Dynamic Funds

OUTLOOK 2025: A Sector Deep Dive

Dynamic Funds recently hosted a virtual event where its Chief Investment Strategist and members of the portfolio management team came together to discuss 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 key points that came out of the session.

Macro Overview

Myles Zyblock, Chief Investment Strategist

The U.S. is expected to lead global economic growth in 2025, driven by strong consumption gains. While other economies have grown more slowly, leading business cycle indicators suggest improvement in the coming quarters. President Trump's agenda, including tax cuts, deregulation, trade policy tariffs, and border security, creates mixed effects on growth and inflation. Trade restrictions are rising globally, impacting trade-dependent countries like Canada and much of Europe. Despite these challenges, the global economy is expected to continue expanding, with the U.S. outpacing other developed economies. Inflation has been trending lower from its peak in late 2022, encouraging interest rate cuts. Equity markets have delivered strong returns, particularly in the U.S., which has outperformed other major regional benchmarks. Global corporate earnings are expected to grow by about 10% this year, with U.S. earnings projected to rise by about 12%. Despite high valuations in the U.S. equity market, most international markets are within their historical ranges. The macroeconomic environment remains supportive of continued economic expansion and positive equity market returns.

Financials

Nick Stogdill, Portfolio Manager

The Financial sector has posted strong performance over the last couple of years despite challenges such as the collapse of several U.S. regional banks, concerns about commercial real estate, and higher interest rates. Tariffs pose an indirect economic impact, particularly on Canadian banks, which could see lower loan growth and higher loan losses if businesses are affected. Life insurers and property and casualty insurers are relatively insulated from these impacts as they tend to be more geographically diversified, and insurance is often a necessity. The long-term prospects of the Financials sector remains positive, despite current negative sentiment.

Industrials

Amir Ahmad, Senior Portfolio Analyst

Significant changes in global commerce have been driven by reshoring and supply chain reconfiguration. The shift from cost-focused to resilience-focused supply chains has created a favorable environment for industrial companies. U.S. construction spending on manufacturing has surged since 2020, and companies are seeing higher organic growth due to reinvestment onshore or nearshoring. Inflation has been a net positive for companies with competitive advantages and pricing power, allowing them to price above costs and expand margins. The best companies will be able to adapt to increased tariffs and geopolitical risks, as evidenced by the 2018 China tariffs. Artificial intelligence (AI) and technological innovation are having a positive effect on the Industrial sector. Industrial companies are essential, particularly in the AI data center ecosystem, providing equipment for power/thermal generation and management. While industrial companies are not immune to volatility, the long-term fundamental picture remains strong.

Consumer

Steven Hall, Vice President & Portfolio Manager

The U.S. consumer is in great shape, characterized by low unemployment, rising wages, and cooling inflation. Consumer balance sheets are strong, with home equity doubling in the last five years, and stocks at all-time highs, and Americans are feeling wealthy and optimistic. However, the U.S. housing market is challenged by low turnover given many Americans are locked into low-rate, long-term mortgages. In contrast, the Canadian consumer faces high debt levels and economic uncertainties, with unemployment at an eight-year high. When it comes to tariffs, they should have minimal direct impact on consumer companies, with some potentially benefiting. Companies that manufacture in Canada and export to the U.S. are most at risk while boycotts could have positive effects. Broader trends to watch are the rise of non-alcoholic beer, growing at about 30% annually, and the use of AI to improve operational efficiencies in consumer companies. 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

The Health Care sector faced many challenges in 2024 due to U.S. election uncertainty and investor interest in technology. Despite being the worst-performing sector last year, health care fundamentals have significantly improved. For 2025, there is strong operating momentum and improving earnings across the board. AI is slowly making an impact in areas like risk profiling, predictive analytics, surgical planning, and early drug discovery. With respect to the regulatory environment, while legislative changes are challenging to implement, as seen with the Affordable Care Act in the U.S., the sector has shown resilience in adapting to such changes. The Health Care sector is well-positioned for future growth, with strong fundamentals and the potential for AI to significantly accelerate drug development and improve patient outcomes.

Technology/Telecom

Kent Crosland, Associate Portfolio Manager

There are current opportunities in the Technology sector, particularly in software, where AI integration is driving high-value use cases and quick adoption. AI is following a similar progression to past technology cycles but at a much faster pace. Companies like NVIDIA and Broadcom have benefited from significant adoption in semiconductors, while hardware companies like HP, Dell, and Supermicro have also seen gains. However, the most attractive opportunities now lie in software, where AI is being integrated into existing applications and workflows, enabling enterprise customers to leverage their proprietary data. This data can enhance processes, products, and customer interactions, driving high-value use cases and quick adoption. The long-term potential of AI remains strong and focusing on high-quality software companies with strong recurring revenue, high margins, and strong pricing power is key to capitalizing on these opportunities.

Energy

Jennifer Stevenson, Vice President & Portfolio Manager
Scott Reid, Associate Portfolio Manager

The oil market has been highly volatile recently due to geopolitical tensions and supply/demand imbalances. Looking ahead in 2025, 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 U.S., Brazil, and Guyana. This balance should support stable oil prices in the $60-$70 range which is favorable for many companies in the sector. So far, the Energy sector has been somewhat spared from the impact of tariffs, with the U.S. heavily relying on Canadian oil. The logistical and economic realities make it difficult for the U.S. to replace Canadian oil with alternatives. The outlook for natural gas is positive, with growing liquified natural gas (LNG) demand and solid prices. Themes like reshoring of manufacturing and the build-out of high-power industrial data centers are boosting power and industrial demand. Pipelines remain resilient, which generate regulated and stable cash flows, insulating them from tariffs. They also benefit from a favorable regulatory environment, supporting infrastructure expansion and growing demand. The Energy sector is navigating a complex landscape of geopolitical tensions, tariffs, and evolving supply and demand dynamics. Despite these challenges, the fundamentals for companies in this sector remain strong.

Materials

Robert Cohen, Vice President & Portfolio Manager

Gold has been exceptionally strong recently mainly due to lousy monetary and fiscal policies globally and all-time high debt levels. 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 U.S. continue to support the case for owning gold. Gold equities have performed well relative to gold bullion, but mathematically should be doing even better given the inherent operating leverage versus the underlying gold price. Beyond gold, there are opportunities in other metals like uranium due to its role in power generation and antimony, which is used in bomb-making and now subject to a Chinese export ban.

Real Estate
Maria Benavente, Vice President & Portfolio Manager

The Real Estate sector is looking brighter, and the worst may be behind us. Transaction volumes have improved year over year and are expected to improve further in 2025. Supply has started to moderate, especially in areas like the U.S. sun belt and rent growth has accelerated, a positive for companies in the sector. Changes in immigration policies have had mixed effects on Canadian real estate, particularly in the multi-family sector, where occupancy has seen modest erosion and rent growth has decelerated. While tariffs pose a risk for more economically sensitive property types, they could also lead to lower interest rates, which would be positive for real estate. Areas of opportunity include the seniors housing market, which is currently experiencing a 15-year low in supply and rising demand from an aging population, and data centers, where demand 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. The real estate market presents various challenges and opportunities and as such it’s essential to carefully allocate capital and stay informed about market trends.

Alternatives
Richard Lee, Vice President & Portfolio Manager

Over the past few years, we've witnessed a total transformation of the financial markets. Historically, global banks were the dominate 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, alternative asset managers take investment dollars and deploy the capital to fund economic activities. The pro-growth stance and focus on deregulation of the Trump administration, could spur mergers and acquisitions activity and open new opportunities for alternative investments. In particular, the next evolution is in the private credit space, which will involve asset-backed finance, and includes equipment finance, rail car finance, aviation finance, and infrastructure debt. As the opportunity set for alternatives has grown, so have the valuations of alternative asset managers. The long-term outlook for alternatives remains incredibly bright, with the next frontier in private credit and the potential opening of the 401(k) market in the U.S. and other pools of capital to alternatives presenting exciting opportunities.

Infrastructure/Utilities
Tarun Joshi, Portfolio Manager

There is currently a generational opportunity in the power market, driven by the adoption of electric vehicles, reshoring of manufacturing, and the increasing need for data centers. Power demand, which had remained flat for two decades, is now growing again. Regulated utilities, which deliver electricity and natural gas to homes, are experiencing significant changes due to the need for investments in generation capacity and grid infrastructure. The shift towards renewable energy sources like solar and wind has created a mismatch between power supply and demand, translating into higher capital expenditures and faster earnings growth for utilities over the next three to five years. Transportation assets like railroads, toll roads and airports are essential and difficult to replace, making them valuable over time. They can provide portfolio diversification benefits and are resilient to the disruptions caused by AI and other technological advancements. The long-term outlook for the infrastructure and utilities sector is positive, with high-quality, adaptable businesses well-positioned to navigate the challenges and capitalize on opportunities.