



Global Asset Allocation Perspectives & Investment Backdrop

MANAGED ASSET PROGRAMS
Fourth Quarter 2025 Preview

Scotia Global Asset Management.

Market review

The third quarter extended the market rally that began in April, as gains spread beyond technology stocks and monetary policy shifted decisively in favour of investors. While AI-led technology reasserted leadership, the broadening participation drove additional returns. Geographic diversification also delivered tangible value as Canada, China and emerging markets outperformed U.S. equities, while Europe slowed after strong first-half gains, proving that **diversification doesn't just help with risk control—it often enhances returns**. Bond markets supported the advance with yields declining meaningfully ahead of the Federal Reserve's first rate cut since 2024, a dovish shift that helped investors look past near-term concerns like stretched valuations, persistent inflation, and cooling labour markets in the U.S. and Canada. **This quarter reinforced a timeless lesson: markets reflect forward-looking expectations, not backward-looking data. Our outlook remains optimistic but appropriately cautious as we look ahead.**



Equities

- **Canadian equities significantly outperformed with the S&P/TSX up 12.5%, extending a stronger-than-expected year with multiple record highs.** Materials (+37.8%) soared as gold reached new heights above \$3,800 USD, validating our sectoral diversification approach.
- **The S&P 500 rose 10.3% as AI and technology leadership drove broad-based participation.** Information Technology (+15.4%), Communication Services (+14.2%), and Consumer Discretionary (+11.7%) led the advance, demonstrating technology sector dominance beyond just mega-cap names.
- **International markets delivered mixed results:** China's SSE gaining 16.0% and emerging markets performing strongly with MSCI EM rising 13.1%, while MSCI Europe gained 5.7%, highlighting the value of global diversification.



Fixed income

- **Central bank policy shifts provided strong support for bond markets.** The Federal Reserve delivered its first rate cut since December 2024 to 4.00%-4.25%, while the Bank of Canada cut to 2.5% driven by cooling labour markets and easing inflation pressures. This dovish pivot aligned with expectations for easier monetary policy.
- **Bond performance reflected policy easing with the FTSE Canada Universe returning 1.5%** for the quarter as yields fell and prices appreciated. The yield curve continued steepening, with yields on longer-dated bonds declining less as investors demanded more compensation for duration risk.
- **Credit markets remained stable throughout the quarter, with high-yield bonds delivering solid returns** as credit spreads tightened amid improving economic conditions and reduced recession fears, validating active fixed income positioning.



Alternatives

Falling interest rates and steady economic growth are setting the stage for a broad revival across private markets. In Q4 2025, lower borrowing costs are expected to drive stronger deal activity, improved liquidity, and firmer valuations.

- **Private equity transactions are poised for growth as declining financing costs boost leverage and returns.** Lower borrowing rates improve cash flows, support valuations, and encourage capital investment projects and acquisitions. With five- and seven-year U.S. Treasury yields falling, medium-term transactions are more attractive. U.S. buyout volumes rose 17% year over year in the first half of 2025, while global merger-and-acquisition and stock market listing activity rebounded toward their strongest year since 2021.
- **Private credit benefits from lower interest expenses and higher coverage ratios.** Floating rate loans that are tied to the Secured Overnight Financing Rate are expected to benefit from lower interest rates, enhancing borrower liquidity and reducing the likelihood of default—ultimately improving credit quality and portfolio resilience. Lower interest rates may reverse the recent trend toward payment-in-kind (PIK) interest (i.e. where borrowers pay interest by issuing additional debt instead of cash), potentially revitalizing direct lending as deal activity picks up. While greater leverage could modestly widen lending spreads, the resulting yield profile remains compelling for investors seeking attractive returns in a low-rate environment.
- **Real estate valuations remain 12% below 2022 peaks, with cap rates near 6.5%. Falling yields could lower cap rates and aid recovery** if employment and rental growth remain solid.

Macro view



Economic growth

- **Overall, recent global economic data has exceeded expectations** in both the U.S. and Eurozone. Looking ahead, anticipated **tailwinds include the delayed effects of global rate cuts**, ongoing fiscal support, and continued strength in corporate earnings and investment.



Commodities

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



Monetary policy

- **Central banks face a challenging environment** where typically a slowdown in labour and growth would lead to cuts, but sticky inflation may challenge that approach.



Inflation

- **The continued strength in the global economy is still accompanied by sticky inflation**, particularly in the U.S. The **impact of U.S. tariffs is expected to be felt more significantly in the second half of this year**, dampening growth and potentially causing a rise in U.S. inflation.



Business cycle

- **The business cycle has shifted into an upward trend as concerns about potential trade tariffs have eased.** European PMIs have emerged from the bottom, with most major economies slowly improving to the upside.



Currencies

- **The U.S. dollar faces some 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

- **The biggest risk to equity markets is continued concentration of mega-cap stocks** as a percent of global equity markets—even a small disappointment here or turn in sentiment could lead to a correction in global equities more broadly. **Geopolitical risk continues to be a known unknown**, and the market has faded many potential risks in reaching new highs since earlier in the year.

“We’re tilting modestly toward equities as we head into 2026, backed by strong fundamentals and policy support. But with risks like inflation, mega-cap dominance, and global uncertainty, diversification and active risk management are more important than ever.”

- Wesley Blight, VP & Portfolio Manager

Portfolio view

This section outlines our asset allocation outlook and how it compares to a traditional benchmark portfolio.

- **We favor a modest overweight to equities** relative to traditional 60/40 benchmark
- **We anticipate stocks will trend higher** over the next 12–18 months
- **Our view reflects the optimism around resilient economic conditions and ongoing strength of global equities**
- **Active risk management and global diversification remain essential** elements of prudent portfolio positioning

Supporting factors:

- Accommodative monetary policy
- Robust corporate earnings
- AI innovation
- Global interest rate cuts
- Continued fiscal stimulus

Key risks we’re monitoring:

- Mega-cap stock concentration
- Persistent inflation pressures
- Renewed tariff policy uncertainty
- Central bank and bond market challenges
- Ongoing geopolitical uncertainty

Asset Class Views

Fixed Income	Outlook	Comments
Overall Fixed Income	–	Bonds continue to offer attractive coupon yields alongside potential for capital appreciation. Despite some signs of labour market softening, economic growth remains resilient though growth is forecasted to moderate over the year. With ongoing fiscal expansion and further rate cuts possible, equities offer a more compelling upside versus fixed income.
Rates		
Canada and U.S.	+	A long duration stance in the US remains appealing as the Fed has more room to cut rates, while the Bank of Canada nears the end of its easing cycle. Positioned to benefit from a steeper yield curve, with long end yields under upward pressure from fiscal sustainability concerns and the short end responding to ongoing rate cuts and signs of a softening labour market.
Global	+	The UK is currently the best global option, budgetary concerns have lifted yields to levels not consistent with falling inflation and slowing economy creating an opportunity for long duration. Elsewhere, conviction is lower: the ECB is finished cutting, and growth offsets any fiscal expansion driven yield rise, while political risks make yields in France and Japan hard to forecast.
Credit		
Investment Grade	0	Credit spreads have returned to historically tight levels relative to government bonds after a period of weakness early in the year. Maintaining a neutral allocation to Investment Grade bonds with spreads now compressed and offering only modest extra yield over sovereigns.
High-Yield	0	High Yield bonds, like Investment Grade, have rebounded from earlier this year and their valuations have become less compelling. A cyclical upturn in the economy and a stronger labour market would help support issuers and justify more optimism on spreads; until then the outlook remains cautious.
Equities	Outlook	Comments
Overall Equities	+	Quarter-over-quarter, our view has not change - pockets of concern remain present, but the overall global economy is proving very resilient and adaptive in the face of changing global trade dynamics. Under the surface, technological progress is accelerating on a number of fronts and although market concentration continues to worsen, innovation is supporting an increasingly broad array of other businesses as well. While inflation remains stubbornly high in some countries, it has fallen materially from previous highs and rising unemployment supports a bias towards lowering rates by policymakers. In otherwords, from a downside risk perspective, should a slowdown occur, there is now room for central banks to be accommodative, which limits fears of a severe crash in risky assets.
Region		
Canada	0	We continue to 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, although US tariff announcements have been a focus of headlines, the current protections granted by the USMCA means US tariffs on Canadian goods are actually far below those of most other nations. Meanwhile Canadian equities have materially outperformed most other markets as precious metals, namely gold, and banks have generated superior returns and represent an outsized weight in the TSX. As Canadian investors, it's been a welcome outcome, however from an asset allocation perspective, continued outperformance is difficult to forecast.
U.S.	0	We continue to have a neutral view to US equities relative to other markets. Although the pace of US policy changes has somewhat abated, the current US administration has a track record of making sudden changes, an environment which is often difficult for US businesses to operate in. Under-the-hood, the lion's share of the most exciting public companies are found in the US, however the exuberance surrounding them continues to push their valuations to ever more concerning levels. Should any of the US mega cap behemoths fail to deliver on expectations, downside risks are material given the S&P 500 is effectively a concentrated tech-focused growth index, with most other sectors fading in relative importance. Given our overweight to equities relative to fixed income results in a large tactical increase to US equities within our portfolios, we see no need to further concentrate our weight from a relative perspective.
International	0	We continue to have a neutral view to international equities relative to other markets. Although risks remain to trade-dependant international markets from changing US trade policies, they're offset by the opportunity presented by far more compelling valuations. Meanwhile a shift to increasing fiscal stimulus for infrastructure and defense initiatives has helped boost overall competitiveness, notably in Europe. From a currency perspective, there continues to be the potential for tailwinds as many European and Asian currencies are undervalued vis-a-vis the US dollar. The valuation and growth opportunities are seen as balanced with the US 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 continue to have a neutral view to emerging market equities relative to other markets. While risks remain high for emerging markets given US trade policy changes, which have often been geared to target EM countries most dependant on US trade, these risks have been largely ignored year-to-date as investor sentiment changed towards Chinese and Taiwanese tech firms. Additionally, given weakness in US dollars, debt servicing burdens have fallen for many EM firms as their debt obligations are often priced in USD. While these factors support recent positive momentum, shifts in sentiment can be abrupt and unpredictable. Thus, it remains prudent not to allow portfolios to become overly concentrated in emerging market equities, even as the near-term outlook has improved.

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

Performance - as at September 30, 2025

Fixed Income						
Bonds	3-mth	6-mth	YTD	1-yr	3-yr CAGR	5-yr CAGR
FTSE Canada Universe Bond C\$	1.51%	0.94%	2.98%	2.93%	4.66%	-0.61%
Universe Canada All Corporate C\$	1.81%	2.27%	4.13%	5.20%	6.83%	1.79%
Morningstar CAN High-Yield Fixed Inc C\$	2.92%	4.79%	5.62%	7.04%	9.33%	4.57%
ICE BofAML U.S. Corporate C\$	2.18%	3.51%	5.57%	2.13%	5.99%	-0.28%
ICE BofAML U.S. High Yield C\$	3.75%	1.87%	2.91%	9.71%	11.19%	6.25%
Bloomberg U.S. Aggregate Bond U\$	2.03%	3.26%	6.13%	2.88%	4.93%	-0.45%
Bloomberg Global Aggregate U\$	0.60%	5.14%	7.91%	2.41%	5.45%	-1.54%
Equities						
Canadian Equities	3-mth	6-mth	YTD	1-yr	3-yr CAGR	5-yr CAGR
S&P/TSX Composite C\$	12.50%	22.09%	23.94%	28.60%	21.31%	16.91%
U.S. Equities						
S&P 500 C\$	10.26%	15.97%	11.09%	21.12%	25.46%	17.42%
Dow Jones Industrial Avg C\$	7.96%	7.92%	6.88%	14.92%	20.01%	13.99%
NASDAQ C\$	13.61%	27.05%	14.09%	29.17%	30.77%	17.22%
Global Equities						
MSCI World C\$	9.48%	15.86%	13.99%	21.27%	24.81%	15.88%
MSCI Asia Pacific ex-Japan C\$	15.70%	24.72%	27.43%	25.62%	20.97%	7.91%
MSCI Japan C\$	10.31%	16.50%	17.17%	20.28%	22.16%	10.27%
MSCI Europe C\$	5.70%	12.04%	24.05%	19.28%	24.21%	13.80%
MSCI Emerging Markets C\$	13.13%	20.34%	24.05%	21.71%	19.31%	8.39%

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

As Portfolio Managers for ScotiaFunds and Dynamic Funds managed-asset programs, the Multi-Asset Management Team oversees approximately \$138 billion* in multi-asset solutions and strategies. The Team is responsible for portfolio construction, asset allocation policy, and investment strategy research and selection. The Team is also involved in the due diligence and day-to-day management of all portfolio solutions.

In collaboration with:

2 Associate Portfolio Managers | 8 Analysts

1 Trader & Portfolio Manager | 2 Portfolio Specialists

*As at June 30, 2025

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