BARRANTAGH
Investment Management

BIM REVIEW

4Q24 | SECOND TERM FOR TRUMP OFFERS ANXIETY AND OPPORTUNITY

INVESTMENT ENVIRONMENT

- Expecting more headline volatility and return prospects should improve if U.S. trade policy moderates versus the current hostile rhetoric.

EQUITY MARKETS

- U.S. equities reacted more favourably to Trump's election victory and policy agenda than did other regional exchanges.

FIXED INCOME MARKETS

- Central bank easing expected to continue albeit at a more moderate pace than last year.

INVESTMENT ENVIRONMENT | A SOLID BACKDROP IF TRADE POLICY COMES IN MORE MUTED THAN THE RHETORIC

Elections around the world in recent times have not been kind to incumbent governments with the vast majority either losing voter share or power altogether. Voters seem to have apportioned blame for cost of living challenges on governing parties despite inflation now being well controlled and prior challenges often being pandemic related. This pattern continued with Donald Trump's U.S. presidential election victory which had far reaching implications for global trade, geopolitics, and financial markets.

While individual voters may assess the economy in terms of its impact on their personal situation, at an aggregate level, the U.S. economy delivered impressive results on both an absolute basis and relative to other developed nation peers (Figure 1). Consensus estimates for 2024 U.S. GDP growth rose as the calendar progressed, and initial forecasts for 2025 imply another decent year ahead. The potential for future positive surprises is likely lower year-on-year, though president-elect Trump's pro-business focus on deregulation and tax cuts should be supportive of the domestic economy.

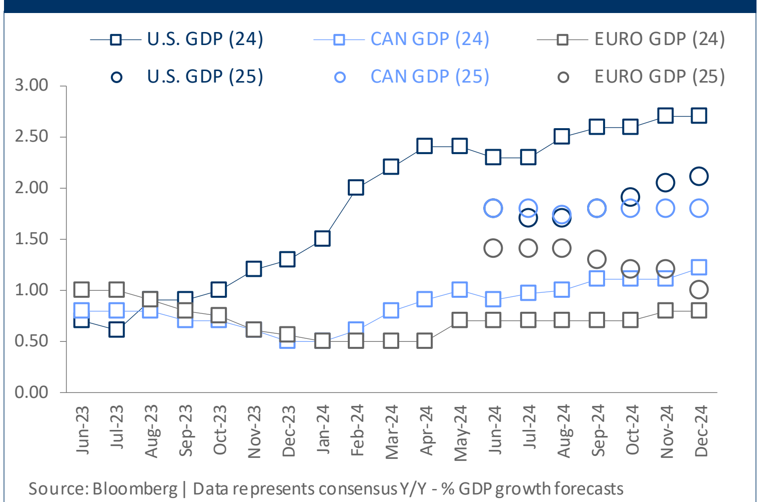
One of the greater wildcards for the global economy is the trade policy of the incoming U.S. administration. The threat of general tariffs on those seeking access to U.S. markets was featured prominently during the election campaign, and has since been reinforced via social media. Forecast uncertainty for trading partners remains high, though past precedent implies that only some tariff threats are genuine, and many others are used as a means to expedite dispute resolution. We expect that Trump will be more targeted with tariff policy towards friendly partners, and more broad-based versus nations perceived as rivals.

Notwithstanding a view that Trump will act in a more measured way than his rhetoric, much uncertainty remains, and has weighed most heavily on regions with export driven economies reliant on global trade. The potential tariff overlay combined with political instability in several European countries and lingering challenges in China has served to highlight the bifurcation in prospects among major economic zones. Greater clarity on U.S. trade policy should come following the presidential inauguration in late January and will be a closely watched market event. Further discussion on trade and implications for Canada is detailed in the 'Equity Markets' section that follows.

Central bank easing has been a positive for financial markets and is expected to continue in the coming year though in less dramatic fashion (Figure 2). Markets will be sensitive to deviations from the current expected path of easing which remains a key variable moving forward. The U.S. Federal Reserve "The Fed" is expected to move at a more measured pace than others including the Eurozone due to the variance in outlooks described above. These dynamics also played out in the currency markets where the U.S. dollar has been strong in the period leading up to and following the U.S. election.

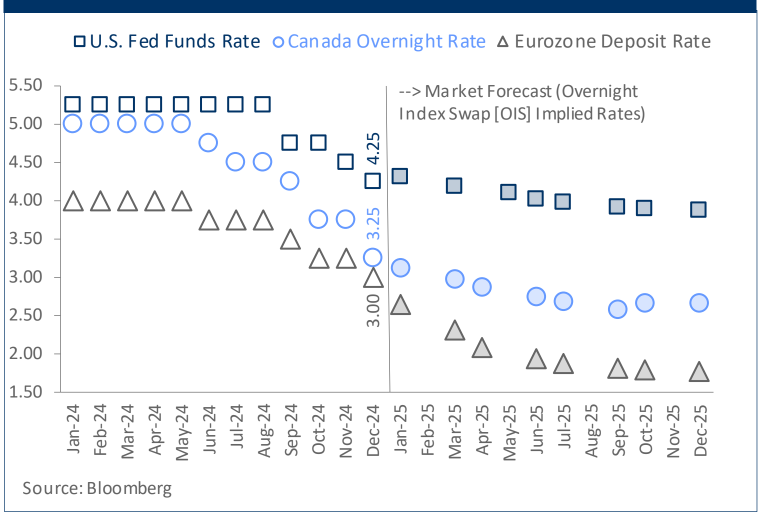
We continue to see prospects for positive returns ahead albeit more moderate than last year and with greater headline related volatility. The avoidance of a trade war (but not the threat of one) underlines this view and remains a key risk. Too broad an implementation of tariffs would import inflation to the U.S., fail to address cost of living issues important to the voting public, and complicate The Fed's path to further easing. Ultimately, it is in Trump's self interest to act in a rational manner.

FIGURE 1: U.S. OUTGROWING DEVELOPED PEERS



Source: Bloomberg | Data represents consensus Y/Y - % GDP growth forecasts

FIGURE 2: CENTRAL BANK EASING EXPECTED TO CONTINUE



Source: Bloomberg

EQUITY MARKETS | ‘AMERICA FIRST’ IN EQUITY RETURNS ACROSS MAJOR GLOBAL INDICES

Equity Index Returns	4Q24 (CAD)	4Q24 (USD)	YTD24(CAD)	YTD24(USD)
Global (Net)	6.3%	-0.2%	29.4%	18.7%
Canadian	3.8%		21.6%	
CDN Small Cap	0.7%		18.8%	

The U.S. presidential election was the defining moment for the quarter as markets digested the potential implications of Trump’s second term in office. Taken at face value, Trump’s ‘America First’ trade policy would impose broad import tariffs on all goods entering the U.S. and likely disrupt global trade flows while also stoking inflation. The policy that ultimately will be put in place may be more targeted, yet uncertainty has been injected into the outlook and weighed on sectors and geographies sensitive to either global trade or higher long-term U.S. interest rates (which rose due to the threat of higher inflation). Trade exposed sectors such as Industrials and Consumer Discretionary underperformed as did traditional defensive sectors such as Real Estate which was pressured by the higher long-term interest rates. Technology stocks were the star performers, particularly those driving strong Artificial Intelligence (AI) related growth. Financials also posted solid gains benefiting from the shifting yield curve. Regionally, U.S. equities outperformed in Q4 due to a meaningful technology weighting, solid local economic prospects, and less trade related uncertainty (Figure 3).

BIM EQUITY FRAMEWORK

The presence of political instability across several European countries, ongoing growth challenges in China, and the potential for disruptive U.S. trade policy has created a more uncertain outlook. In navigating this environment, our Quality-Value investment framework - focused on selecting quality companies trading at reasonable valuations - remains as relevant as ever. We continue to prioritize businesses with strong fundamentals, sustainable competitive advantages, and a history of resilient performance, even in volatile market conditions.

At the same time, a balanced portfolio construction remains essential. By diversifying across geographies and sectors, we mitigate the risks associated with macro uncertainty, while enhancing the potential for returns as global conditions evolve. As we look ahead to the next year, with political, economic, and geopolitical uncertainties likely to persist, maintaining this flexible, diversified approach will be key to managing risk and identifying growth opportunities.

GLOBAL MARKETS

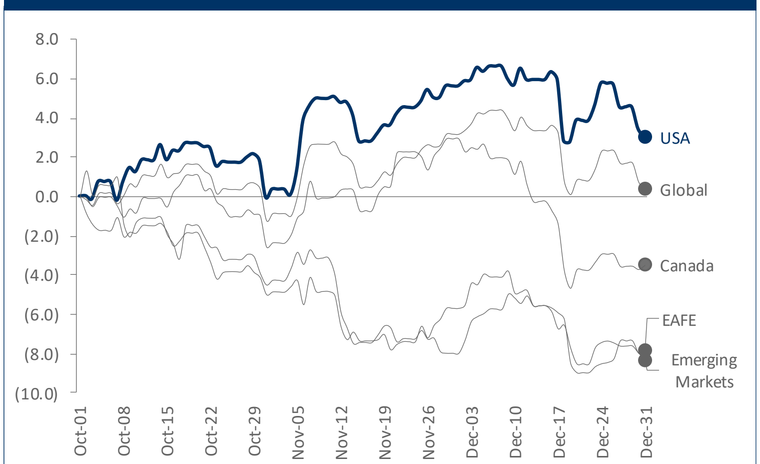
As the year progressed, the U.S. economy differentiated itself from the majority of the globe by consistently surprising to the upside while also maintaining solid prospects for the coming year. The introduction of tariff risks added another layer of complexity to global growth prospects that had already been experiencing some pockets of weakness. These risks disproportionately affected regions outside the U.S. such as Europe and emerging markets where reliance on global trade and export-driven growth is more pronounced. **The growing divide in global economic conditions also translated to the equity markets with the U.S. significantly outperforming most other regional exchanges.**

While our strong focus on high-quality US companies has been a cornerstone of our portfolios, we believe it is equally important to maintain strategic exposure to quality companies with European and Asian revenues, particularly given the relative value opportunities that currently exist in these regions. Despite the political and economic uncertainties facing Europe and Asia, we see potential in sectors and companies that are undervalued relative to their long-term growth prospects.

CANADIAN ALL-CAP MARKET

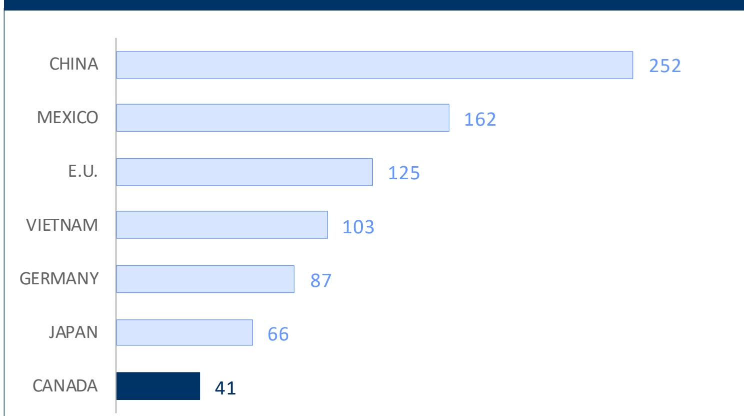
Threats of blanket 25% tariffs on Canadian exports to the U.S., until such a time as illegal migration and drug importation is brought under control, signalled that Trump was prepared to be aggressive even towards USMCA trade partners. Canada seemed an unusual first target given its much smaller trade imbalance than many other regions (Figure 4). Furthermore, the trade deficit is driven by oil & gas which is a key input to U.S. refining infrastructure and contributes to keeping prices at the pump affordable. The Canadian government responded quickly by communicating a plan to improve border security to U.S. officials in a meeting described as productive, yet falling short of obtaining a stay on potential tariffs. As we go to print, two developments include the planned resignation of Prime Minister Trudeau, and rumours that Trump may restrict tariffs on global imports to only sectors deemed critical to national or economic security. The situation remains fluid, and greater clarity when it does arrive should be positive for the Canadian market assuming a reasonable outcome. Goods producers have been most impacted by the trade noise, and such exposure in our portfolios is in high quality businesses with flexible operations able to adapt to changing circumstances.

FIGURE 3: GLOBAL INDICES PROPPED UP BY THE U.S. MARKET



Source: Bloomberg | Simple % Equity Market Returns in USD vs. 2024-Sep-30

FIGURE 4: MANY U.S. TRADE ‘OFFENDERS’ AHEAD OF CANADA



2023 U.S. Trade Deficits US$BB (Balance Of Payments Basis [Goods & Services])
Source: Bloomberg

CANADIAN SMALL-CAP MARKET

Overall it was a good year for equity markets with Canadian stocks rallying for much of the fourth quarter before finishing December on a softer note. Donald Trump's sweeping victory in the U.S. election propelled risk markets as enthusiasm for deregulation and pro-business posturing offset fears around the impact of his more protectionist ambitions. Medium and longer-term interest rates backed up considerably upon the commencement of the Fed loosening in September as bond investors swung back to concerns around stickier levels of inflation and structurally higher rates.

There were some fits and starts for non-resource small caps during the year. As rates moved lower, sentiment towards smaller names and companies that were out of favour rebounded. However this partially reversed towards the end of the year (with rates), making 2024 another more narrow, large cap led market.

Two areas of strength throughout the year for the Portfolio were the financials and information technology sectors. Propel Holdings (PRL) led financials with strong earnings growth and a rerate as volumes and underwriting continue to surprise to the upside. In tech, Softchoice (SFTC) book-ended 2024 with two big shareholder wins: 1) a $4/sh special dividend in Q1 signalling strong confidence in the outsized cash flow generation of the business; and, 2) a $24.50 take-private offer at a premium in Q4, continuing the undervalued M&A theme.

BIM EQUITY THESIS SPOTLIGHT

Artificial Intelligence (AI) has been a powerful investment theme to which we have some tangential exposure via our investments in hyperscalers such as Microsoft, Amazon, and Alphabet. However, we have been actively seeking more direct exposure through semiconductor companies that we believe are undervalued relative to their long-term secular growth potential.

One recent addition to our portfolio is Marvell, a pivotal player in the AI ecosystem. Marvell specializes in developing custom ASIC AI chips for major hyperscalers as well as providing high-speed optical connectivity essential for AI operations within data centers. This gives the company a best in class portfolio across compute, interconnect, switching, and storage. The company's revenue growth has recently accelerated as its hyperscaler customers begin deploying its proprietary ASIC accelerator chips, along with design wins that create a runway for future growth. Its financial performance is already exceeding the previously set targets for its AI businesses.

Marvell's management team transformed its product portfolio over time aided in part by strategic acquisitions that helped to reshape the business into the critical industry player it is today. The company is well positioned to capture additional share in an already large and fast growing TAM (total addressable market) as its deep-pocketed customers scale up their AI related data center solutions for years to come.

FIXED INCOME MARKETS | CONTINUED PIVOT IN THE YIELD CURVE WITH THE SHORT END MOVING LOWER

Fixed Income Index Returns

	4Q24	YTD24
Canadian	0.0%	4.2%

Although there was some ebb and flow, sentiment related to North American economic prospects generally improved as the year progressed. Consensus opinion at the start of 2024 brought hope for a potential soft landing that was priced in to near certainty come year-end. The close of the year also saw expectations for the number of rate cuts adjust lower.

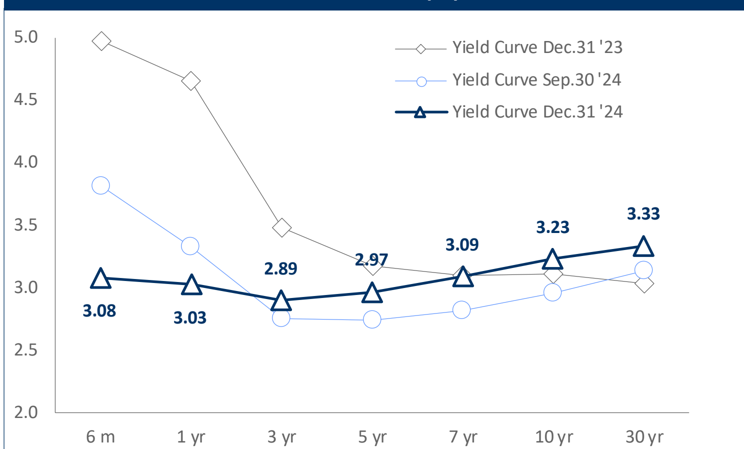
In the fourth quarter, the Canadian yield curve pivoted somewhat with the short end of the curve tightening by ~ 30 basis points and the mid and long end widening by over 20 basis points (Figure 5). U.S. rates moved higher throughout the curve with the short end up ~ 14 basis points and the mid and long end of the curve higher by as much as 78 basis points. These movements contributed to the widening variance in government bond yields between the U.S. and Canada as the year progressed. As the year began, the U.S. curve was ~36 basis points higher than Canada at the short end, and 100 basis points higher at the long end which increased to 130 basis points higher at the short end and ~ 144 basis points higher at the long end as the year closed.

In terms of future central bank decision making, expectations for the pace of rate cuts by The Fed has been reduced as the rate of progress towards the target inflation level of 2.0% has slowed in tandem with more optimism for the economy. Inflation may not be an overriding concern for the Bank of Canada (BoC) at present, however other uncertainties have arisen. The newly elected Trump administration's pledge of across-the-board tariffs for Canada and Mexico clouds the economic outlook, and market expectations of ~ 2 cuts by the BoC in 2025 may evolve with further developments on the trade front.

BIM FIXED INCOME FRAMEWORK

Portfolio moves in the fourth quarter included trading up the capital structure and increasing the liquidity of holdings. Certain exposure to junior and subordinated debt was replaced by more senior issues, and bonds of companies that are more frequent issuers with a more diversified investor base were preferred to more niche offerings. We also reduced our overweight in Provincial debt and added to Government of Canada holdings. Duration of the portfolio is currently longer than the benchmark with a bias to move closer to neutral over the first half of 2025. Liquidity continues to be emphasized in the portfolio as this will allow us the opportunity to take advantage of any dislocations in the market.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

BARRANTAGH
Investment Management

100 Yonge Street, Suite 1700
Toronto, Ontario M5C 2W1
(416) 868-6295
www.barrantagh.com

Barrantagh Investment Management Inc. provides disciplined portfolio management to institutional and individual investors. The firm is committed to a high level of client service provided directly by its experienced partners. We are dedicated to preserving our clients' capital while generating growth through consistent application of our quality value-based fundamental investment philosophy. We manage portfolios on a segregated basis to meet our clients' investment objectives. Because the firm is owned by our professional staff we maintain a completely independent and objective perspective.

For more information contact: Barrantagh Investment Management Inc. (416) 868-6295

Copyright 2025 Barrantagh Investment Management Inc. All rights reserved. Reproduction of portions of this Commentary is permitted provided the source is noted. Please notify us at info@barrantagh.com of any reproductions.