

DYNAMIC  
**[ LIVE ]**  
SECTOR DEEP DIVE



# OUTLOOK 2025:

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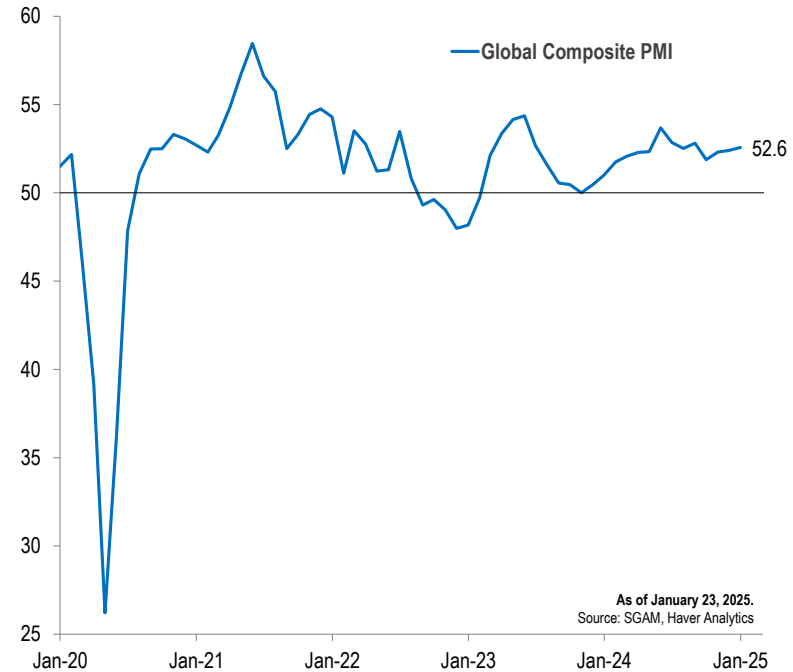
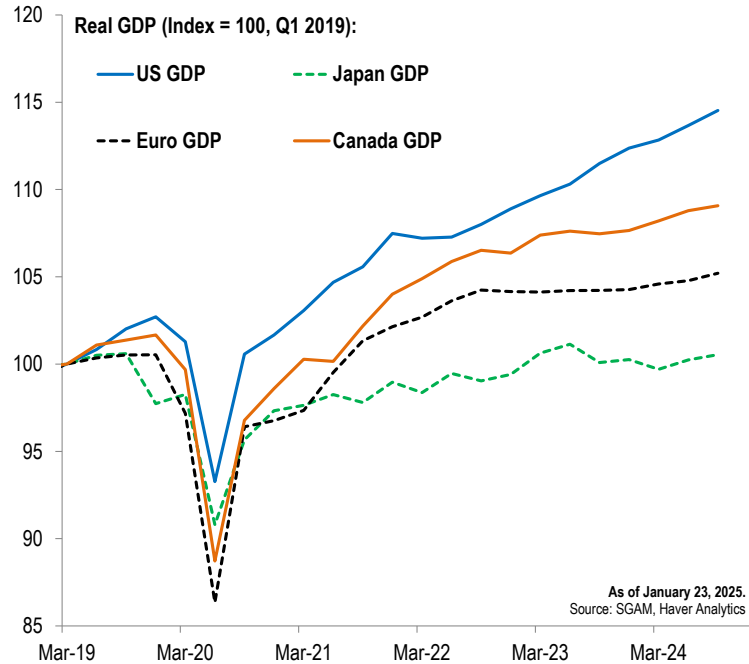
## A Sector-by-Sector Deep Dive



# Myles Zyblock, Chief Investment Strategist

Portfolio Strategy Update, 2025

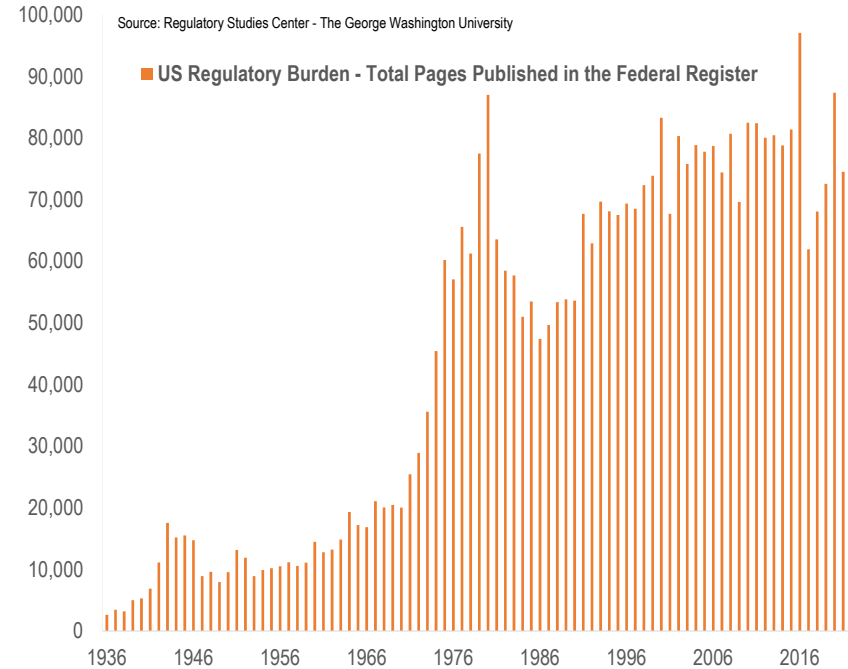
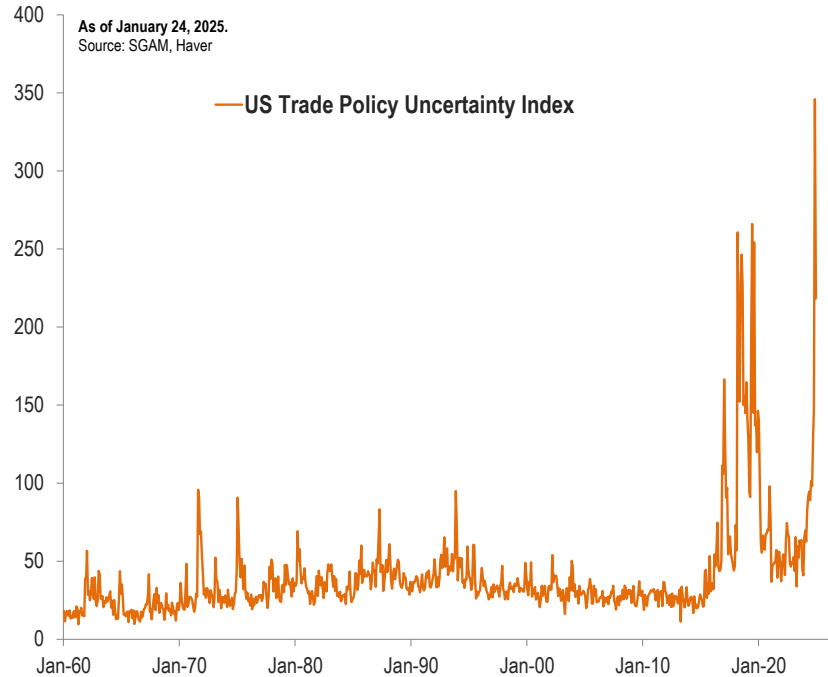
## Global economy is growing, not booming



- GDP has been trending higher in many of the major economies over the past few years, with the U.S. leading the way.
- Leading business cycle indicators point to continued growth in the coming quarters.

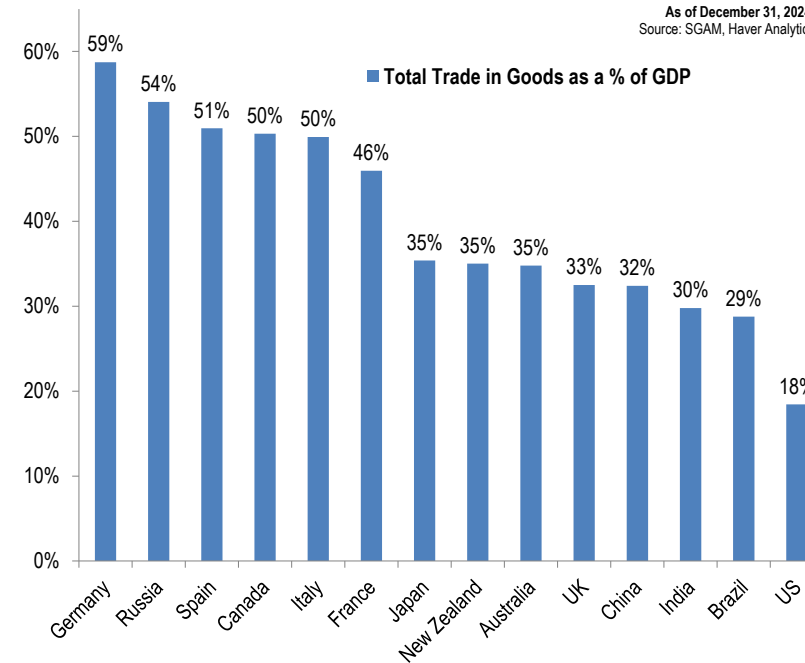
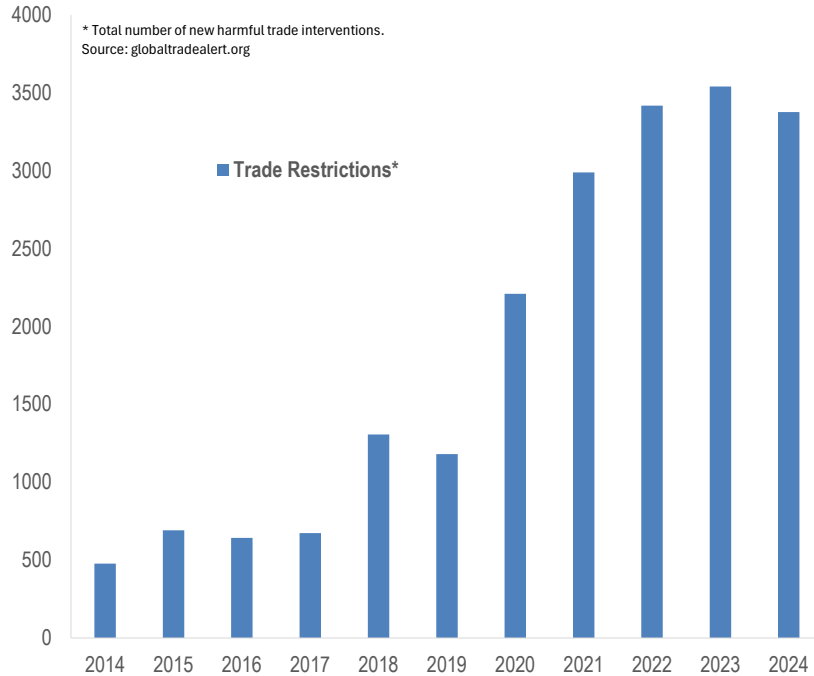


## Trump 2.0: Economic cross-currents



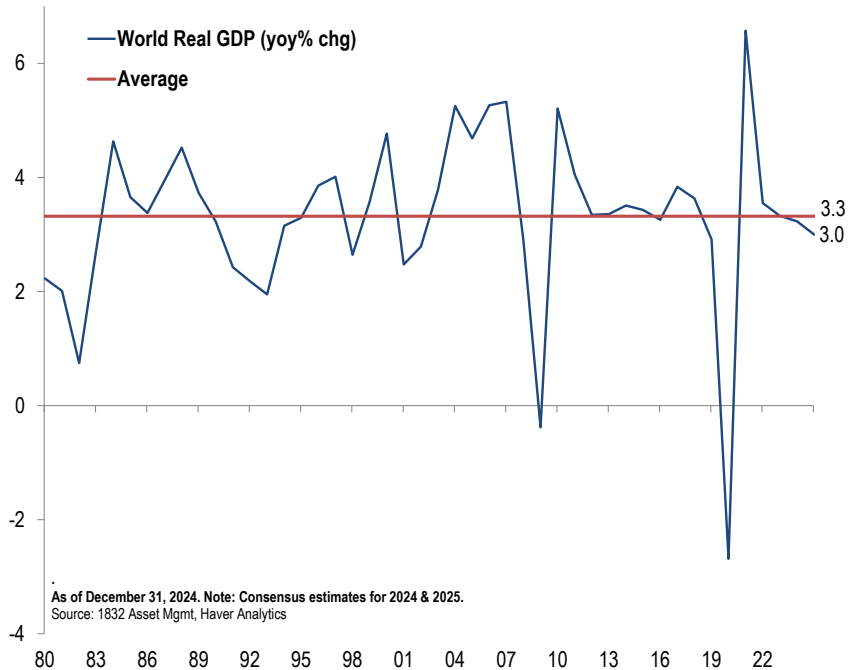
- The Trump election campaign focused on tariffs, de-regulation, immigration policy and tax cuts. These are not all running in the same direction for growth (or inflation).

## Global trade under the microscope



- The trend towards freer trade stalled several years ago. The number of trade restrictions (e.g., tariffs, quotas) implemented globally has been on a rising trend over the past several years.
- Economies highly dependent on trade, and especially those geared towards U.S. trade, remain at greatest risk of disruption in the coming year(s).

## Global Economic Base Case: Another year of sub-par growth

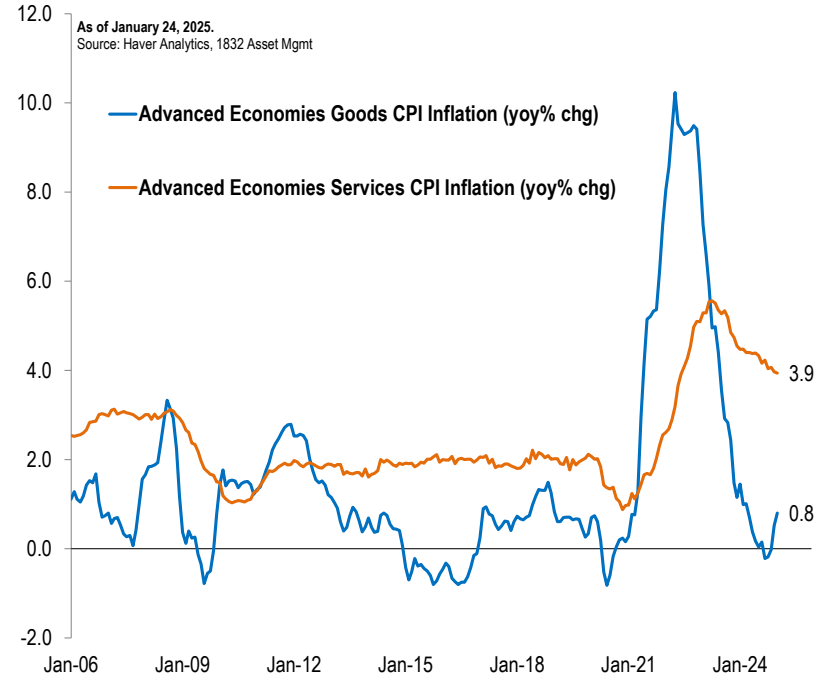
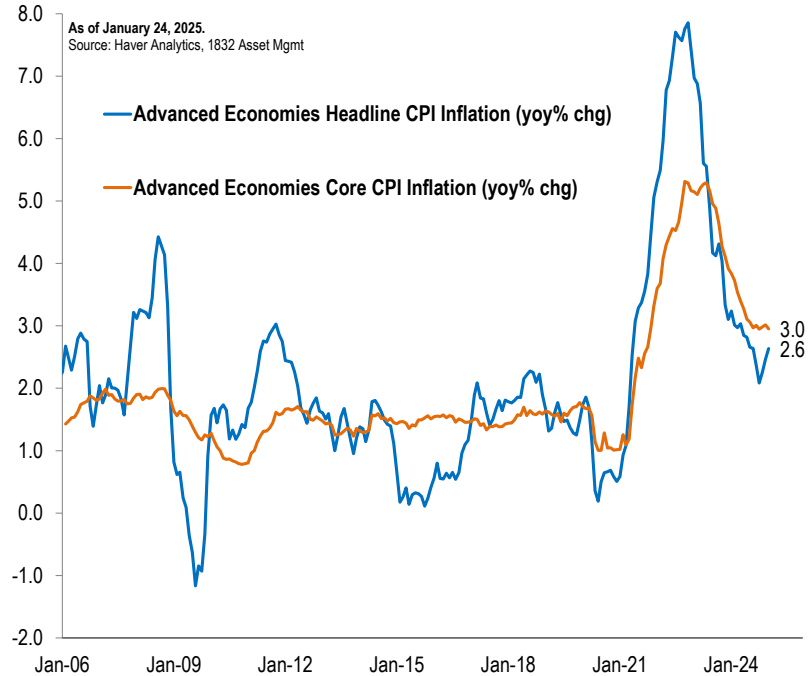


Consensus GDP Outlook			
	2023	2024E	2025E
	GDP	GDP	GDP
World	3.3	3.2	3.0
Emerging Mkts	4.2	4.0	4.2
Asia Ex-Japan	4.9	4.6	4.6
China	5.2	4.8	4.5
India*	8.2	7.0	6.5
LATAM	1.9	2.1	2.6
Developed Mkts	1.8	1.7	1.7
US	2.9	2.7	2.1
Eurozone	0.4	0.8	1.0
Japan	1.5	-0.2	1.2
UK	0.4	0.9	1.4
Canada	1.5	1.2	1.8

As of December 31, 2024. \*IMF Est. Source: Bloomberg, 1832 Asset Mgmt

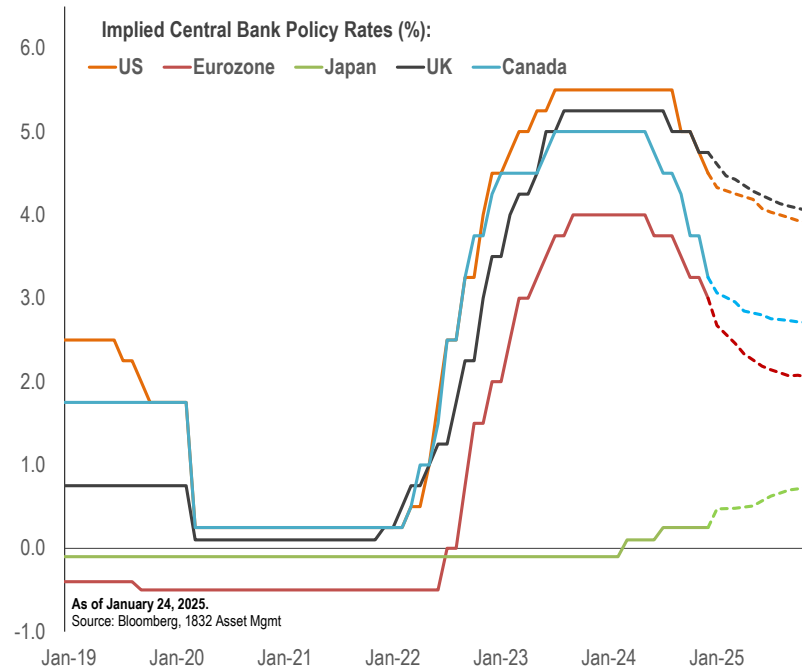
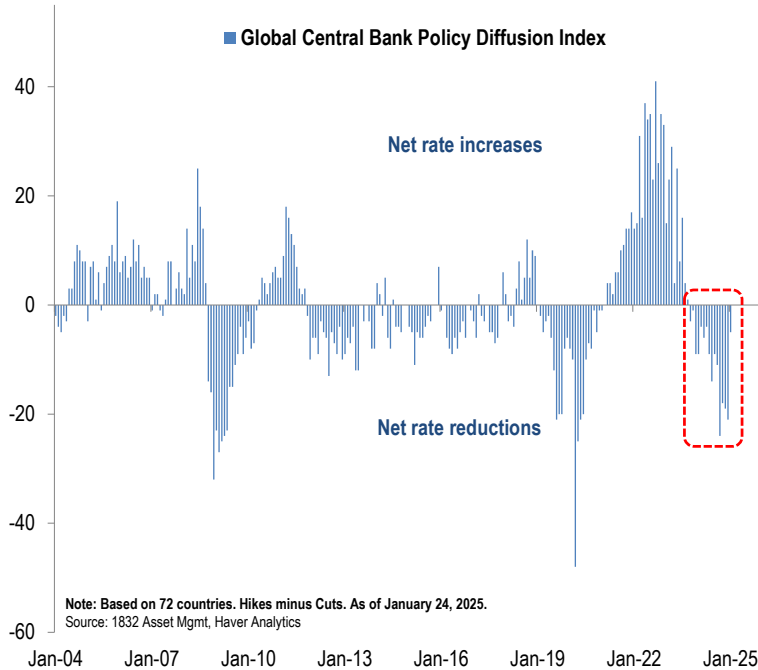
- A slightly below-average global GDP growth rate seen in 2024 is expected to continue into 2025.
- The U.S. is likely to lead the major developed economies in growth through 2025.

## Progress on global inflation is slowing



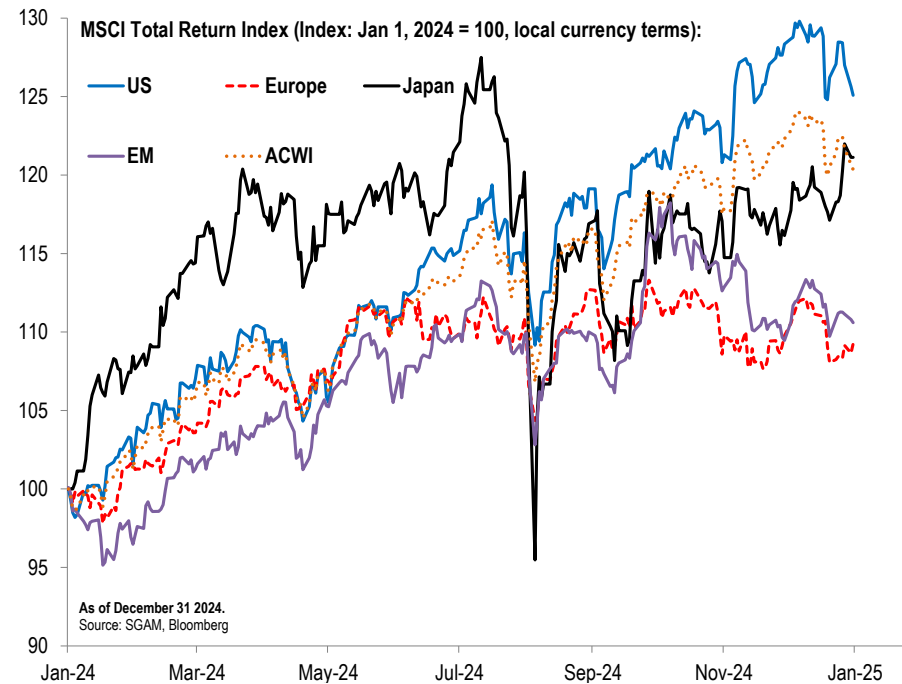
- The disinflationary trend that was first set in motion in late-2022 appears to be on pause for the time-being.
- While services inflation has continued to decline, goods inflation has perked up from deflationary territory.

## Global monetary easing at a measured pace



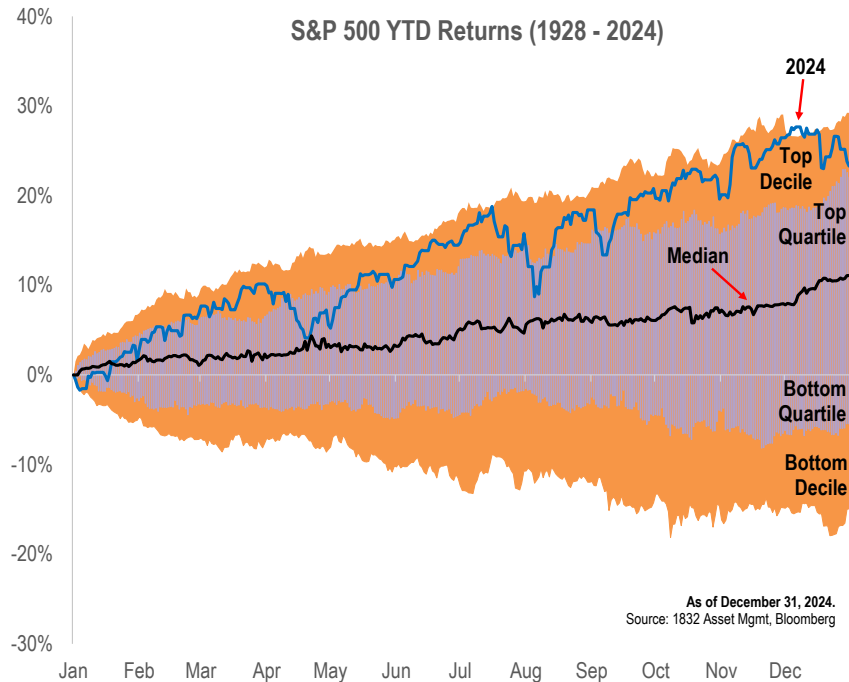
- We are 16-months into a global monetary easing cycle.
- Most major central banks are expected to continue cutting their respective policy rates in 2025, albeit at a slower pace.

## Global Equities: Is there room for an encore?



- Global equity benchmarks have trended higher in the past year. The tech-heavy U.S. equity benchmark continues to lead the way.

## The S&P 500 put in a 'top-tier' performance in 2024



Consecutive 20% Total Returns for S&P 500 (1975-2024)			
Year	%	+1 Year (%)	+2 Year (%)
1975	37.2%	23.9%	-7.2%
1982	21.5%	22.6%	6.3%
1995	37.6%	23.0%	33.4%
1996	23.0%	33.4%	28.6%
1997	33.4%	28.6%	21.0%
1998	28.6%	21.0%	-9.1%
2023	26.3%	25.0%	??

Source: SGAM, Bloomberg

- The S&P 500's performance in 2024 ranks in the top quartile looking back through a century of stock market history.
- After two consecutive years of  $\geq 20\%$  returns (i.e., 2023 and 2024), could there be a third consecutive year like the mid-to-late 1990s period?

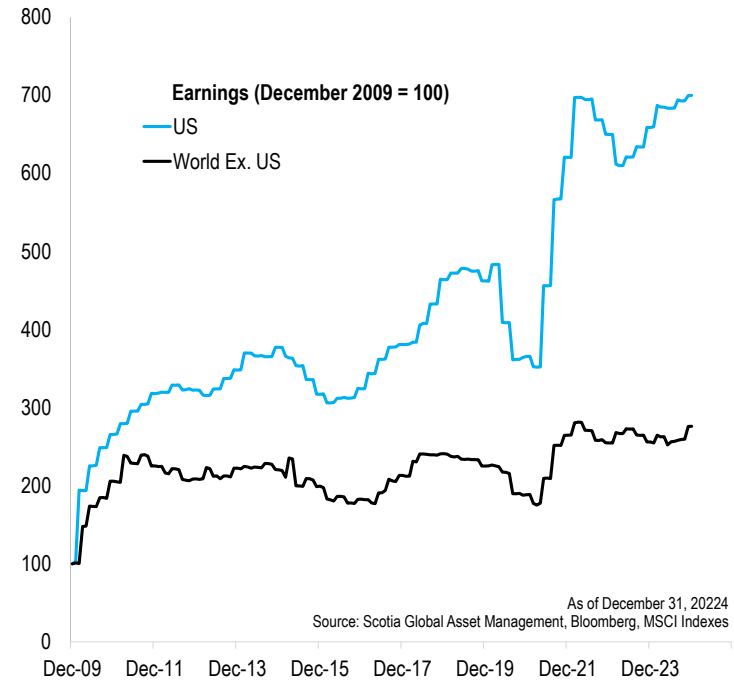
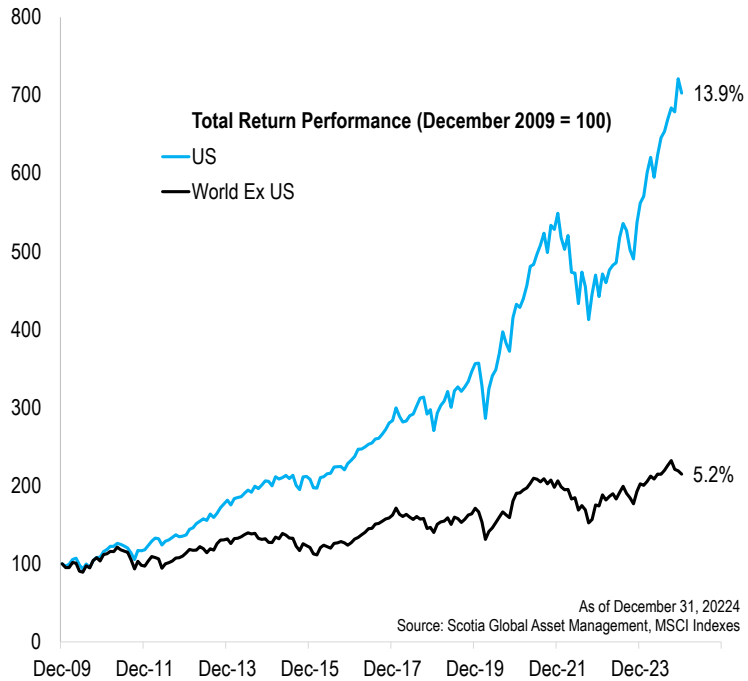
## It's an ok spot for equity returns, historically speaking

Median S&P 500 Returns Based on Tertile Breakpoints of GDP and CPI Growth (1948-present, mom% chg, annualized)			
	Real GDP Growth yoy%		
CPI Inflation (yoy%)	Less than 2.4%	2.4% to 4.16%	Greater than 4.16%
Less than 2.08%	21.9%	22.8%	13.6%
2.08% to 3.72%	13.6% ← We might be here in 2025	18.2% → In 2024, we were here	7.3%
Greater than 3.72%	4.0%	0.8%	4.5%

As of December 31, 2024. Source: Haver Analytics, SGAM

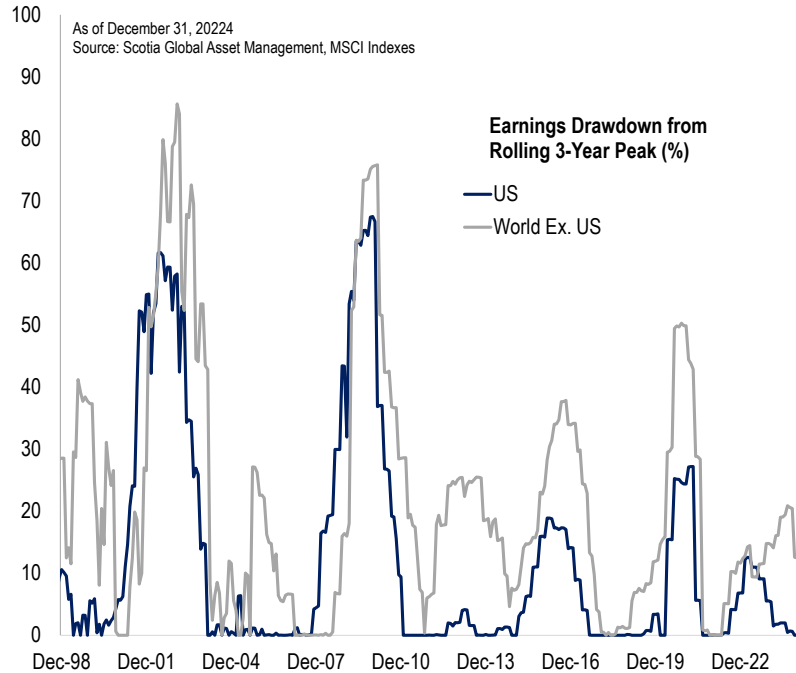
- In the coming year, U.S. inflation and GDP growth are expected to be 2.5% and 2.1%, respectively. These types of macroeconomic readings have tended to provide a favorable backdrop for S&P 500 returns.

## International equities need more help from EPS



- The U.S. stock market has beaten non-U.S. stocks by nearly 9 percentage points, annualized, since 2010.
- One of the big reasons for U.S. stock price outperformance has been its vastly superior earnings performance.

## International equities need more help from EPS (cont'd)



### Consensus Outlook

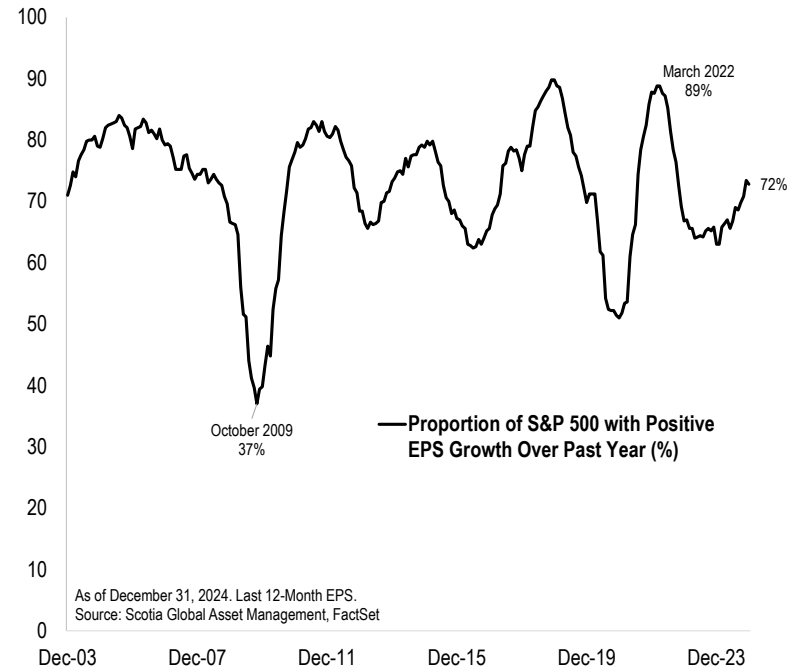
	EPS Growth		
	2024E	2025E	2026E
MSCI ACWI	4.8%	10.0%	11.3%
EM LATAM	-22.1%	14.9%	9.8%
USA	9.1%	12.3%	12.1%
Eurozone	-4.6%	6.0%	9.1%
China	13.3%	8.8%	11.8%
Japan	11.8%	-0.2%	9.3%
Canada	5.9%	8.6%	9.5%

As of December 31, 2024. Source: Bloomberg

- Non-U.S. earnings are more cyclical than those in the U.S. as reflected by the larger earnings drawdowns in tough economic environments.
- U.S. earnings are expected to outperform in 2025 and, perhaps, meaningfully so under a full enactment of U.S. corporate tax cuts.

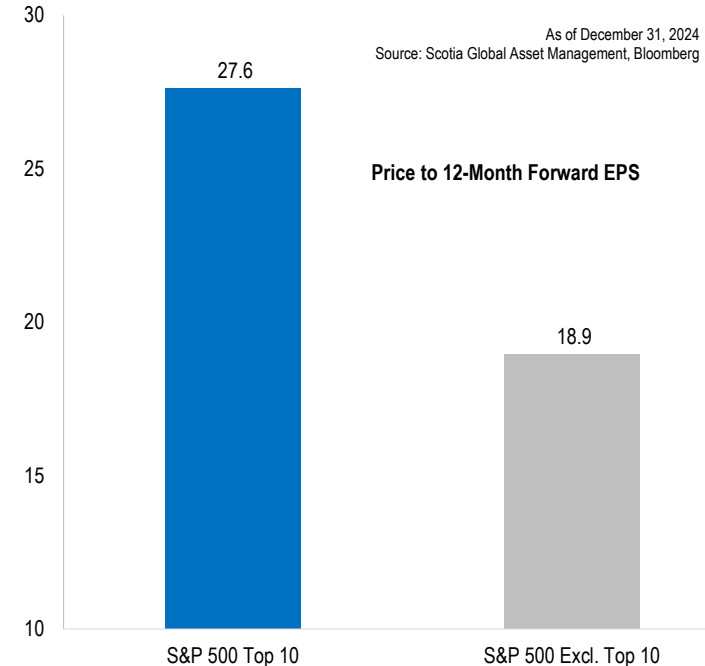
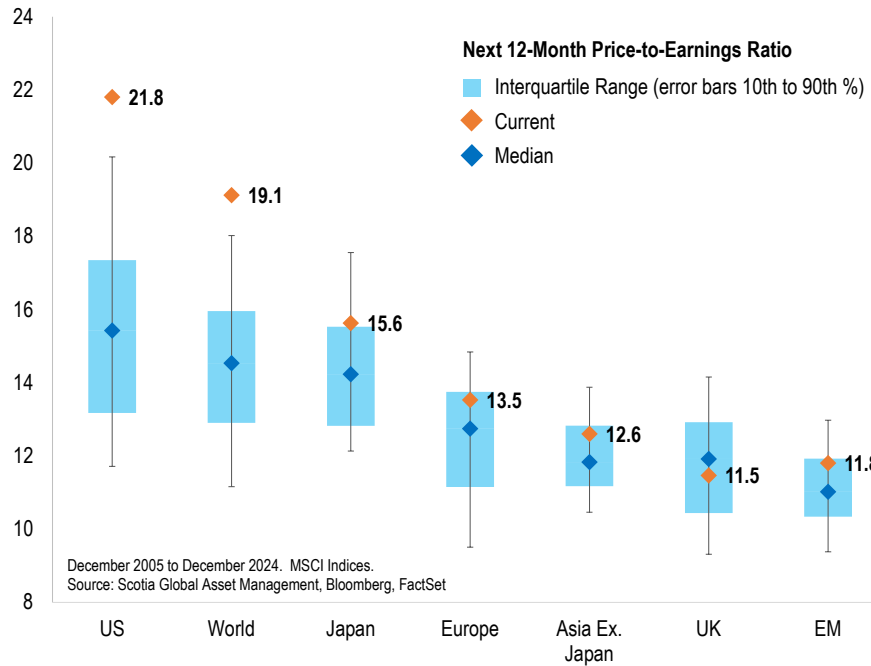


## U.S. earnings growth is starting to expand



- The proportion of S&P 500 constituents reporting positive earnings growth is on the rise, a development that could generate more investment opportunity across the equity market.

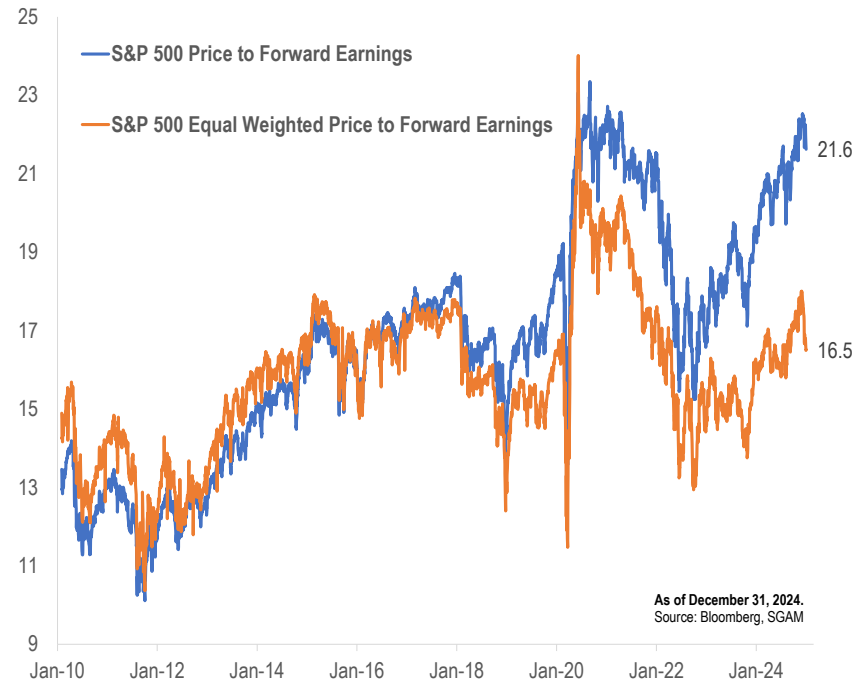
## A closer look at equity market valuations



- Equity market valuations appear most elevated in the United States. The valuations for other regions sit within their normal historical ranges.
- Within the U.S., valuations for the largest of the large-cap companies are trading at a significant premium to the rest of the market.

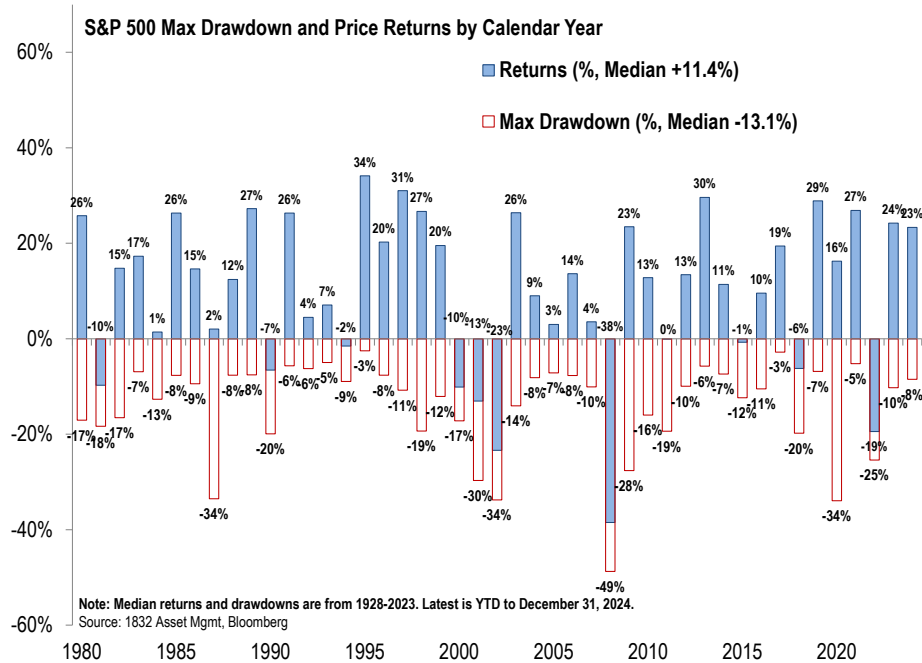


## A closer look at equity market valuations (cont'd)



- The P/E for the capitalization weighted index is trading at an historically wide 31% premium to its equal-weighted counterpart. This is another way of highlighting that valuation risk is probably somewhat higher for the larger companies in the index.

# Equity volatility is a reality in good and bad markets



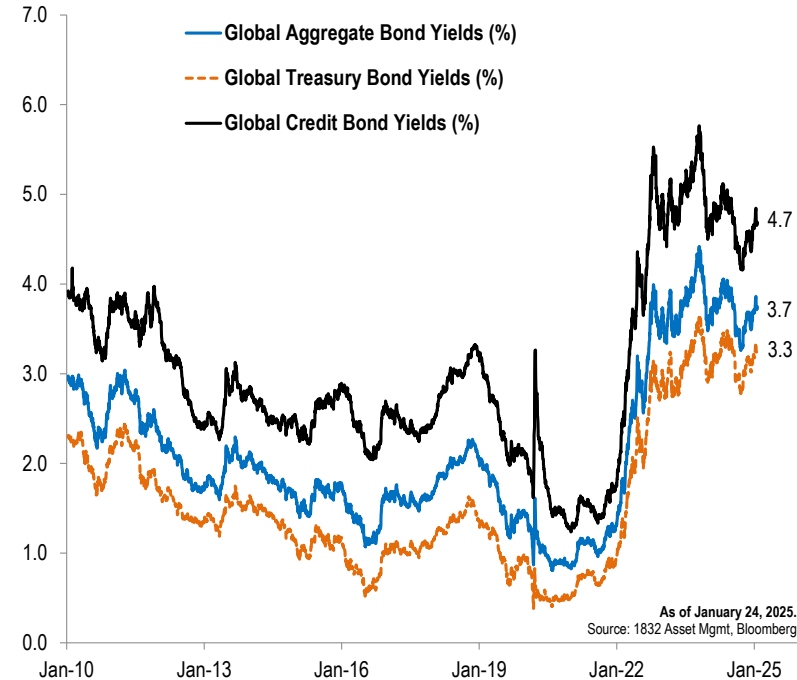
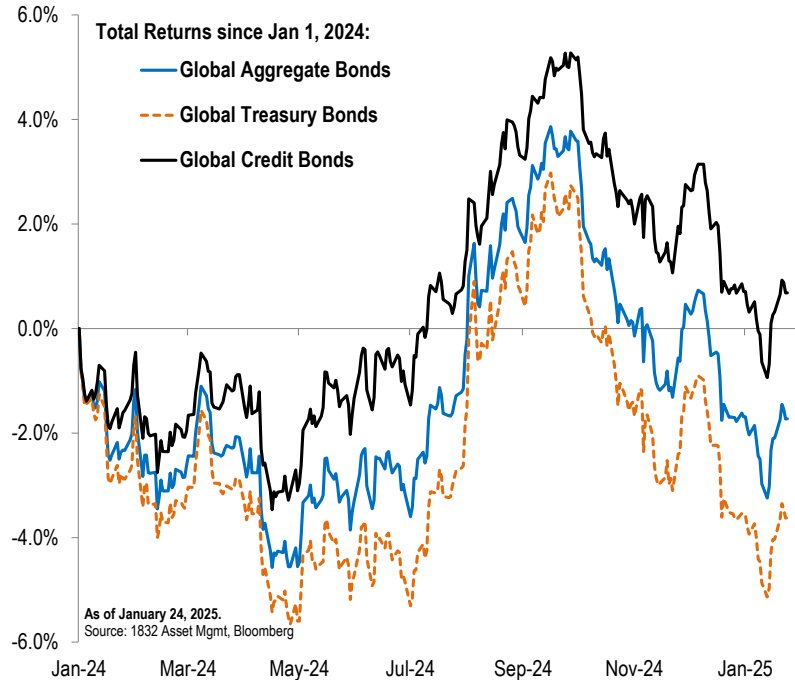
**Historical Context on Volatility**

Magnitude and frequency of equity drawdowns during the past century, on average:

- ≥ 5% - 3 to 4 times per year;
- ≥ 10% - once per year;
- ≥ 15% - every other year;
- ≥ 20% - once every 3 to 4 years.

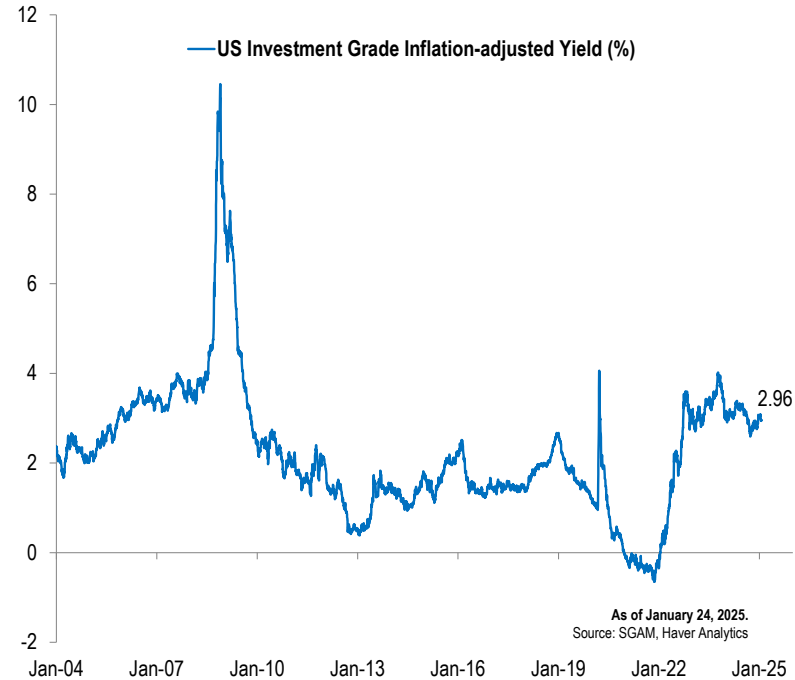
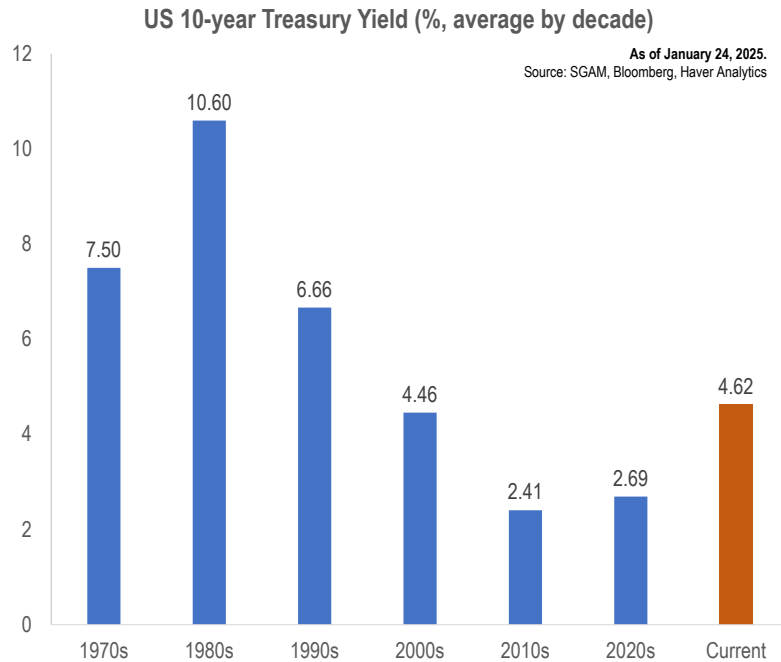
- The typical drawdown in any given year is 13% and the return is likely to be positive.

## Global Bonds: Recent performance struggles



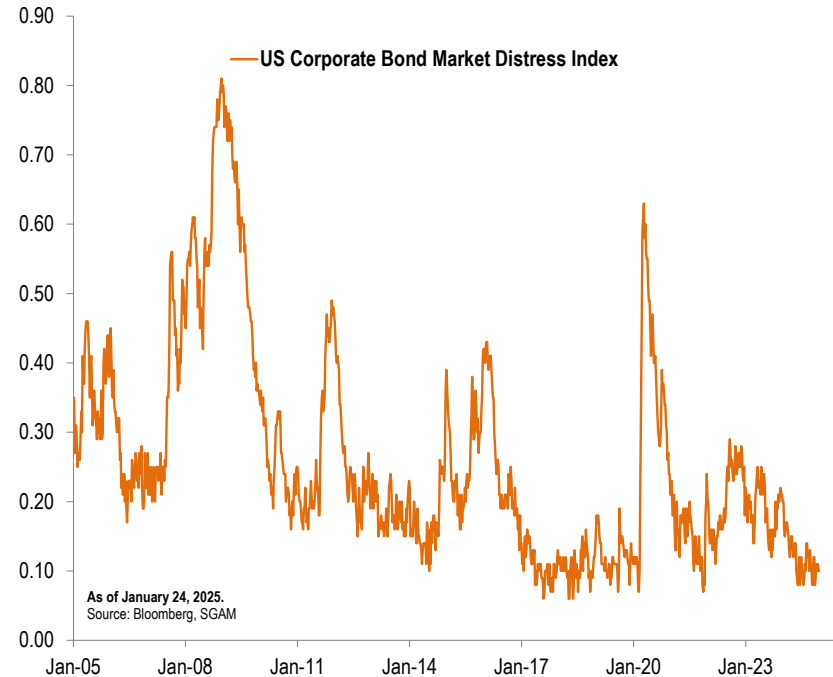
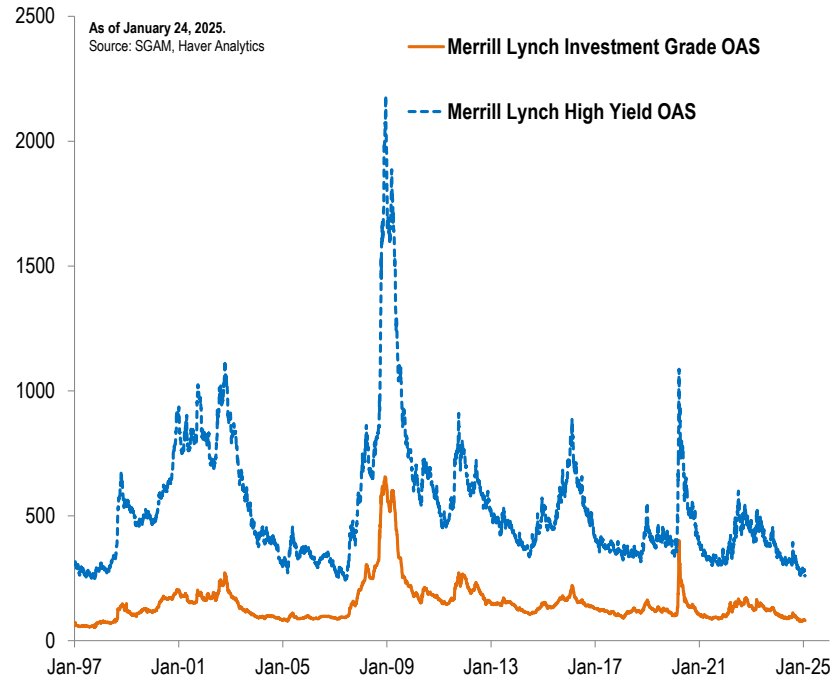
- A budding rally in the bond market, which began in the summer of 2024, has been short-circuited over the past few months.
- Global bond yields remain elevated, lingering near the upper-end of their 15-year range.

## U.S. yields sit near higher-end of a 20+ year range



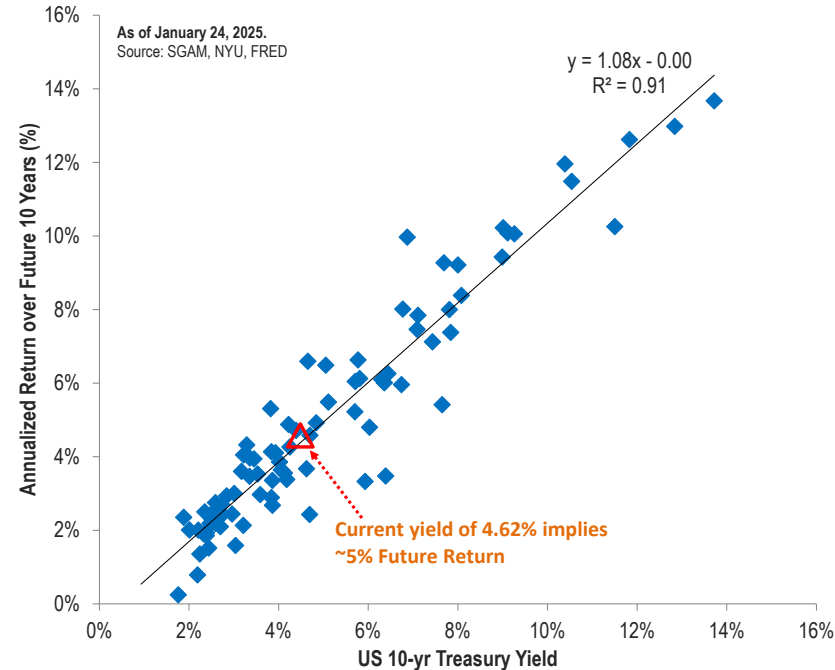
- The current yield on the 10-year U.S. Treasury stands at a level above the decade-averages going back to 2000.
- In inflation-adjusted terms, high-quality bonds continue to offer attractive yields.

## What about credit spreads?



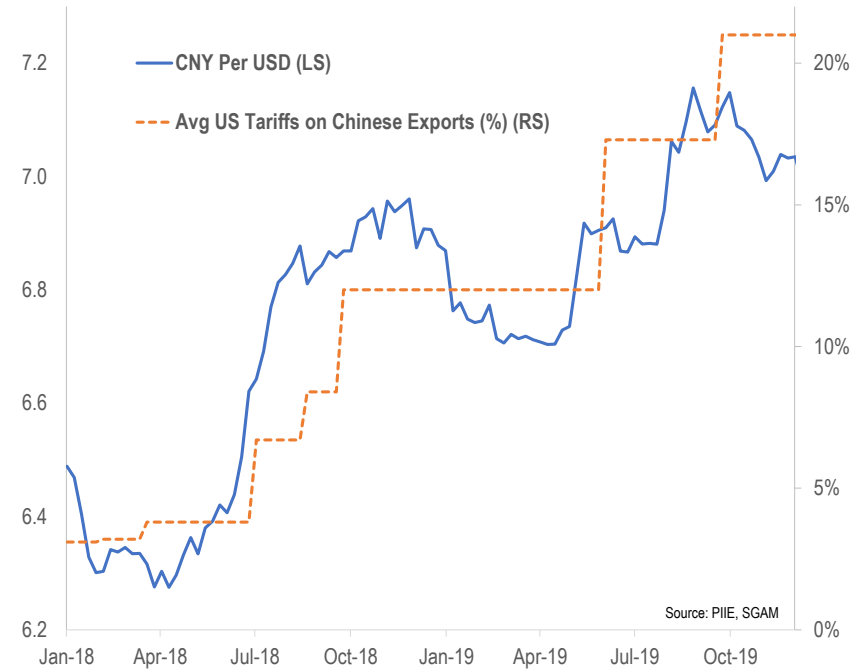
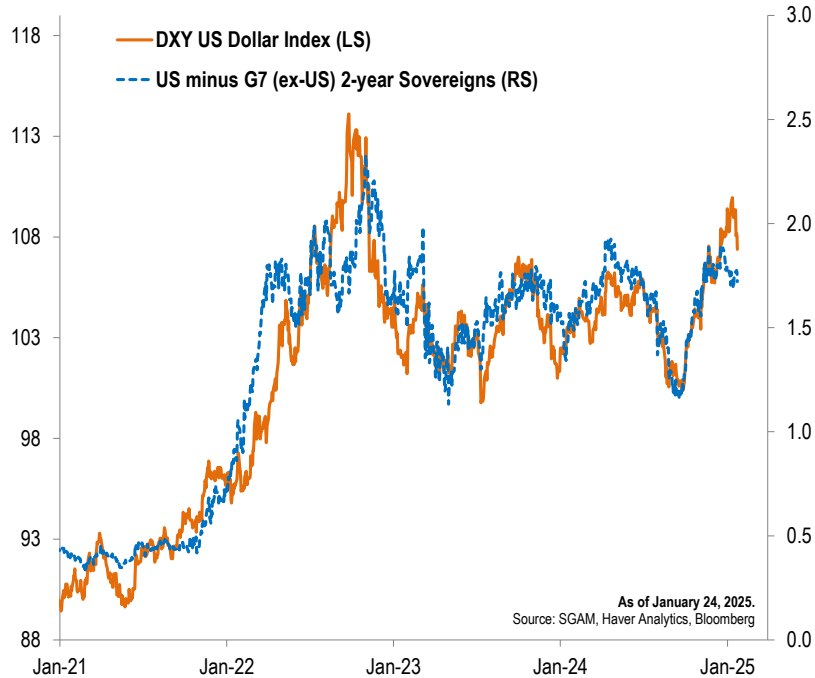
- Credit spreads are sitting at the low-end of the historical range, helped by balance sheet discipline and ongoing economic and cash flow growth.
- The Corporate Bond Distress Index is signaling low levels of corporate distress.

## Current yield-to-maturity offers insight into expected long-term returns



- Today's 10-year Treasury yield implies a 4.5-5.0% future long-term annualized return, a healthy gain relative to what has been realized over the past 10-15 years.

## USD continues to find support



- Interest rate spreads have been supportive of the USD over its G7 peers.
- Using China's 2018 experience, potential tariffs – depending on where they land – are likely to weaken various non-U.S. currencies.



## 2025 Summary

- While global economic growth is likely to expand, the incoming Trump administration will set the tone. Some of his campaign policies are pro-growth (e.g., tax cuts, deregulation), while others represent headwinds to growth (e.g., tariffs, labor supply measures). Expect surprises.
- Central banks will continue to reduce rates, but at a slower pace than what has been seen in either 2023 or 2024. Inflation risks will temper central bank easing efforts.
- It is difficult to see what will knock the U.S. equity market off the leaderboard outside of disappointing fundamental delivery from a highly-rated mega-cap constituency. Valuation risk seem much lower among the “S&P 490”. Valuations in the rest of the world are substantially lower than those in the U.S., but non-U.S. leadership will require better earnings.
- Global bond market total returns are likely to remain dominated by yield, not price performance. Inflation would need to break lower for price to form a larger contribution. That said, yields are at the higher end of what has been seen for most of the past 10-15 years.
- Diversify the portfolio in a manner that is consistent with risk tolerance and longer-term financial goals. This is probably the simplest, cheapest, and most effective protection against unforeseen economic or financial market events for most investors.



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