



[00:00] **Andrew Johnson [AJ]:** War-driven energy shock on one side, and an AI boom on the other. The market is pulling in two directions at once, and the signals just aren't lining up. In this episode, portfolio manager Steven Visscher explains how he's positioning Mawer's balanced portfolios through it all.

Where he's leaning in, where he's holding back, and why discipline beats heroics. As usual, Steven provides a measured look at a noisy market.

[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.

[00:44] **[AJ]:** Steven Visscher, welcome back to the podcast.

Steven Visscher [SV]: Thanks for having me, Andrew. It's great to be here today. I always look forward to our discussions.

[00:50] **[AJ]:** Me too. It's great to have you back. I'm curious to hear what it's like sitting around the table at asset mix committee meetings these days, with all that's going on in the world and the tug of war playing out in so many different ways.

But before we get to that, even though we're almost halfway through the year, I think it's worth taking a minute to set the table by looking back at how 2025 unfolded because I think it will serve us well for the rest of the discussion. Give us a quick recap of 2025 for the balanced portfolios.

[01:19] **[SV]:** Sure, thanks Andrew. When I reflect on 2025, one of the stories that seemed to stay with us through much of the year was the U.S. administration's unveiling of their new tariff regime.

Looking back, the communication and implementation of their tariff policies seemed pretty chaotic and disjointed...and maybe I'm putting that kindly. What it led to was a considerable amount of uncertainty in markets.

There were worries that tariffs could reignite inflation, concerns that this could be the catalyst for a severe global economic recession, and worries that the U.S. may lose its status as a trusted partner,



and the U.S. dollar could lose its status as a global reserve currency. This led to considerable volatility throughout the year, both to the downside and the upside. The way we navigated the environment from a balanced perspective was to stay fairly neutral.

By that, I mean we kept our equity allocation fairly close to our 60% target. But in doing so, we executed what I would call a more meaningful shift out of U.S. equities and reallocated that capital to Canadian equity markets, international, and emerging markets. That decision proved to be quite favourable for our balanced portfolio, as each of those regions significantly outperformed the U.S. markets in 2025.

You'll also recall, Andrew, from a fixed income standpoint, we introduced our global credit strategy to the portfolio. During the year, we incrementally allocated more capital to global credit as the year unfolded. In the end, this was a calendar year in which cash, bonds, and equities all posted positive returns.

In fact, it was the third consecutive year in which each major asset class posted positive returns and the third consecutive year in which total returns for our core balanced strategies were well above historical norms. Without question, it was an environment that was quite rewarding to balanced investors. And I'm pleased to share that the growth in balanced portfolios has continued here in the first five months of 2026.

[03:29] **[AJ]**: Thanks for the refresher. You and I both know things are moving so fast that sometimes events from just six months ago feel like a lifetime. Some of those things did not politely stay in 2025—they've carried through to this year—but some new themes have emerged as well. Has there been a single dominant theme of 2026 so far?

[03:49] **[SV]**: Well, there are two that come to mind. Let's start with geopolitics. The conflict in Iran has created a global energy shock—a supply shock—and this has led to concerns that higher energy prices could lead to a reassertion of inflation. A number of central banks that had been on the path of reducing interest rates have now paused and, in fact, pivoted to signal that rates may need to rise in order to keep inflation subdued.

It isn't just short-term rates that have been impacted. If we look around the world, yield curves have shifted up. Whether it's a 10-year yield or a 30-year yield, we've seen these rise to levels not seen in many years and in some cases, decades. That backdrop of an energy shock with inflation concerns and rising interest rates has not been a great backdrop for risk assets. This is not good news for bonds or equities, and so investors are really wrestling with the outcome of this conflict in Iran.

But while all of that is happening on the geopolitical front, we're also experiencing this incredible, immense investment in AI. That is certainly a dominant theme so far this year. Capital expenditures have risen continually and continue to be revised higher with no signs of abating. This is a potentially transformative technology that is drawing in an immense amount of capital.



If we look back at previous years, a lot of that investor enthusiasm was initially centered around NVIDIA, Taiwan Semiconductor, and a handful of the hyperscalers. But it has now broadened to encompass a whole host of other businesses. Not just the chip makers, but businesses providing memory and storage, cooling and packaging, optics, data centre build-outs, and power grid and electrical grid infrastructure. It has captivated a much larger group of businesses and is really driving positive earnings momentum across the entire global economy.

Andrew, I was reading about first-quarter earnings in the S&P 500 the other day. At the time, not all 500 companies had reported, but of those that had, more than 80% had exceeded earnings expectations, which is astonishing. Nine out of the 11 sectors of the economy were enjoying rising profit margins, with several at all-time high levels. There is an undeniable earnings momentum occurring, driven by this immense investment in AI.

[06:46] **[AJ]**: Before we leave AI, I do want to explore that a bit further. You mentioned it's no longer just a narrow set of stocks dominating index returns, but it is still a narrow theme driving things. How much of the market's resilience now depends on AI CapEx continuing? Is that concentration something you're actively watching, or is it something you weigh in your asset mix decisions?

[07:14] **[SV]**: Absolutely. When you have a single theme driving global earnings growth and global economic momentum like that, it is a risk. The capital expenditure we're seeing may prove to be cyclical and not as sustainable as investors are assuming, particularly when it's unclear what the financial return might be from that capital expenditure.

It is unquestionably a risk, and it takes us back to first principles. You want to make sure the portfolio is not overly exposed to that one theme. We don't want the balanced portfolio to be overwhelmed by that one factor. We want to ensure we have adequate diversification, that we've built natural contradictions into the portfolio, and ultimately that we stay disciplined on valuation. That is what our underlying equity teams are doing — evaluating AI through a valuation lens and making sure that as companies start to appear expensive, they continue to trim those positions and reinvest into businesses trading at more reasonable valuations.

It is a risk, but I also want to remind our viewers and listeners that the purpose isn't to eliminate and avoid risk. It's to ensure that we're being adequately compensated for assuming those risks. The truth is our equity teams are finding incredible businesses within this AI complex—businesses with undeniable competitive advantages, clear pricing power, and businesses in the throes of a real step-up in earnings and revenue growth. These are exactly the type of businesses we'd like to own. We just have to make sure we do it in a balanced and measured way. So it's a risk, but it's also an opportunity.

[09:01] **[AJ]**: It does seem like a genuine tug of war, then. Let's move to the practical side of things. All of what you just described, how does that actually show up in the portfolio? In other words, how are you positioning balanced portfolios, and what's changed in 2026 relative to 2025?



[09:17] **[SV]:** It really is a tug of war and there are multiple factors at play. If we looked at earnings alone, the momentum we're seeing might signal that you want to take on more risk. But going back to the geopolitical situation, the inflation and interest rate environment, we do think that warrants some caution. Unsurprisingly, it brings us back to a neutral stance, keeping equity not far from our 60% target.

When we look at other factors, valuation for example, this is an environment giving us a mixed signal. We certainly wouldn't characterize current valuations as being particularly attractive or a reason to layer on additional risk. It's not a green light, not a red light. It's a yellow light. So it's not a reason to stray too far from neutral.

Andrew, you and I were talking not long ago about investor psychology and sentiment, that's another factor we consider from an asset mix standpoint. Our view is that there is a higher level of risk-taking right now, and a certain sense of complacency among investors. For instance, I came across a study that bucketed companies into two groups: those that were profitable (positive earnings and cash flow) and those that were not. These are businesses whose models may be in the early stages of execution, or that carry excessive debt, but for whatever reason aren't turning a profit yet.

Yet when we look at stock returns in 2025, unprofitable companies generated much higher returns than the higher-quality, blue-chip companies that comprise our portfolios. That is a sign of excessive risk-taking. Even in the fixed income world, we're seeing credit spreads that have not widened materially to reflect some of these risks. They remain relatively narrow, and our fixed income team does not feel this is an environment in which to take on excessive credit risk.

All in all, when we look at earnings, interest rates, valuations, and investor psychology, we have arrived back at a fairly neutral stance. I spoke earlier about our prior decision to reduce U.S. equities and have a greater emphasis in international and emerging markets and we have allowed that to continue. That is how the portfolio is currently positioned, with a much larger weight to equities outside the U.S. Other than that, we're staying fairly close to neutral to reflect the mixed signals we're getting from those factors.

[12:03] **[AJ]:** Let me recap the framework of signals you outlined for everyone. Rates: probably a yellow light, as you mentioned. Earnings: much closer to green, generally speaking. Valuations: somewhere in the middle. And that investor psychology piece really hinting at caution. So, mixed overall: no clean, green light anywhere.

One thing I wanted to ask before we wrap this segment—and we can keep it brief, since we had Brian on just last month digging into credit—earlier this year, the read was that cracks in private credit, which we've all seen the headlines about, hadn't really unsettled markets. But from where you sit today, is that more of a warning light? Or is this a dislocation unfolding that you'd actually want to lean into from an asset mix perspective?



[12:55] **[SV]:** Interesting observation. We have seen cracks in private credit. There have been a number of larger corporate bankruptcies and defaults that have affected private credit bondholders. Some of the latest news is that larger private credit managers are now facing client redemption requests they are not able to meet with current assets, creating what we call gating, a queue that those investors must now patiently work through to extract their capital from the asset class.

But we have not seen those cracks spill over materially into public fixed income markets where Brian and the rest of our fixed income team operate. As I mentioned, spreads have not widened materially to reflect some of those risks. The current positioning of the global credit strategy remains relatively conservative. Duration is fairly low, and the percentage of the portfolio invested in higher-yield securities is relatively low as well.

Brian and his team are watching this every day. They are waiting for that dislocation to occur and are ready to dynamically reposition that portfolio when those opportunities arise.

From a balanced perspective, our playbook is ready as well. We have been gradually building our exposure to global credit and will likely continue to do so as 2026 unfolds. But if we get a dislocation (if these opportunities really present themselves) we are ready to allocate capital in a larger and faster way.

It is a potentially exciting opportunity. There has been so much complacency around the asset class, but if we do get those dislocations spilling over into public markets, it would be an incredible opportunity for our balanced portfolio.

[14:46] **[AJ]:** That really calls back to a phrase we've used a lot around the firm: crocodile investing. Being ready, doing the work, and waiting for that opportunity, typically when a valuation change in the market gives us a great entry point.

So we've moved through 2025 and covered 2026 so far, the external forces at play as well as the internal moves you've made in response. Before we close, are there any final thoughts you wanted to share?

[15:14] **[SV]:** It is such a privilege to have this forum, Andrew, to speak directly to our balanced investors and unitholders. I speak with clients frequently, and it is so encouraging to hear the positive feedback we've received. The absolute returns we've been able to deliver in recent years are making a real difference in people's lives.

I have heard stories of clients who have been able to retire earlier than anticipated because of the absolute growth in their portfolio. Families that have been able to share more generously with their children and grandchildren because of that growth. Andrew, you work with a number of foundations and charities—you know firsthand how the returns we've delivered are allowing those organizations to make a meaningful impact on their communities. That's what makes us tick. I can speak for you,



Andrew, and for everyone at Mawer: this is what we are in this industry for: to do our part and help clients achieve those objectives.

However, we are very cognizant that while the returns we've delivered in recent years have been great on an absolute basis, we are hearing from clients—and deservedly so—that our results have failed to keep up with our benchmarks. And that is not specific to our balanced strategies. It is something we are experiencing across most of our equity mandates.

Andrew, we could probably spend an hour reviewing the makeup of some of those benchmarks—how they have become incredibly concentrated in a narrow group of companies—and debate whether they even represent a suitable alternative that a prudent investor would follow. I don't want to get into all the reasons for that underperformance, but what I would like to leave our unitholders and investors with is a refresher on the characteristics of our balanced portfolio relative to the benchmark.

For example, the return on equity of the companies we own in the portfolio is greater than that of our benchmark. The return on invested capital is also greater. The businesses we own carry less debt and leverage than the companies in our benchmark. Looking at earnings growth over the last three years, our portfolios have grown earnings at a materially faster rate than the benchmark. These are all hallmarks of a higher-quality portfolio.

It is frustrating that we are not being rewarded for building that type of portfolio in this environment, but it is important to note that we are adhering to our discipline, adhering to our philosophy, and constructing portfolios that bear these characteristics. On the valuation side, one might expect that building a higher-quality portfolio would mean paying a premium...but that is not the case. We have been able to build that portfolio while still maintaining valuations that are slightly below the index.

And if we look at Mawer's 50-plus-year history, portfolios with those characteristics have not only delivered strong absolute returns, but they have added value over their benchmark—not in every environment, and certainly not in this one, but we want to reassure our clients and unitholders that we feel we have constructed the right type of portfolio to set them up for success. Not just to continue to meet their absolute goals, but to see relative performance improve in time.

[18:47] **[AJ]:** That is a great place to wrap things up, Steven. The through line I've noticed is that these mixed signals aren't a malfunction, they are the normal weather of markets. The edge isn't in forecasting which way the wind blows next. It's in building something that doesn't get blown around when it finally does change.

Thank you for joining us, Steven. We always appreciate you sharing the view from your seat, and I look forward to our next conversation.

[SV]: Thank you so much for having me, Andrew, and thank you to all of our viewers and listeners.



[AJ]: Hey everyone, Andrew here again. To subscribe to the Art of Boring podcast, go to [Mawer.com/podcast](https://mawer.com/podcast), or wherever you download your podcasts. If you enjoyed this episode, leave a review on iTunes — it will help more people discover the Be Boring, Make Money philosophy. Thanks for listening.

Companies Mentioned

NVIDIA

TSMC (Taiwan Semiconductor Manufacturing Company)



Neutral