress is accelerating on several fronts and although market concentration is becoming increasingly concerning, there are signs that innovation is supporting an increasingly broad array of other businesses. While recession risks persist and are widely anticipated, leading indicators have declined. Inflation seems to have peaked despite remaining above target in the U.S., and a global rate easing cycle is supporting equities. If a slowdown occurs, central banks have room to ease policy, which helps reduce the risk of a sharp decline in risky assets.
<b>Region</b>		
Canada	0	We have a neutral view to Canadian equities relative to other equity markets. Although, the Bank of Canada has provided considerable easing to the Canadian economy, they're likely at, or near, the end of their current easing cycle. From a trade perspective, U.S. tariffs are continuing to wildly impact forward-looking expectations as erratic policy announcements from the White House are difficult to forecast. Despite the backdrop, Canadian equities—driven by strong returns in commodities like gold and banks, which have a large TSX weighting—have significantly outperformed other markets. While this has been positive for Canadian investors, ongoing outperformance is uncertain.
U.S.	0	We have a neutral view to U.S. equities relative to other markets. Although the pace of U.S. policy changes has somewhat abated, they continue to fluctuate unpredictably, making it a difficult environment for U.S. businesses to operate. The majority of the most promising public companies are based in the U.S.; however, the enthusiasm surrounding them has driven valuations to potentially concerning levels. Should they fail to deliver on expectations, downside risks are material given the S&P 500 has transitioned ever-more towards a concentrated tech-focused growth index, with most other sectors fading in relative market-weighted importance. For the above reasons, our stance is neutral on U.S. right now.
International	0	We are neutral international equities within our equity allocations. Uncertainty related to the U.S. trade policy, although less extreme relative to April, remains a risk to trade dependent international markets. These risks are offset by the opportunity presented by more compelling valuations and a shift to increase fiscal stimulus for infrastructure and defense initiatives and boosting overall competitiveness. There is also a potential for currency tailwinds as many European and Asian currencies are undervalued vis-a-vis the U.S. dollar. The valuation and growth opportunities are seen as balanced with the U.S. trade policy uncertainty risks, and while we are overweight global equities generally, it has not led us to further concentrate in international equities within that allocation.
Emerging Markets	0	We remain neutral emerging market equities. Emerging markets include many of the countries most sensitive to U.S. trade policy, with China in particular the key target of many policies. Beyond China many other markets have become targets of the U.S. administration, including the large trade surpluses of Korea and Taiwan, and most recently Brazil has drawn attention for political reasons. Many emerging markets are also more economically sensitive with less flexibility to manage through economic shocks. However, these risks are balanced by several positive factors: relatively low valuations, rapid technological advancements that are enabling many of these economies to move up the value chain, and the potential for economic stimulus in China.

Legend: ++ Overweight + Neutral-overweight 0 Neutral - Neutral-underweight -- Underweight

## PERFORMANCE – AS AT JUNE 30, 2025

FIXED INCOME						
BONDS	3-MTH	6-MTH	YTD	1-YR	3-YR CAGR	5-YR CAGR
FTSE Canada Universe Bond C\$	-0.57%	1.44%	1.44%	6.13%	4.31%	-0.38%
Universe Canada All Corporate C\$	0.45%	2.28%	2.28%	8.15%	6.27%	1.69%
Morningstar CAN High-Yield Fixed Inc C\$	1.82%	2.63%	2.63%	8.30%	8.22%	4.67%
ICE BofAML U.S. Corporate C\$	1.31%	3.32%	3.32%	5.38%	3.29%	-0.39%
ICE BofAML U.S. High Yield C\$	-1.81%	-0.81%	-0.81%	9.97%	11.93%	6.05%
Bloomberg U.S. Aggregate Bond U\$	1.21%	4.02%	4.02%	6.08%	2.55%	-0.73%
Bloomberg Global Aggregate U\$	4.52%	7.27%	7.27%	8.91%	2.74%	-1.14%
EQUITIES						
CANADIAN EQUITIES	3-MTH	6-MTH	YTD	1-YR	3-YR CAGR	5-YR CAGR
S&P/TSX Composite C\$	8.53%	10.17%	10.17%	26.37%	16.09%	15.24%
U.S. EQUITIES						
S&P 500 C\$	5.18%	0.76%	0.76%	14.84%	21.97%	16.68%
Dow Jones Industrial Avg C\$	-0.01%	-0.81%	-0.81%	14.40%	17.16%	13.56%
NASDAQ C\$	11.83%	0.43%	0.43%	15.35%	26.52%	16.20%
GLOBAL EQUITIES						
MSCI World C\$	5.83%	4.13%	4.13%	16.43%	21.12%	15.13%
MSCI Asia Pacific ex-Japan C\$	7.80%	10.14%	10.14%	19.54%	11.38%	6.24%
MSCI Japan C\$	5.61%	6.22%	6.22%	13.97%	17.64%	9.19%
MSCI Europe C\$	6.00%	17.36%	17.36%	18.79%	20.18%	13.12%
MSCI Emerging Markets C\$	6.37%	9.65%	9.65%	15.64%	12.31%	7.30%

Source: Bloomberg, Morningstar

## MULTI-ASSET MANAGEMENT TEAM

**Craig Maddock**, CFA, MBA, CFP, FICB

VP & Sr. Portfolio Manager, Head of Multi-Asset Management

**Wesley Blight**, CFA

VP & Portfolio Manager

**Yuko Girard**, CFA, MBA, CAIA, FRM

VP & Portfolio Manager

**Jenny Wang**, CFA, MA

Portfolio Manager

**Ian Taylor**, CFA, CAIA

VP & Portfolio Manager

**Mark Fairbairn**, CFA

VP & Portfolio Manager

**Richard Schmidt**, CFA

Portfolio Manager

In collaboration with:

2 Associate Portfolio Managers | 8 Analysts

1 Trader & Portfolio Manager | 2 Portfolio Specialists

\*As at December 31, 2024

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