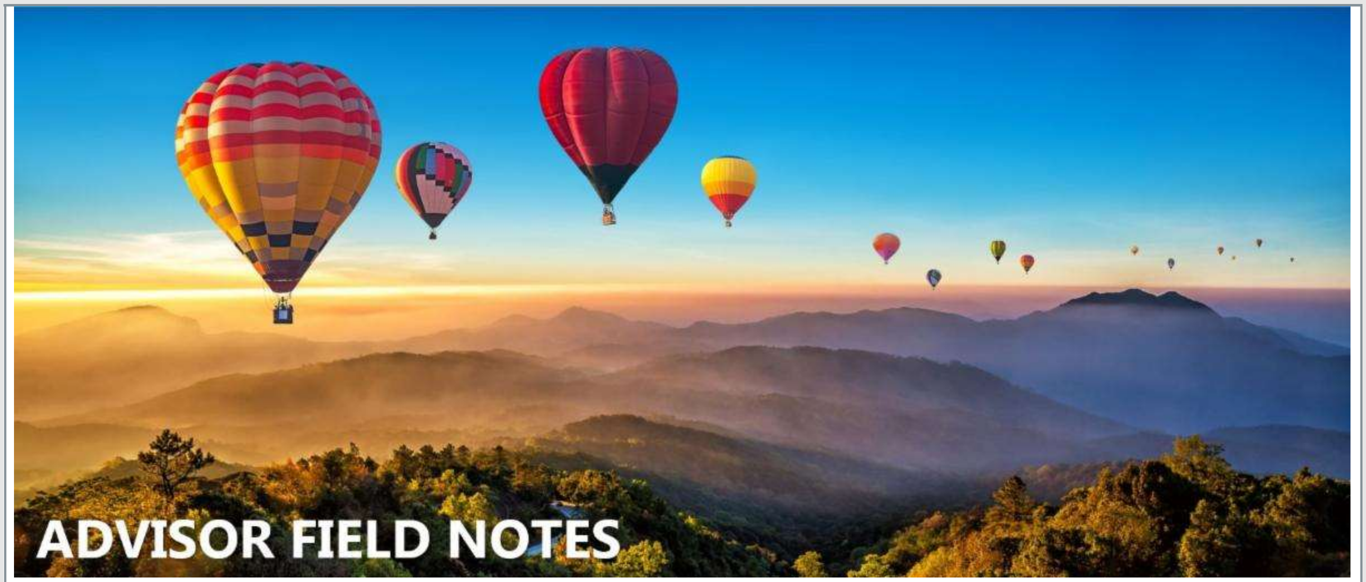

January 2025

“As history has repeatedly proven, one trade tariff begets another, then another - until you've got a full-blown trade war. No one ever wins, and consumers always get screwed.”

Mark McKinnon
-American Political Advisor-

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The start of a new year has sometimes been described as a blank sheet of paper, ready to be written on, and this January appears particularly uncertain in terms of what the fresh ink will say. At home, we have a prorogued parliament with a campaign to select a new liberal leader and a potential federal election. More ominously, our giant southern neighbour has a new presidency and, as I write this, appears to be moving forward with tariffs and perhaps a broader trade war. The impact of these variables on the economies of the affected countries are being analyzed and forecasted, with reports being released almost hourly by strategists.

Hartford Funds has an outlook piece from earlier last month that explores several key issues that they felt were more likely in the Trump administration’s first term and attempted to forecast what this might mean for markets. Sensibly, while acknowledging the unknowable’s, they think four themes are likely to dominate in 2025. The new government appears driven to move forward with lower taxes and more deregulation but also more restrictive

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trade and lower immigration numbers. The first two factors have historically stoked the "animal spirits "of stock market enthusiasm and this was evident after the election. U.S. equities surged to record highs and valuations on many U.S. stocks remain lofty. The other two policies are associated more with inflation pressures increasing and the authors raise cautionary notes about both rising long-term interest rates and brakes applied to short-term rate cuts. Like other strategy reports I've featured over the last few months, they prefer U.S. stocks over European (and by extension, one would assume, Canadian) equities. They also think we will see investor interest broadening out beyond the huge tech giants and AI adjacent names. However, tariffs are raised as a downside risk to these projections and suggest a small allocation to gold could be a useful hedge against rising geopolitical tensions.

Canada is clearly in the crosshairs of the USA tariff approach and over the next days and weeks, there will likely be plenty of impact assessments to read. Canada is thought to be vulnerable due to lagging economic productivity over the last decade and an over-dependence on U.S. export markets. However, **The Hub** featured a thought-provoking article recently that examined steps Canada could take to energize and renovate our economy. A trade alliance with Australia, New Zealand and the U.K. is an example of an idea that may lessen our U.S. economic dependence. A more radical suggestion is creating a wealth fund for young Canadians by increasing old age security eligibility from age 65 to 67. Some of the ideas are controversial to be sure, but the argument can be made that bold moves are needed, as the world resets its approach to trade and military dangers darken.

Resolutions are most served up at the beginning of periods of time like birthdays and the start of years or months and most are oriented towards increasing happiness in one way or another. **BBC Science Focus** has a useful piece that provides an interesting viewpoint that we are better off enjoying happiness rather than chasing it. It is based on a concept called the "hedonic treadmill," which is the tendency for us to return to baseline level of happiness after encountering good fortune or bad. The article challenges some of the more popular strategies for happiness, as they argue these lead us back to the baseline treadmill after a time. Canvassing experts in the field, they offer half a dozen lesser-known ideas that can be useful. On the list is one they call "quiet quitting on time-sucking activities." While more money increases happiness for people who are short of it, beyond a certain point, more wealth may be less valuable than more time. Another concept they advocate is tapping into being a "de-influencer" whereby you avoid social media feeds that wind up our need for social comparison. In the pre-Facebook and Instagram era, a TV show called "*Lifestyles of the Rich and Famous"* was one of the earliest ancestors of this and, even then, made most mortals feel poor and anonymous after watching it.

Hartford Funds: 2025 Outlook: Trump 2.0: Time to Curb Your Enthusiasm?

What You Need to Know

· **The Republican sweep in the U.S. election turbocharges the already positive direction of US fundamentals**. While there are many policy unknowns with the incoming administration, we're aligned with the recent momentum in equities, despite rich valuations, and continue to favor global equities over bonds.

· **We favor US over European equities and European rates relative to US rates**. We've increased our view on Chinese equities to neutral, given cheap valuations and our belief that recent stimulus, while not entirely adequate, has at least put a floor under the market.

· **We've reduced our credit view to neutral** given record tight spreads and compression between CCC and BB bonds. We think rich valuations on high yield offset the good supply/demand technicals and carry.

· **We remain wary of higher US fiscal deficits** and think US rates and the embedded term premium are the best reflection of the market's view. On the other hand, the Federal Reserve (Fed) remains on an easing path, even if rate cuts might be shallower than expected a few months ago. Thus, we remain neutral on duration.

· **We think gold has upside based on central banks' continued desire to diversify** their foreign-exchange holdings and as a hedge against geopolitical and stagflation5 risk.

· **Downside risks** to our views include a spike in US interest rates spurred by inflation concerns (from fiscal policy and/or tariffs) and dimming hopes of Fed easing. A flare-up in geopolitical risk could also weaken our base case. **Upside risks** include a jump in US productivity that increases US growth potential without higher inflation and meaningful fiscal stimulus from China that catalyzes a strong rally there as well as in emerging-market (EM) economies linked to China.

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The Hub: Eric Lombardi: Dare to be great: Ten radical ideas to restore Canada's promise in 2025

Despite disappointment and turmoil surrounding the Fall Economic Statement and Chrystia Freeland's shocking departure from Justin Trudeau's cabinet, Canada remains a country of immense promise. I've spent more than a few words in The Hub highlighting the challenges we face—creeping neofeudalism, a stagnant economy, the suffocating complexity of our regulatory regimes, the subtle but relentless erosion of trust in our public institutions, and the glaring distortions in our housing and health-care systems.

But looking towards 2025, I remain optimistic. If we can channel our inherent advantages—our openness, human capital, abundant resources, and a mostly pragmatic culture—and lead in a changing world.

What follows are some big (and controversial) topics—ambitious ideas that cut against some sacred Canadian cows. While some may seem radical, I believe putting them on the table could contribute to necessary debates and hopefully progress.

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BBC Science Focus: 6 life-changing lessons from the biggest studies on human happiness

Sick of chasing happiness, instead of enjoying it? You may be stuck on what psychologists call the hedonic treadmill. Here's how you can step off it.

What's the one thing in life that you know could really make you truly happy? Getting a raise? Buying a new car? Winning the lottery? Whatever the key to the happiness puzzle looks like for you, chances are you're searching in all the wrong places.

Since the 1970s, a growing body of psychological research has been looking into the ways that humans adapt to life circumstances. The findings suggest that even if you were to tick off every item on your Wishlist, it wouldn't keep you satisfied for long. The dopamine buzz wouldn't last because humans are wired to always want more.

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