

Dynamic LIVE Summary
OUTLOOK 2025: A SECTOR-BY-SECTOR DEEP DIVE
February 2025



DYNAMIC HOSTED A **VIRTUAL LIVE EVENT** ON **FEBRUARY 6, 2025**, FEATURING **DYNAMIC'S** CHIEF INVESTMENT STRATEGIST AND MEMBERS OF THE PORTFOLIO MANAGEMENT TEAM WHERE THEY DISCUSSED THE ECONOMY, MARKETS AND THE LATEST SECTOR TRENDS AND THEMES THAT ARE GUIDING THEIR INVESTMENT DECISIONS FOR 2025 AND BEYOND.

BELOW IS A SUMMARY OF THE KEY POINTS PRESENTED IN EACH OF THE INDIVIDUAL SESSIONS.

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Macro Overview

Myles Zyblock

Chief Investment Strategist

Economic Expansion: Over the past few years, most major economies have been expanding, with the U.S. economy leading the way, driven by strong gains in consumption. While other economies have grown more slowly, leading business cycle indicators suggest that economic activity is likely to improve in the coming quarters. However, the outlook is complicated by President Trump's agenda, which includes tax cuts, deregulation, trade policy tariffs, and border security. These elements have mixed effects on growth and inflation, creating crosscurrents that will likely balance out overall but impact different sectors differently.

Trade and Protectionism: Trade restrictions have been rising globally, stalling the trend towards freer trade. Countries most dependent on trade, like Canada and much of Europe, are at greater risk from rising protectionism. The U.S., being the largest economy, is somewhat sheltered from trade frictions, with total trade comprising only 18% of its economy. This has emboldened President Trump to use tariffs as a negotiating tool. Despite these challenges, we expect the global economy to continue expanding, albeit at a below-average pace, with the U.S. outpacing other developed economies.

Inflation and Monetary Policy: Inflation has been trending lower from its peak in late 2022, thanks to normalized supply chains and sluggish growth. Goods price inflation has been a key contributor to disinflation, while services inflation is moderating more slowly. Disinflation in wages is expected to further reduce service price inflation. Despite inflation remaining above the 2% target for many central banks, it has moderated enough to encourage interest rate cuts. Over the past 15 months, there have been more interest rate cuts than increases globally, and we expect this trend to continue, albeit at a more moderate pace.

Equity Markets: Equity markets have delivered strong returns over the past few years, with the U.S. market outperforming other major regional benchmarks. The U.S. equity market returned at least 25% in each of the past two years, a rare occurrence. While the current macroeconomic environment is slightly less favorable than last year, it remains conducive to positive equity market returns. Non-U.S. equity markets have lagged the U.S. market, primarily due to weaker earnings performance. For non-U.S. markets to perform better, we need to see improved earnings growth.

Earnings Growth: Global corporate earnings are expected to grow by about 10% this year, with U.S. earnings projected to rise by 12%. This could be higher if President Trump successfully implements corporate tax cuts. The leadership in the U.S. market has been concentrated among a few mega-cap companies, but this may be changing. A rising proportion of companies are generating positive earnings growth, suggesting an expanding opportunity set beyond the largest stocks.

Valuations and Risks: The global equity market appears expensive, largely due to the high valuations of U.S. equities. However, valuations for most international markets are within their historical ranges. Within the U.S., the largest 10 stocks are trading at elevated price-to-earnings multiples, while the typical stock is more reasonably valued. This indicates that investors can lower their valuation risk by looking beyond the biggest companies. Despite a positive macro and earnings backdrop, we should anticipate market corrections, as volatility is inherent to equity investing.

Conclusion: In conclusion, the macroeconomic environment remains supportive of continued economic expansion and positive equity market returns. While there are risks from trade tensions and inflation, the overall outlook is positive. By focusing on high-quality companies with strong earnings growth and reasonable valuations, we can navigate these challenges and capitalize on the opportunities ahead.

Financials

Nick Stogdill

Portfolio Manager

Overview of the Financial Sector: Over the past two years, the financial sector has faced numerous risks, including the collapse of several U.S. regional banks, concerns about commercial real estate, and higher interest rates affecting consumers and mortgage rates. Despite these challenges, the sector has performed well, with easing fears and better-than-expected earnings growth contributing to strong performance.

Impact of Tariffs: Tariffs are a significant concern, but financial services businesses are not directly impacted by them. The primary concern is the indirect impact on the economy. For Canadian banks, tariffs could lead to lower loan growth, weaker lending, and higher loan losses if businesses are affected. This could spill over to unemployment and consumer loan losses. Life insurers like Sun Life and Manulife are more insulated, with a significant portion of their earnings coming from outside Canada. Property and casualty insurers, such as Intact Financial and Fairfax, are also relatively insulated, as insurance is a necessity, and policies can be repriced annually.

Subsector Analysis:

- **Canadian Banks:** Anything that hurts the Canadian economy will hurt the banks. Banks like BMO and TD have significant earnings from the U.S., while others like Royal, CIBC, and National have less exposure. It's essential to consider the differences in earnings mix by geography and region.
- **Life Insurers:** These companies are more insulated due to their diversified earnings from Asia and the U.S. The primary risk is the impact on their investment portfolios if tariffs affect equity and bond markets.
- **Property and Casualty Insurers:** These companies are relatively insulated as insurance is a must, and policies can be repriced annually. Auto parts inflation could impact repair costs, but insurers can adjust premiums accordingly.
- **Non-Canadian Holdings:** Our investments are diversified across North America and beyond. U.S. banks, alternative asset managers, exchanges, and data and analytics companies are less likely to be impacted by tariffs. Some may even benefit from increased volatility.

Canadian Banks and U.S. Market: There's been a recent narrative about U.S. banks not being able to operate in Canada. While U.S. banks are present in Canada, they primarily operate in capital markets rather than retail banking. The Canadian market's size and scale make it challenging for U.S. banks to build a presence. Banking is largely a domestic business globally, and each country wants to ensure financing is available for its economy. Canadian banks like BMO and TD have spent billions in the U.S. but only hold a small market share compared to the top U.S. banks.

Outlook for Canadian Banks: While tariffs are a concern, they are not fully reflected in current valuations, which gives me pause. However, taking a longer-term view, I'm optimistic. Negative sentiment towards Canada could lead to a pivot in government policies, regulations, and tax rates, putting Canada back on a better track. This would be fantastic for Canadian banks in the long run. It's crucial for advisors to ensure their clients stay invested and don't get caught up in the current negative sentiment.

Conclusion: In conclusion, the financial sector has navigated numerous challenges over the past two years and continues to present opportunities. While tariffs pose a risk, the sector's performance has been strong, and the long-term outlook remains positive. By focusing on high-quality companies and understanding the nuances within each subsector, we can navigate these challenges and capitalize on the opportunities ahead.

Industrials

Amir Ahmad

Senior Portfolio Analyst

Reshoring and Supply Chain Reconfiguration: Recent geopolitical tensions and supply chain vulnerabilities exposed during the pandemic have driven significant changes in global commerce. Reshoring is real, with U.S. construction spending on manufacturing exploding since 2020. This shift from cost-focused to resilience-focused supply chains has created a favorable environment for industrial companies. U.S. industrial production is expected to grow, and companies are seeing higher organic growth due to reinvestment onshore or nearshoring.

Inflation and Supply Chains: Inflation, often seen as negative, has been a net positive for the companies we focus on. These companies, which we call antifragile, have competitive advantages and pricing power. They were able to price above costs and expand margins during the shortages of 2021 and 2022. Supply chains have become more resilient, with companies moving from just-in-time to just-in-case models, qualifying additional suppliers, and shifting from sole to dual sourcing.

Tariffs and Geopolitical Risks: Tariffs and geopolitical tensions pose risks, but the best companies adapt to these new environments. The redistribution of capital from foreign to domestic investments has been beneficial. While there is a risk of recession for export-oriented countries like Canada, the best companies find ways to grow through these challenges. Historical examples, such as the 2018 China tariffs, show that leading companies can absorb short-term impacts and continue to thrive.

AI and Technological Innovation: AI and technological innovation are playing a crucial role in the industrial sector. Industrial companies are essential in the AI data center ecosystem, providing equipment for power generation and management. Electrical component manufacturers and HVAC companies are seeing significant growth due to the increased demand for data centers. This has led to better pricing, expanded margins, and more efficient operations.

Volatility and Risk Management: While industrial companies are not immune to volatility, the long-term fundamental picture remains strong. Efficiency gains are expected, and the overall trend for data centers and electrical companies is positive. Our process involves mapping out various scenarios and understanding the range of possibilities, ensuring we don't miss out on significant opportunities due to short-term risks.

Conclusion: In conclusion, the industrial sector is experiencing a period of significant growth and transformation. Reshoring, supply chain reconfiguration, and technological innovation are driving this change. Despite the challenges posed by inflation, tariffs, and geopolitical risks, the best companies are adapting and thriving. AI is playing an increasingly important role, and the long-term outlook for the sector is positive. As an investor, it's an exciting time to be involved in the industrial sector, and I'm optimistic about the opportunities ahead.

Consumer

Steven Hall

Vice President & Portfolio Manager

Health of the U.S. and Canadian Consumers: The U.S. consumer is in great shape right now. We have extremely low unemployment, rising wages, and cooling inflation. Consumer balance sheets are strong, with home equity doubling in the last five years. Stocks are at all-time highs, and Americans are feeling wealthy and optimistic. Holiday spending was up 4% this year, despite fewer shopping days.

However, the housing market in the U.S. is a bit challenged. With many Americans locked into low-rate,

long-term mortgages, housing turnover is at a 40-year low, affecting big-ticket spending and renovations.

In Canada, the consumer isn't as healthy. Unemployment is at an eight-year high, but wages are rising faster than inflation. The big issue here is high debt levels. Many Canadians took out mortgages at low rates in 2020 and 2021, and these are now rolling over. Companies like Pet Value have seen a slowdown in sales, particularly in big cities with high condo concentrations.

Impact of Tariffs: When it comes to tariffs, the consumer companies in our portfolios are minimally impacted. Some might even benefit. I categorize the impact into four buckets:

1. Companies that manufacture in Canada and export to the U.S. are most at risk, but we have little exposure to these.
2. Canadian companies that import from the U.S., like grocers, can pass on costs to consumers.
3. Boycotts, like switching from Heinz to French's ketchup, might benefit some Canadian companies.
4. American companies importing from China face minimal impact from the current 10% tariff, as many have diversified their supply chains.

Consumer Staples and M&A: I believe the next few years will see a surprising amount of M&A activity. With a new, business-friendly FTC chair in the U.S. and a lot of cash on the sidelines, companies will look to grow earnings through acquisitions. Smaller, mid-cap companies are particularly attractive targets due to their lower valuations compared to large caps. Companies with a good track record in M&A, like Procter & Gamble, are well-positioned to capitalize on this trend.

Trends in the Consumer Sector: One interesting trend is the rise of non-alcoholic beer, which is growing at 30% a year. This shift, particularly among younger consumers, could be due to various factors, including health and wellness trends, social isolation during COVID, and economic factors. Technology, like wearable devices, is also informing consumers about their health, potentially reducing alcohol consumption.

AI in Consumer Companies: AI is set to have a significant impact on consumer companies, improving operational efficiency and productivity. For example, Sam's Club uses AI to optimize inventory management and enhance the shopping experience for its members. Their Scan & Go feature allows members to scan items with their smartphones as they shop, streamlining the checkout process and reducing wait times. Home Depot leverages AI to improve supply chain logistics and provide personalized recommendations to customers. These applications of AI help companies streamline operations, reduce costs, and better serve their customers.

Conclusion: In summary, the consumer sector presents a dynamic landscape with both opportunities and challenges. The U.S. consumer is currently in a strong position, benefiting from low unemployment, rising wages, and robust balance sheets. In contrast, the Canadian consumer faces higher debt levels and economic uncertainties. Despite these differences, consumer-facing companies are navigating these conditions with resilience. Overall, the consumer sector remains a compelling area for investment, driven by innovation, strategic adaptation, and evolving consumer preferences. As we move forward, staying attuned to these trends and the broader economic environment will be crucial for identifying and capitalizing on opportunities within the sector.

Health Care

[David Cho](#)

Associate Portfolio Manager

2024 Challenges: Last year was tough for healthcare investors. It was the worst-performing sector, largely due to the uncertainty brought by the U.S. election, with Trump as one of the nominees. Investors tend to shy away from uncertainty, and this led to a shift of capital towards tech. This was frustrating because 2024 was the year when healthcare fundamentals started to improve significantly after the disruptions caused by COVID-19. Despite this, the sector underperformed due to the broader market dynamics.

Outlook for 2025: I'm optimistic about healthcare in 2025. We're seeing the operating momentum from last year continuing into this year. Earnings season is showing strong numbers across the board, indicating that the sector is moving from recovery to normalization. Valuations in healthcare are still at a significant discount compared to the market, despite expected earnings growth of 13%. I believe this valuation gap will narrow as companies continue to deliver strong results.

Subsector Dynamics: Healthcare is not a monolithic sector; it comprises various subsectors like managed care, pharmaceuticals, and MedTech, each with its own risks and growth opportunities. For instance, managed care companies have large and diverse data sets, which they are leveraging with AI to better risk profile and price their plans. This use of AI is helping them match risks with appropriate plans, benefiting both the companies and their customers.

AI in Healthcare: AI is making significant inroads in healthcare, albeit slowly. Managed care is leading the way, using AI for risk profiling and predictive analytics. In MedTech, AI is being used to plan surgical outcomes and assist radiologists in diagnosing patients more efficiently. In pharmaceuticals, AI is aiding early drug discovery by running simulations to identify viable drug candidates. While it's still early days, AI has the potential to significantly accelerate drug development and improve patient outcomes.

Regulatory Environment: Healthcare is one of the most regulated sectors, and with the recent change in the U.S. government, there's always a degree of uncertainty. Historically, Republicans have been seen as favorable for healthcare, but Trump's unpredictability adds a layer of complexity. Legislative changes in healthcare are challenging to implement, as seen with the Affordable Care Act, which took years to come into effect. While there are risks, the sector has shown resilience in adapting to regulatory changes.

Conclusion: In summary, despite the challenges of 2024, I'm optimistic about the healthcare sector's prospects in 2025 and beyond. The sector is showing strong operating momentum, and AI is beginning to play a transformative role. While regulatory risks remain, the sector's ability to adapt and innovate positions it well for future growth.

Technology/Telecom

Kent Crosland

Associate Portfolio Manager

Current Opportunities in Technology: To understand today's opportunities, it's helpful to look back at past cycles. For example, during the internet adoption cycle from the late '90s to the late 2000s, we saw a progression from semiconductors to hardware, and finally to software and internet companies. I believe AI will follow a similar progression, but at a much faster pace. So far, we've seen significant adoption in semiconductors, with companies like NVIDIA and Broadcom performing well. Hardware companies like HP, Dell, and Supermicro have also benefited. However, I believe the most attractive opportunities now lie in software. We're starting to see AI integrated into existing applications and workflows, enabling enterprise customers to leverage their proprietary data. This data can be used to enhance processes, products, and customer interactions, driving high-value use cases and quick adoption. From an investment perspective, software companies typically have high recurring revenue, high margins, and strong pricing power, making them attractive investments.

Example of AI Integration: One example is Salesforce, a company we own in many of our portfolios. Salesforce provides customer relationship management software, which contains critical information about customers and sales pipelines. They recently rolled out a product called Agentforce, which uses AI to enhance customer service. For instance, Saks, a Salesforce customer, uses Agentforce in their call center to handle customer inquiries more efficiently and at a lower cost. This demonstrates how AI can provide better service at a reduced cost, creating a win-win situation for both companies and customers.

Impact of Recent Developments: Recently, the market experienced a significant sell-off due to the release of DeepSeek's new AI model, R1. This model caught up to OpenAI's O1 model in just four months and did so on a much smaller budget. The release made AI cheaper and better, leading to a market sell-off. However, this also means that AI adoption will likely increase rapidly, following Jevons Paradox, where lower prices lead to higher demand. For example, the price of flat-screen TVs dropped significantly over the years, leading to widespread adoption. I believe we're at the start of a similar trend with AI.

AI Expectations: While the market is excited about AI, I believe we're still in the early stages. It's only been 27 months since the launch of ChatGPT 3.5, which showcased the power of AI. Companies like Microsoft, Google, and Meta are already seeing significant revenue from AI, and this trend is expected to continue. As AI technology improves and becomes more affordable, we will likely see new use cases and increased adoption.

Conclusion: In conclusion, the technology sector, particularly software, presents exciting investment opportunities. The integration of AI into existing workflows and applications is driving high-value use cases and quick adoption. Despite recent market volatility, the long-term potential of AI remains strong. By focusing on high-quality software companies with strong recurring revenue and pricing power, we can capitalize on these opportunities. As AI technology continues to evolve, we can expect to see even more innovative use cases and widespread adoption, making it an opportune time to invest in the technology sector.

Energy

Jennifer Stevenson, Vice President & Portfolio Manager

Scott Reid, Associate Portfolio Manager

Oil Supply and Demand: The oil market has been highly volatile recently. In September, concerns about weak Chinese demand and OPEC+ potentially increasing supply pushed prices down. However, geopolitical tensions in October, particularly between Israel and Iran, drove prices up. By December, OPEC+ announced a comprehensive agreement extending to 2026, emphasizing their goal of price stability. This agreement reassured the market, and oil prices increased and have remained reasonably stable.

Looking ahead to 2025, it's crucial to understand the fundamentals of supply and demand. While China is no longer the primary growth engine for oil demand, countries like India, Southeast Asia, and emerging economies in the global South are driving demand growth. On the supply side, growth is balanced, with contributions from Canada, the US, Brazil, and Guyana. This balance supports stable oil prices in the \$60-\$70 range, which is favorable for free cash flow generation, dividends, and buybacks from the companies we invest in.

Impact of Tariffs: Tariffs have been a significant concern, but the energy sector, particularly in Canada, has been somewhat spared. Initially, tariffs were set at 25% for everyone, but energy tariffs were reduced to 10%. President Trump, being a businessman and negotiator, has shown flexibility in his approach. For example, Colombia faced high tariffs but quickly complied with US demands to avoid them. This indicates that tariffs can be negotiated and potentially reduced.

The US heavily relies on Canadian oil, particularly medium and heavy sour oil, which is essential for their refineries. The logistical and economic realities make it difficult for the US to replace Canadian oil with alternatives from countries like Iraq, Venezuela, or Mexico. Therefore, while tariffs pose a risk, they are likely to be short-lived, and the US will continue to depend on Canadian oil.

Natural Gas Outlook: Turning to natural gas, the market has seen positive developments. Global LNG demand is growing and can be supplied from North America, on the US Gulf Coast and Canadian West Coast, which is driving solid prices. Additionally, themes like reshoring of manufacturing and the build-out

of high-power industrial data centers are boosting power and industrial demand. Despite constrained investment due to low prices, Canadian producers are well-positioned as low-cost suppliers with abundant reserves. We believe we're entering a new price era where \$3 natural gas serves as a base, supporting strong cash returns to shareholders.

Pipelines: Pipelines are also well-positioned, generating cash flows under regulated or take-or-pay contracts, insulating them from market fluctuations or tariffs. The US remains dependent on Canadian production, and even with tariffs, the volumes moving through pipelines are unlikely to change. On the positive side, the favorable regulatory environment and easier permitting support infrastructure expansion, which is crucial for meeting the growing demand for natural gas.

Conclusion: In conclusion, the energy sector is navigating a complex landscape of geopolitical tensions, tariffs, and evolving supply and demand dynamics. Despite these challenges, the fundamentals remain strong, with balanced oil supply and demand, robust natural gas prospects, and resilient pipeline operations. As we move forward, understanding these dynamics and staying informed about market trends will be crucial for making informed investment decisions. I'm optimistic about the opportunities in the energy sector and confident in the continued dividend growth and shareholder returns from the companies we invest in.

Materials

Robert Cohen

Vice President & Portfolio Manager

Gold Market Overview: Gold has been exceptionally strong recently. The fundamental bet with gold is against the purchasing power of paper money. With ongoing lousy monetary and fiscal policies globally, coupled with all-time high debt levels, gold serves as a hedge to protect purchasing power. Despite not always being in the news, gold is hitting all-time highs, even in Canadian dollars, which is beneficial for Canadian gold companies.

Gold Equities Performance: Gold equities have performed well relative to gold bullion. There's a mathematical leverage on profit margins versus the underlying gold price, meaning gold equities should see higher value increases per percent change in gold price. Year-to-date, gold equities have done fairly well, with our fund up significantly over the past year. However, there's still some skepticism, and mathematically, they should be performing even better. Certain companies have performed as expected, but we are still awaiting the trickle down effect into the exploration and development companies.

Impact of Tariffs: While tariffs themselves don't directly affect gold prices, they are inflationary, which indirectly supports gold. The current tariff situation is seen as temporary, with the expectation that it will resolve itself. The inflationary policies in Canada and the US continue to support the case for owning gold.

Investment Process and Examples: Our investment process is grounded in our technical backgrounds in mining, engineering, and geology, combined with financial acumen. This allows us to analyze companies thoroughly and identify underappreciated opportunities. For example, we invested early in Spartan Resources, which discovered a high-grade deposit in Australia, leading to significant returns. Another success story is Founders Metals in Suriname, where we identified a new discovery early on, resulting in substantial gains.

Beyond Gold: While gold is a primary focus, we also invest in other metals. Uranium is particularly topical due to its role in power generation, and we've had success with companies like NexGen Energy. We have a strong preference for the Athabasca region in Canada, which is one of the best places globally to explore for uranium. When you find an economic deposit in the Athabasca, it can be phenomenal. We've identified another junior exploration company in this region with a world-class discovery, and we are excited about its potential.

Antimony, used in bomb-making and now subject to a Chinese export ban, presents another unique opportunity. We've identified high-grade antimony projects in Australia that are poised to benefit from this supply disruption.

Conclusion: In conclusion, the materials sector, particularly gold and other metals, presents exciting investment opportunities. With ongoing inflationary policies and high debt levels, gold remains a strong hedge against currency devaluation. Our technical knowledge allows us to identify and invest in underappreciated opportunities, generating significant returns for our investors. Beyond gold, metals like uranium and antimony offer unique investment prospects. By staying informed and leveraging our experience, we can navigate the complexities of the materials sector and capitalize on these opportunities.

Real Estate

[Maria Benavente](#)

Vice President & Portfolio Manager

Early Innings of a New Real Estate Cycle: Over the past three years, we've seen how cyclical and volatile real estate can be due to changes in capital flow. Despite cash flows having been relatively stable due to their contractual nature, we have seen negative repricing of assets. We believe the worst is behind us and there is incremental evidence that makes us confident we are entering a new real estate cycle, making it an opportune time to invest. Transaction volumes have improved year over year and are expected to further improve in 2025, with CBRE forecasting over 10% growth. Cap rates are showing signs of peaking, indicating that asset values have bottomed out.

Further supporting this, is a supply cycle that is much more benign as we work our way out from the excess of the cheap debt cycle. Market like the US Sun Belt, where we have seen a 50-year high wave of supply, are starting to stabilize. Market rent growth has accelerated in some areas, and supply pipelines are expected to materially decrease, creating a more favorable environment for property landlords. This means better earnings growth ahead.

Seniors Housing – More Growth to Come: The seniors housing market is currently experiencing a 15-year low in supply. Capital has left the industry due to many years of tough fundamentals – elevated supply pre-COVID, followed by labour and occupancy challenges due to COVID restrictions. In addition, rising construction costs and a tight labour market has made development economics unattractive at current market rents. The result of this is a market that is imbalanced, particularly given the growing demand from the aging population. We see the large operators benefitting from this tighter market conditions with growth to come from further occupancy gains and market rent growth.

Impact of Immigration Policies: Changes in immigration policies are expected to have an impact on Canadian real estate particularly on sentiment as the demographic story was a big theme for investment. Last year, we saw a big underperformance of Canadian REITs relative to US REITs which we partly attribute to this. The property sector that has seen the most impact, so far, is multi-family. Occupancy has seen some modest erosion and rent growth decelerated; however, that is from levels that were likely unsustainable, and we wouldn't call it a material slow down. Despite the lower targets, the demographic story in Canada remains positive, and I believe the market will continue to perform well long term.

Tariffs and Economic Sensitivity: Tariffs have led us to adopt a more cautious approach in certain sectors, such as industrial and office that tend to be more economically sensitive. We continue to be focused on providing a diversified income stream and will allocate capital depending on our view of property fundamentals. While tariffs pose a risk, they could also lead to lower interest rates, which would be positive for real estate.

AI and Data Centers – A Growth Story We Like, but Need to be Cautious with Valuations: The demand for data centers has surged due to the rise of AI, leading to increased leasing activity and pricing power for landlords. However, valuations have also risen significantly, and there's a risk of oversupply like what happened in the industrial market during COVID. It's crucial to focus on those landlords that have differentiated strategies and control land banks in tier 1 cities to mitigate this risk.

Conclusion: In conclusion, the real estate market presents various challenges and opportunities. It's essential to carefully allocate capital and stay informed about market trends. I'm excited about the potential for growth and believe that now is a great time to invest in real estate stocks.

Alternatives

[Richard Lee](#)

Vice President & Portfolio Manager

Growth and Changing Role of Alternatives: Over the past few years, we've witnessed a structural transformation of the financial markets. Historically, global banks were the dominant intermediaries in the capital formation process. However, today, alternative asset managers have become critical conduits in providing capital to the real economy. Instead of taking deposits and lending them out for Banks, Alt Managers take investment dollars and deploy the capital to fund economic activities. This seismic shift is evident in the staggering growth of alternative asset managers. For instance, Apollo's assets under management grew from \$40 billion in 2017 to over \$700 billion today.

Impact of Tariffs and the Trump Administration: Tariffs and the policies of the Trump administration are top of mind for everyone. While tariffs can slow down business confidence and reorient trade flows, there are potential benefits from the administration's pro-growth stance and focus on deregulation. This could spur M&A activity and open up new opportunities for alternative investments. Additionally, the 401(k) market in the US, which holds \$12 trillion of capital, may finally be opened up to include alternatives, providing a significant tailwind for the industry.

Next Frontier for Alternatives: I'm particularly excited about the next phase of growth in alternatives, particularly what we like to call Private Credit 2.0. While corporate direct lending has been the primary focus of Private Credit 1.0, we believe the next evolution will involve asset-backed finance, including equipment finance, rail car finance, aviation finance, and infrastructure debt. This pivotal shift is driven by the need for banks to optimize their balance sheets and the growing demand for alternative financing solutions.

Valuations and Dynamic Alternative Yield Fund: As the opportunity set for alternatives has grown, so have the valuations of alternative asset managers. While we believe in the long-term potential of these managers, the stock valuations have expanded meaningfully. As such, we have been prudently reducing our positions Alt Manager stocks and redeploying into new emerging opportunities which offer better relative value. In fact, Dynamic Alternative Yield Fund 2.0 is more than just Alt Managers now. As such, our Alternative Yield Fund 2.0 seeks to leverage all available opportunities across the entire alternative ecosystem and is less dependent on alternative asset managers than previously. We expect this trend to continue in order to maximize the benefits of diversification.

Conclusion: In conclusion, the alternative investment landscape is undergoing a significant transformation, driven by the growth of alternative asset managers and the changing role of banks in the capital formation process. Despite the challenges posed by tariffs and geopolitical factors, the long-term outlook for alternatives remains incredibly bright. The next frontier in private credit and the potential opening of the 401(k) market and other pools of capital to alternatives present exciting opportunities. As we continue to navigate this evolving landscape, our focus remains on finding value and leveraging emerging opportunities to deliver strong returns for our investors.

Infrastructure/Utilities

Tarun Joshi

Portfolio Manager

Power Markets: Power is a critical theme in infrastructure, and we're witnessing a generational opportunity in this space. Historically, from 1950 to the early 2000s, power demand in the US grew at an average of 5% per year. However, from the early 2000s to around 2020, power demand remained flat due to energy efficiency improvements and offshoring of manufacturing. Recently, we've seen an inflection point with power demand growing again. This growth is driven by the adoption of electric vehicles (EVs), reshoring of manufacturing, and the increasing need for data centers. Looking forward, AI is expected to further drive power demand, making power an exciting theme to watch.

Regulated Utilities: Regulated utilities, which deliver electricity and natural gas to homes, are experiencing significant changes. The demand for power is outstripping supply, necessitating investments in generation capacity and grid infrastructure. Over the past 20 years, we've under-invested in the grid, and now there's a need to upgrade cables, poles, transformers, and other infrastructure. Additionally, the shift towards renewable energy sources like solar and wind has created a mismatch between power supply and demand. This situation translates into higher capital expenditures for utilities and faster earnings growth over the next three to five years. The outlook for regulated utilities is extremely bright, and this sector remains underappreciated.

Transportation: Transportation infrastructure, including rail, toll roads, and airports, is another critical area. These assets are essential and difficult to replace, making them valuable over time. For example, building a new highway like the 407 in the Greater Toronto Area today would be extremely challenging. Similarly, railroads connecting the US and Canada are virtually irreplaceable. These assets provide portfolio diversification and are resilient to disruptions caused by AI and other technological advancements. They remain a significant part of our infrastructure fund.

Impact of Tariffs: Tariffs have been a major topic of discussion, but their impact on infrastructure and utilities is relatively limited. Contracts in these sectors tend to protect them from major disruptions. While tariffs can create short-term noise, it's essential to focus on the long-term fundamentals of the businesses we invest in. Great businesses are adaptable, resilient, and have pricing power. They can navigate challenges like tariffs and continue to deliver strong returns over time.

Conclusion: In conclusion, the infrastructure and utilities sector present a compelling investment opportunity. The power market is experiencing a generational shift, driven by EVs, reshoring, data centers, and AI. Regulated utilities are poised for significant growth due to the need for infrastructure upgrades and the shift towards renewable energy. Transportation assets remain valuable and resilient. While tariffs pose some risks, the long-term outlook for the sector is positive. By focusing on high-quality, adaptable businesses, we can navigate these challenges and capitalize on the opportunities ahead.

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