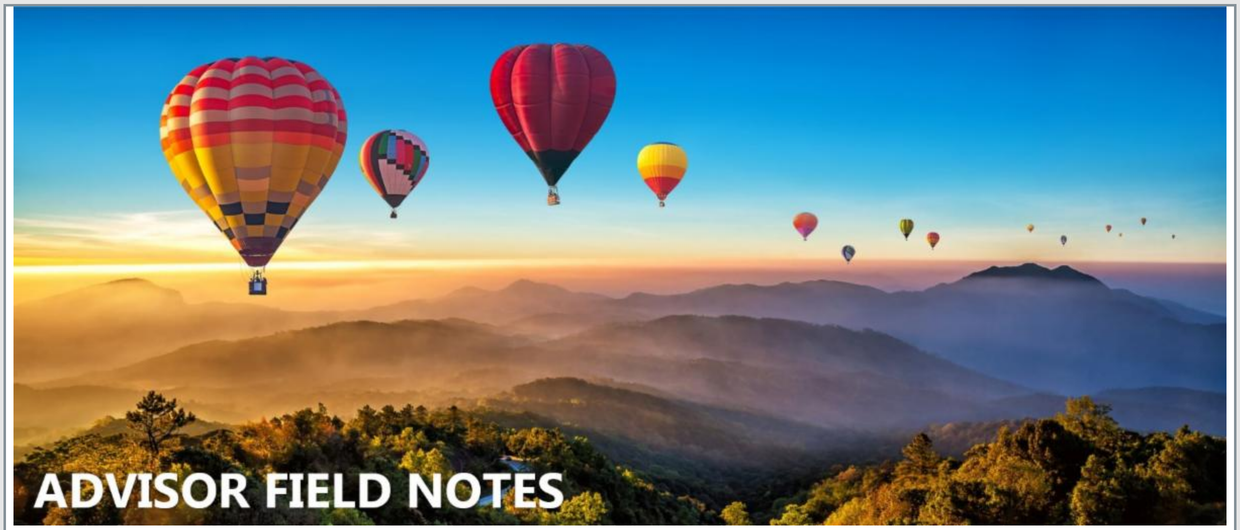

December 2024

"Year's end is neither an end nor a beginning but a going on,
with all the wisdom that experience can instill in us."

Hal Borland
-American Journalist-

Chris Ballanger BA, B.Ed, MA
Senior Wealth Advisor
T: 647.798.4075
Chris.ballanger@raymondjames.ca

**Intelligent Money
Wealth Management Group
of Raymond James Ltd.**
1900 - 200 King Street West
Toronto, ON
M5H 3T4

As the holidays arrive and 2024 draws to a close, there is often that balance of looking both backwards and forwards. The historian Niall Ferguson is fond of the expression, "There are many possible futures but only one past," and that is certainly true in the world of finance and investing. This year has delivered strong equity returns in the U.S., especially those indices populated by the technology giants. This month, **Capital Group** tries to channel the ghost of Christmas future and shares their view on how 2025 may play out for investors. They remain generally positive as the strong U.S. economy should get an additional tailwind from a rate-cutting cycle and a new administration that could be seen as more "business friendly." While the artificial intelligence buildout was a big driver for most of the year, they point out that the positive gains in AI stocks have begun to broaden into several other sectors such as healthcare and industrials. The authors make the case that despite frothy enthusiasm for the space presently, the real impact of AI may even be underestimated in the long run. They provide examples of other innovations that were overhyped in the near term but ended up having a more massive impact over time than was even projected in the early days.

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However, they do caution that market valuations are a concern, and a Trump presidency may also be negative for some industries, with renewables or tariff-vulnerable industries being examples. They recommend maintaining a balance by allocating to less expensive stock market sectors and regions that have been less a target of popular money flows. They continue to find pockets of relative value in non-tech sectors, smaller-sized companies, and other geographic regions.

For Canadians, the threat of tariffs being imposed on our imports to the U.S. looms large as our economy would very likely struggle under such an environment. In an opinion piece in the **Financial Post**, University of Calgary economist Jack Mintz writes a somewhat provocative article that suggests politically-motivated trade barriers are not the sole invention of President-elect Trump and countries like our own may not like our reflection in the mirror on that topic. A proponent of free trade, Mintz provides a short history lesson in making the argument that free trade tends to produce lower consumer prices and better living standards when utilized. He acknowledges, however, that it does create relative losers, but the net gains should allow winners to compensate for this. Whether this has occurred transnationally is a debatable issue. He raises the case of the U.S. industrial heartland, which struggled heavily when much of manufacturing moved to Asia and precipitated protectionist measures by the U.S. According to the author, Canada has engaged in a host of protection measures of our own for years, and industrial policy that favours domestic producers is popular worldwide. Whether dairy supply barriers or foreign restrictions in banking or telecom, Canada is hardly innocent, and Mintz concludes that if we push our own protectionist policies, we can't be surprised when other much bigger trading partners do the same.

Following along the theme of global trade, **Visual Capitalist** provides a useful factoid that lets one examine the $115 trillion world economy as a graphic. Given the fact that we seem to be moving toward trading blocks of countries rather than worldwide commerce, it is clear that the U.S. and China are dominant players in this sandbox, many multiples larger than the next contenders. Germany and Japan's inclusion is not surprising, but India has ascended to fifth in the world, ahead of names like France and the U.K. Canada remains in the top 10, but South Korea and Australia are growing faster and not far behind. The sheer size difference between us and our southern neighbour in this visualization might suggest a trade war would be ill-advised.

Trying to predict a single future from the many possible ones may be an insurmountable task but our species doesn't lack for trying. Charles Handy, a highly regarded social philosopher and writer, recently passed away at 92, and I think repeating one of his famous quotes can be a helpful way to frame unknowable outcomes:

"An optimist may be prey to disappointment, but a life without hope is dismal."

Happy New Year.

Capital Group: AI leads a broadening market

Clear tailwinds are gathering behind equity markets, providing an upbeat outlook for stocks in 2025. The U.S. economy remains strong, boosted by healthy labour markets, surging business investment and strong profit growth. The U.S. Federal Reserve and other major central banks have initiated an interest rate cutting cycle, providing an additional tailwind for financial assets.

Against this backdrop, markets enter 2025 amid a post-election rally in the U.S., as investors focus on business-friendly initiatives of the incoming Trump administration. And while advances in artificial intelligence continue to get most of the headlines, participation in the market rally has quietly broadened across industrials, utilities, health care and other sectors, as well as small-cap companies.

"Valuations generally are quite elevated," says Julian Abdey, an equity portfolio manager. "So I've been trying to strike a balance in portfolios, looking for exposure to leading companies in well recognized areas like AI, but also seeking opportunities in less scrutinized areas of the market."

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Financial Post: Trump's tariff threat, we're reaping what we have sown

Donald Trump is using the threat of a 25 per cent tariff to bludgeon Canada and Mexico into taking action to halt to the flow of fentanyl and illegal immigrants into the U.S. This threat extends an emerging policy trend: it has now become acceptable to discard free trade in favour of trade barriers supporting other political objectives. But we're reaping what we've sown.

It took centuries for the public to accept the idea that **free trade** is good for a country, a notion that began with two influential British political economists. In 1776, Adam Smith argued that mercantilism (favouring domestic production by restricting imports) leads to monopolies in the domestic market and prevents consumers from buying goods from the cheapest sources. In 1815, David Ricardo explained how the British "Corn Laws," which protected agriculture, benefited farmers and land-owners but hurt the poor by raising corn and wheat prices. He argued that countries should pursue their comparative advantage by specializing in industries that make the most productive use of their labour. Eventually, in 1846, the Corn Laws were repealed and Britain adopted free trade throughout its empire.

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Visual Capitalist: The $115 Trillion World Economy in

One Chart

Explore: The $115 Trillion World Economy in 2025

There's nothing quite like a big chart to really get into the data. In this edition we take a look at the massive $115 trillion world economy in 2025, along with how it breaks down per country.

Data is sourced from the **International Monetary Fund's** GDP estimates for 2025 (except for Pakistan). All figures are rounded and in nominal USD.

Ranked: Every Country by GDP in 2025

The U.S. has been the world's largest economy for over 100 years, and in 2025 will maintain its lead, at $30.3 trillion.

Second-largest China ($19.5 trillion) will also hold its position, now on a 15-year streak. The top two together account for over two-fifths (43%) of the world's $115 trillion GDP.

However, there have been changes in the top five recently. Germany ($4.9 trillion) overtook Japan ($4.4 trillion) in 2024 as the third-largest economy. Meanwhile India ($4.3 trillion) passed the UK ($3.7 trillion) as 5th largest in 2020.

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