



[00:00] Andrew Johnson: Hi everyone, in this episode, I sit down with my colleagues, Kevin and Vijay, to talk through their observations this past quarter. We talk macro, micro, and everything in between, touching on changing market dynamics, central bank policy, how the portfolios are doing in this environment, and finally, how we're positioning ourselves as we move forward. I hope you enjoy the discussion.

[00:36] Disclaimer: This podcast is for informational purposes only. Information relating to investment approaches or individual investments should not be construed as advice or endorsement. Any views expressed in this podcast are based upon the information available at the time and are subject to change.

[00:51] Andrew Johnson: Welcome back to the podcast, Vijay and Kevin. I appreciate you being here to provide a rundown on the latest quarter, as well as our thinking as we move forward. Kevin, let's start with you. Can you give us a sense of some of the major macroeconomic themes over the last few months?

[00:59] Kevin Minas: Sure, thanks Andrew. The quarter was really focused on three key trends. The first was undoubtedly trade policy. That remained a dominant theme. It was a dominant theme in Q2, but it carried over into Q3, especially with U.S. trade tensions somewhat simmering down. There were some tariffs that were paused. That actually helped to reduce market volatility a little in the quarter, at least relative to the previous quarter, but it continued to weigh on both growth and exports. For example, in Canada, exports were down about 11% year to date, so pretty meaningful effects there. The second major theme was around fiscal stimulus. In other words, government spending. That has continued to increase globally, even as economies are operating near capacity. The effect of that is you run the risk of inflationary pressures increasing, because typically you use fiscal policy—governments will lean into spending when there is an output or growth gap to fill. We don't necessarily have that right now, and yet we still have the fiscal policy. So that's, all else equal, still keeping inflationary pressures fairly significant, and certainly a risk to the upside that you see more inflation.

And then the third factor is AI. From a macro perspective, that has acted, at least in the short term, as a boost to growth, mainly through infrastructure, CapEx, data centers, things like that. So those are the three big themes on the macroeconomic side. In terms of central banks, they've responded to these developments with a shift in how their policies have been made. Starting at the beginning of the year, both the Fed and the Bank of Canada had an easing bias, which basically means that, all else equal, the markets were expecting them to cut, and they were signaling that that was potentially going to happen. In the case of the Bank of Canada, they did cut twice early in the year and then paused. And then they re-initiated that cutting cycle in September as we saw both negative growth and employment data, which was deteriorating. So that got them off the sidelines again. And then the Fed—they hadn't actually taken much action throughout the year. The economy's stronger, all else equal, in the U.S. They were in and remain in restrictive policy, meaning basically that rates are above the neutral rate. But they did get off the sidelines in September with a cut. That's what we saw in terms of specific action.



Right now, it's difficult for central banks because they really have to balance addressing downside growth risks. And we are starting to, as I mentioned, see a bit of a slowdown in growth. But at the same time, inflation is still a concern. They got burned on that. If you go back three, four years ago, thinking that inflation would be transitory and then that obviously didn't come to pass. So there is a lot of sensitivity around not getting it wrong a second time. So they really do have to balance that growth tipping over as well as still keeping a lid on inflation. And then the last thing I'd mention is around this idea of central bank independence. That's something that's been very thematic the last couple of quarters that continues to be something in the U.S. where there are political pressures on the Fed to cut. Our view though is that the cut that they had in September was justified for macro reasons, really around what I mentioned already—slowing growth. But nevertheless, that's still something that market participants are focused on—that Fed independence. And if it deteriorates, what are the long-term impacts on rates and other markets?

[03:59] Andrew Johnson: Vijay, you see the world primarily through the equity lens. Of course, you can't ignore some of the items that Kevin just spoke about, but from your view, if Kevin just took a macro view, what are you seeing through the micro lens, whether that's through your own observations or through conversations with management teams?

[04:16] Vijay Viswanathan: Happy to answer that one, Andrew. Kevin, you were on such a roll with the first question. I feel like I'm stealing your thunder a little. From a micro perspective, it's funny that the micro and the macro are almost meshing together, it seems, these days. So three things come to mind. Number one, it's very much risk-on in the markets, hitting all-time highs. I think the S&P 500 has hit 33 all-time highs this year itself. So risk-on—a lot of the stuff Kevin already talked about, that backdrop has helped with that. The second piece would be AI, which I think Kevin brought up and said he would talk about it, so I might as well talk about it. Every day, there's some announcement about AI, whether it's some type of funding, whether real or not, about a buildup around AI. And it's been a big portion, a big part of growth, or at least the perception of growth out there, and we'll probably get into, I think, a little later in the podcast, just how we're doing performance-wise, what's working, what isn't working, and AI is a big part of that. And then the third piece would be commodities. So we've seen big moves in commodities in the marketplace, especially in gold, and I'll touch on that a little more later. Final piece, just talking to companies themselves and going through numbers, so we're seeing across the platform, numbers and earnings actually look pretty good, notwithstanding there are going to be pockets of idiosyncratic issues with certain companies, but generally speaking, they look pretty good across the table. There are some pockets of weakness, especially with lower-income consumers.

We see that through a company like Couche-Tard, which owns convenience stores around the world. The other place where we've seen continued weakness, and this has been going on for what seems like almost two years now—I actually was just down in Kansas City last week meeting with the management team of CPKC, so that's Canadian Pacific Kansas City, for those who don't know, and they obviously did a merger with Kansas City Southern, so they have a lot of operations down in Kansas City now, so I was down there meeting with management, and what they talked about is still pretty slow markets within freight, and this has been going on for two years now, although they see pockets of optimism as they look forward. So overall, risk-on, commodities are ripping for the most part, mainly gold and copper, AI, AI, AI, and then the final piece is that earnings are coming through, notwithstanding some pockets of weakness that I mentioned.



[06:43] Andrew Johnson: So Kevin, AI, commodities, consumer spending, risk-on environment—that's what we're hearing on the equity side from Vijay. Let's turn to fixed income. What were some of the drivers of returns there, and how did our fixed income strategies perform in this environment?

[06:59] Kevin Minas: Fixed income returns were quite strong as well. I mean, obviously they didn't keep pace with equities—difficult for that to happen—but were quite strong, relatively speaking, for the quarter, both here in Canada, and I would say globally. It was really driven by two main factors: both interest rate movements, as well as credit spreads. On the rate side, what you saw was that central bank easing that I mentioned, the start of that in September, and then the anticipation of further cuts throughout the rest of the year and into 2026, really led to outperformance in the short end of the curve, so think about two-year, five-year bonds, as opposed to the long end, where you've got 10s and 30s that—they also did okay, but not as well, and I would say that's really a function of the markets expecting that long-term, there'll be structural concerns around inflation. The near-term, the Fed and central banks generally control the short parts of the curve, but they have less influence on the long end. That expectation that inflation might be higher structurally led to the underperformance in the long end, but overall, yields did come down, so that was still good for absolute returns for fixed income. In terms of credit spreads, this is a story that anybody that's talked about credit markets for basically the last two years will have been making the same comments I'm about to make right now, which is essentially credit spreads continue to grind tighter, which means valuations have moved up, so good if you own credit.

In the Canadian context, both provincials and corporates, so investment-grade corporates did well. In the global context, investment-grade, as well as high-yield, were strong performers overall. That's really been the theme, I would say, this quarter, but persistent for a while now. That volatility that we saw in April that affected equity markets also affected the credit markets, but as that volatility has dampened, that's been quite good for credit markets. You asked about our fixed income strategies in particular, so on the core bond side, we were positioned to benefit from both of the two main trends that I mentioned. We were in a steepener trade, which means we were overweight the front end, so the twos and fives in particular, and underweight the long end, so that was a very favorable trade, given the dynamics that I just walked through. And then on the credit side, we started the year a little overweight credit, modestly so, and then as we have seen credit spreads continue to tighten, what we've basically been doing is taking off some of that risk, particularly in the triple-B space, so the lower-rated credits within the investment-grade universe, and high-grading into single-A, so locking in some of those profits, taking a little risk off the table as valuations get a little more stretched. And then of course on the macro side, I've already painted a picture where things are a little weaker in Canada than elsewhere, so all else equal, that calls for taking a little risk off the table. On the global side, spread compression is favorable for the portfolio, carry, which is basically your coupon, and the roll-down as bonds mature, that was also favorable. We added some high yield to the portfolio in April when there was that volatility spike, and then again, as we've seen spreads come in, so valuations go up, we've started taking off that high yield in the portfolio, so that was additive. We've kept the duration quite short in that portfolio just because it is a go-anywhere strategy and we don't necessarily see tons of value in having lots of duration in that strategy. We'd rather have a little credit risk in the investment-grade part of the universe, and so that's where we're taking our risk right now.

[09:54] Vijay Viswanathan: One thing I'd add, Andrew, to what Kevin talked about—one thing we've been talking about more recently is that just as an overall team, one of the nice things about having an integrated fixed income and equity team, just like this podcast, integrated fixed income and equity, is seeing some potential—I'll call them potential canaries in the coal mine, pick whatever analogy you want—on the credit side. It's something that we



are definitely attuned to, that we're seeing some signs potentially, maybe not red flags, but maybe some yellow warning signs that there may be some cracks overall in credit markets, now it'll be in private debt, and so what is that? If that's contained, okay, but what happens if that starts to filter into the overall banking system? So I would just point that one out, which does give us some pause on some of the potential euphoria out there, or risk-on appetite out there.

[10:49] Andrew Johnson: Very timely comment too, Vijay, and our global credit team just published a piece for the blog, Art of Boring, so any readers and listeners that want to go there and check that out, there's something exactly to that effect. Vijay, same question to you from an equity perspective—how did we do?

[11:03] Vijay Viswanathan: I think it's been more of the same, which I feel like I'm repeating myself—that upside participation from an absolute standpoint, for the most part across the equity platform, very happy with absolute performance, yet due to some of the market concentration, our underweight positions versus the benchmarks in certain parts of the market, that's led to underperformance on a relative standpoint, so that's been a story for some time now, and that story has continued. That doesn't mean that we weren't participating in that upside, and we did. That's a lot of the usual suspects that have done well across our global platform, whether that's TSMC on the international and global side, Shopify on the Canadian side, and I typically will tend to want to talk about the Canadian companies, because that's what I know best. So that's where we've seen some of that absolute performance and contribution come from. Interestingly enough, on the AI side, a lot of that is driven by AI. It's part of the AI complex or AI-adjacent. We have companies in the portfolio that are Caterpillar heavy equipment distributors, yet the stocks themselves are catching a bid and rallying because they have a portion of the business that is related to AI and data center buildout. Those are some of the opportunities and what we've seen from a contribution side and opportunities from the AI side. There are some threats as well, or the perception of threats, and we've seen that in companies across the platform, and these are companies that you look over the last decade-plus—I pick a company like Constellation Software that has done extremely well for clients, and that was one of our worst performers on the quarter, and the worries there are around AI threats to their vertical market software mission-critical business. We haven't actually seen that roll through the numbers with the company, but there is definitely that perception out there. So AI—I think we've said it now, I don't know if people are at home playing bingo, it's like, man, we've probably said it about 10 times so far in the podcast. So it is definitely front and center with both opportunities and threats, and I think we have some better balance in the portfolio around that. Other big—I'll say contributor, but also detractor from a relative standpoint—is commodities. This is much more pronounced in Canada, whether it's Canadian large-cap or Canadian small-cap strategies where the commodity complex, notably gold, is a significant portion of the investable universe, whether that's large-cap or Canadian small-cap.

So there, there's been some upside participation from within both of those strategies, from the uptick in gold. I mean, gold is up a significant amount in the last year—doubled. That has led to significant outperformance. Those names where we have been historically underweight and are still underweight, although not zero participation, but not to the same degree. So those are some of the bigger reasons. I think the short summary being upside participation, absolute performance we're happy with, but from a relative standpoint, lagging the respective benchmarks, not across the board, but for the most part due to some of the underweights that we have in the pockets of the market that are pretty concentrated and that are outperforming.

[14:19] Andrew Johnson: Excellent overview. Thank you for that. Kevin, back to you. Between both you and



Vijay, we just had a really great overview of what's been happening out there and what's driving performance in portfolios. What have we been doing from an asset mix perspective? You spoke about some of the changes earlier that we've been doing within the fixed income space, but let's zoom out from an asset mix level. Any adjustments or change in thinking there?

[14:42] Kevin Minas: Yeah, I would say there are three main themes in terms of what we did in the quarter for adjustments. The first is within equities we made a shift. The second is more fixed income related. And then the third is within fixed income, further adjustments. On the equity side, we did trim both U.S. equities, so large-cap as well as Canadian large-cap at the margin. For a lot of the factors we just mentioned, the absolute returns have been very strong in both those two categories. And then we added to emerging markets in favor of those two. The rationale being U.S. still continues to be by far the most dominant market in the world, extremely high quality, but as those valuations have moved up and the returns have been quite strong, we've taken a little risk off the table, a little profit off the table and then redeployed into emerging markets where we still think you get a lot of growth upside. There's also a strong tie to that AI semiconductor theme because there is a lot of that in that market. But at the same time, the valuation is quite a bit more conservative. So it's a way of shifting risk a little and taking some risk off the table as well. So that was the first big bucket.

The second bucket is we made a shift out of cash. We reduced our cash weight and increased our fixed income weight. If you think about the comments that I made earlier about central banks have been cutting this quarter as well as the market front-running and assuming that they'll make further cuts over the next few quarters, that all else equals brings down the yield that you would otherwise earn on cash. So the go-forward opportunity for cash is a little weaker than it was if you go back a quarter or two ago. Conversely, fixed income yields, absolute yields are still quite good by historical standards. Spreads are tight, but the all-in yield, so the combination of the underlying government of Canada plus the spread is still pretty good. And then at the same time, if you do end up having a little more turbulence in the equity markets and risk assets, that fixed income can act as a ballast to your equity risk in a portfolio. So we increased fixed income overall.

And then the third theme would be within that fixed income, we've alluded to a little throughout the podcast, global credit markets, as opposed to just the Canadian focus. And part of the reason for that, of course, is that we introduced a global credit strategy within our balanced fund. So it's a go-anywhere, absolute return strategy. You can invest globally across all parts of the duration and credit spectrum. It is expected to add more return relative to Canadian bond strategy, but it can also dial up and down the level of risk a lot more than a traditional bond strategy, just because it is an absolute return unconstrained strategy. So just to really tie in, okay, well, why are you adding credit right now if there are some of those potential cracks in the market that Vijay alluded to earlier? And I would say it's the fact that we can dial up and down risk quite a bit within that strategy. And right now it's a very low beta, low risk, high-grade portfolio. So in other words, a lot of investment-grade, short duration, short credit risk, biding our time, getting an attractive yield. It still has a higher yield than a traditional Canadian bond strategy, but with the ability to very quickly shift if we do see some of those dislocations that we're not necessarily predicting or expecting but certainly does happen from time to time. And the whole point of the strategy is that you can be ready to take advantage of that. And so that was the third theme that we had within our asset mix this quarter.

[17:48] Andrew Johnson: So overall, I think the general theme of asset mix remains intact, making small incremental changes to ensure that there's resilience built into a balanced portfolio as we move forward with a



tremendous amount of uncertainty in front of us. Vijay, final word to you as you look ahead, keeping our portfolios in mind, what's your message to clients?

[18:09] Vijay Viswanathan: Well, I'm very happy with absolute performance. Obviously relative performance has been not as good and we've made a concerted effort. This goes back in time that as a team, we hold ourselves to the highest standard, a threshold of excellence. And for us, we continue on that journey and know that there are things that we can improve and there's a natural knee-jerk reaction as an investor to fishtail—those are my words—and start making wholesale changes and start to lose core values and principles around investing. And I think that can lead to very poor outcomes for clients. And so we're not doing that. At the same time, standing still and not adapting is also not a plan for success. It's really an end strategy. This is the important message I think I'd like to leave for clients—that we're not satisfied where things are and we're spending all our time and energy as a research team to improve things and make them better. And what does that mean? That means you've seen changes. There have been changes. There've been changes within the research team. For those of you that are clients who are listening to this, you'll see changes in your portfolios. Portfolios that maybe were too concentrated have been more broadened out, a little more diversified. There are companies or business models that in the past we historically have not owned, but guess what? The world has changed. We need to adapt with that. And these businesses are significantly better now. It is sticking with our principles around investing in wealth-creating companies, excellent management teams, discount to intrinsic value. Listeners of the podcast probably heard that a hundred times. That is not changing, but that is a very large sandbox to invest in. And we have to combine that with adaptability as investors. And that's what you're seeing across the platform because the world is changing, the market is changing, and we have to adapt with that. And like I said, there are businesses that maybe we didn't own in the past. Now you see, wow, you invest in that. Well, why is that? Well, it wasn't wealth-creating and there weren't great management teams and they weren't that inexpensive. And guess what? Things have changed. That's what I think clients can expect to see. What's that going to result in? That's going to continue to result, we believe, in significant upside participation. Market rips 30, 40%. Are we going to get 30 or 40%? Probably not. It's just not the way our philosophy is typically conducive to. However, we'll also provide the downside protection with the business models that we tend to invest in. So I think clients can expect that and clients can expect us to continue to adapt and make sure that we're building diversified portfolios. They're going to maximize risk-adjusted returns over the long run. That's what we've been doing for the last 50-plus years. And that's what we plan and continue to do as we push forward.

[21:02] Andrew Johnson: And that's what we'll talk about at the next podcast and the next podcast after that. I think that's a great place to wrap it up, Vijay. Thank you very much. My thanks to both you and Kevin. I appreciate your time.

[21:11] Vijay Viswanathan: Thank you, Andrew. Thanks, Kevin.

[21:14] Andrew Johnson: Thank you, take care guys. Hey everyone, Andrew here again. To subscribe to the Art of Boring podcast, go to mawer.com. That's M-A-W-E-R.com forward slash podcast or wherever you download your podcasts. If you enjoyed this episode, leave a review on iTunes, which will help more people discover the Be Boring, Make Money philosophy. Thanks for listening.

