ROUNDTABLE

meritage PORTFOLIOS®

Spring 2025

Navigating challenges and opportunities amid U.S. tariffs and market volatility

CONTENT

NATIONAL BANK INVESTMENTS

Canadian Equity

Ryan Grant, CFA

Managing Director & Senior Portfolio Manager
RBC Global Asset Management

RBC Vision Canadian Equity Fund
[Held within 11 Meritage Portfolios: get more information]

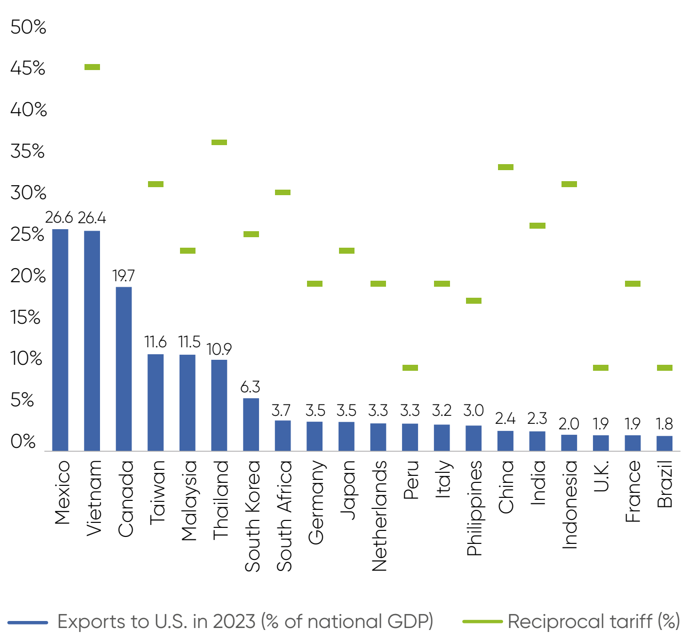
Challenges

Canada escaped the brunt of the April 2 tariff announcements, but the impact of those tariffs on the global economy combined with the tariffs previously placed on Canadian steel, aluminum, vehicles, and goods not compliant with the United States-Mexico-Canada Agreement (USMCA) heightens the risk of recession.

Given the uncertainty in the current environment, the biggest challenge is determining the ultimate implications for Canadian companies. Stocks that are more exposed to tariffs have generally faced more pressure, but it is difficult to step into those positions without more clarity on the ultimate tariff outcome amid the federal election and potential negotiations.

Canadian exports to the U.S. are significant relative to global peers

Exports to U.S. are significant for some countries



Opportunities

We believe that volatility creates opportunity. In volatile periods, the risk/reward for a stock can change, and so can our conviction about the outlook. The composition of the fund is continuously monitored by the team and during uncertain times we lean into our process.

Our proprietary dashboard, which tracks shifts in the risk and reward of stocks, is a critical tool in assessing opportunities. In the current environment, the prices of many tariff-impacted companies as well as cyclical businesses have become cheaper amidst uncertainty surrounding the path forward. Meanwhile, the prices for defensive businesses have held amidst the flight to safety.

A related part of our research process is to assess our conviction in those risk/reward opportunities. The current environment has prompted re-evaluation of that conviction. The team has developed checklists to assist in this process. Combining updated conviction and risk/reward profiles may lead to adjustments to individual stock weights in the portfolio.

Fund positioning

We've exercised prudence, opting to largely maintain core portfolio allocations. Considering the challenges outlined above, and the fact that there may be negotiated adjustments and exemptions in the final tariff environment, we've been carefully monitoring our portfolio to avoid positioning for any specific outcome. We're continuing to diligently monitor the evolving landscape, seeking opportunities that present a compelling risk/reward profile while incorporating the impacts of tariff developments into our comprehensive analysis.

U.S. Equity

Angelica Murison, CFA
Senior Portfolio Manager

Shanthu David, CFA
Senior Portfolio Manager

David Tron, CFA
Senior Portfolio Manager

Kalvin Hon, CFA
Portfolio Manager

PH&N U.S. Equity Fund
[Held within 1 Meritage Portfolio: get more information]

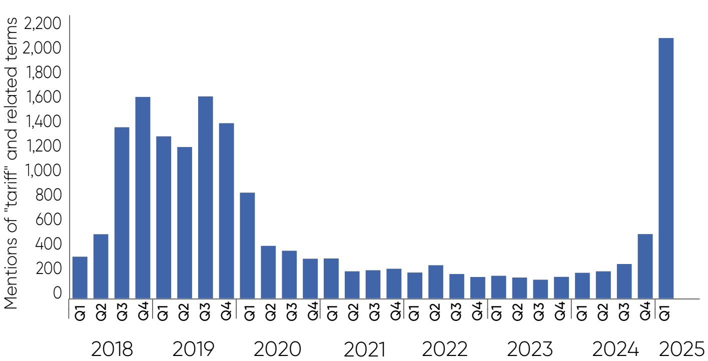
Challenges

While it is an opportunity, uncertainty is also the biggest challenge. Many stocks have sold off where their business has global supply chains. However, we still don't know to what extent tariffs will apply after further negotiations. In some cases, stocks could be offering value, in others the worst could still be to come. We don't bet on such binary outcomes.

Pivoting to defensives is also tricky given the valuations have increased. In some cases, the price you pay for adding defensiveness can be significant.

Overall, we're looking for names that are performing differently than we would expect and checking against our scenario analysis to determine whether the scenario the market is pricing in is overly bullish or bearish.

Tariff concerns surged as in the 2018-2019 U.S.-China trade war



Note: As of Q1 2025. Includes transcripts from all investor calls, investor days and capital markets days for Russell 3000 companies. Source: Bloomberg, RBC GAM.

Opportunities

Drawdowns are often good periods for active managers, as we see wide spreads between winners and losers. Often good companies get taken down indiscriminately, which presents an opportunity to high-grade the portfolio. Meanwhile, lower quality businesses with stretched balance sheets and deteriorating business models tend to underperform, where we aim to be underweight.

The impact of tariffs has been a part of our fundamental analysis for months now, analyzing the extent to which negative scenarios are priced in. It's a discussion point in every management meeting and an input into all our decision making. The opportunity for us as active managers is to add to businesses where the valuation reflects a very bearish scenario for earnings, yet we believe the business to be less exposed to tariffs and/or economic slowdown.

Fund positioning

In general, we have an emphasis on quality management teams that we trust to lead their businesses through this. Well-managed businesses take market share in environments like this one. Our focus is on quality businesses that are offering more attractive entry points due to the volatility.

The environment remains highly uncertain with a very wide range of outcomes. We aim to neutralize the impact of events with low probabilities attached, rather than make big positioning changes geared towards a single outcome. So, while we've been high-grading the portfolio, we've been avoiding tailoring the portfolio to one specific outcome–whether that's recession risk or the severity/persistence of tariffs.

Following President Trump's April 2 tariff announcement, it does appear that elevated uncertainty will persist for some months. We are being patient and deliberate as we look to upgrade the portfolio over time.

Global Equity

Damian Fernandes, CFA

Managing Director, Portfolio Manager, TDAM

Benjamin Gossack, CFA

Managing Director, Portfolio Manager

David Mau, CFA

Vice President & Director, Portfolio Manager, TDAM

Global Equity Focused Fund

[Held within 16 Meritage Portfolios: get more information]

Challenges

We are just three months into the new year and our heads are spinning from the whirlwind of activity, be it fundamentals, macro, or politics. To recall, DeepSeek dethroning U.S. tech dominance in AI and the attendant unravelling of the data center trade, DOGE making substantial cuts to government spending, the current American administration's ongoing Executive Actions, tariff uncertainty both in magnitude and timing, and the rewiring of geopolitical frameworks are just some of the headlines-grabbing events this year.

On the other hand, the S&P 500 had another blowout earnings season. And so, amid conflicting data points, it is critical to our decision-making that we remain objective in the face of uncertainty, separate the noise from the narrative, and keep focused on our process.

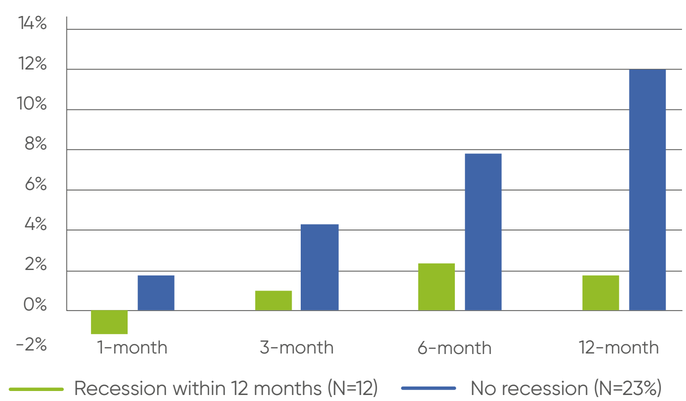
Opportunities

Despite the uncertainty and noise, something else is brewing under the surface, and it has a distinct European flavor. When looking at first quarter returns across major markets, North America is flat to down, Japan is negative, but European and Hong Kong markets are all up, and they have attractive starting valuations to boot.

Most observers believed that the Trump Administration initiating trade tensions, tariffs, and threatening reduced NATO involvement would be disastrous for Europe and the Chinese export model. However, there is possibility that U.S. isolationism can 1) galvanize the EU to take substantive positive policy changes and/or 2) could incentivize China to move away from an export led model to a consumption led model. These possibilities would significantly improve long-term equity outlooks in those regions.

Also consider that despite the flurry of negative news, historical stock market returns following a 10% decline are above average if there is no recession.

Average S&P 500 returns following 35 corrections of 10% since 1950



Fund positioning

The fund remains focused on high-quality stocks. Our positioning has become more balanced, shifting from free cash flow growth to free cash flow certainty and increased exposure to under-levered companies and those with high returns on invested capital. This has led us to reduce our more cyclical holdings, such interest-sensitive and AI "pick and shovel" companies, and increase stable and defensive companies, such as those in the Health Care sector.

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Summary table

Brochure

NATIONAL BANK INVESTMENTS

Open architecture.
Endless opportunities.

National Bank Investments is a signatory of the United Nations-supported Principles for Responsible Investment, a member of Canada's Responsible Investment Association, and a founding participant in the Climate Engagement Canada initiative.

(2025/05)