# TREMORS IN TECH AND TRADE

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## 2025 BEGINS WITH A WAVE OF WORRY

Following a very profitable 2024, when both the TSX and S&P 500 returned more than 20%, the new year has presented investors with at least two significant obstacles, each of which could impact both the market's path and which sectors fare best going forward.

In the US, recent equity returns have been driven by a very small group of new economy stocks, collectively known as the "Magnificent 7". These names could seemingly do no wrong and the massive amounts of capital flowing into them pushed their combined weight in the S&P 500 to more than 30%. Much of the excitement around the group flowed from its exposure to artificial intelligence, an exploding technology subsector in which the US was perceived to hold an unassailable lead. In late January, however, a Chinese upstart called "DeepSeek" significantly undermined this confidence when it showcased an effective AI app, which had apparently been produced at a fraction of the cost of similar US products. This raised questions about the vast sums being spent by US tech companies on AI and whether their development approach was the right one.

Around the same time, the US administration made good on its promise to hit its trade partners—*including Canada*—with massive and destabilizing tariffs. Under the initial proposal, goods we sell to the US would be subject to a 25% border levy, with the exception of oil, which was to be hit with a 10% fee. The first victim of this announcement was the loonie, which fell below 70¢ vs. the USD, while certain equity market sectors (including Canadian transportation stocks and banks) also felt immediate pressure. Our portfolio exposure to these developments, as well as recent changes we've made to manage risk, are outlined below.

### *DM portfolio impact & adjustments*

As mentioned in our Q4-24 client portfolio commentary, we made several changes to the DM US Equity Portfolio at the end of December to reduce mandate risk, and specifically our exposure to the mega-cap companies and investment themes which had been dominating market performance to that point. We continued on this tack to begin the new year and collectively reallocated this capital to stocks which we believed offered better relative value and lower downside risk. These changes have so far been well-rewarded, with DM US Equity returning 6.7% in January (in CAD terms), or 3.2% more than the S&P 500.

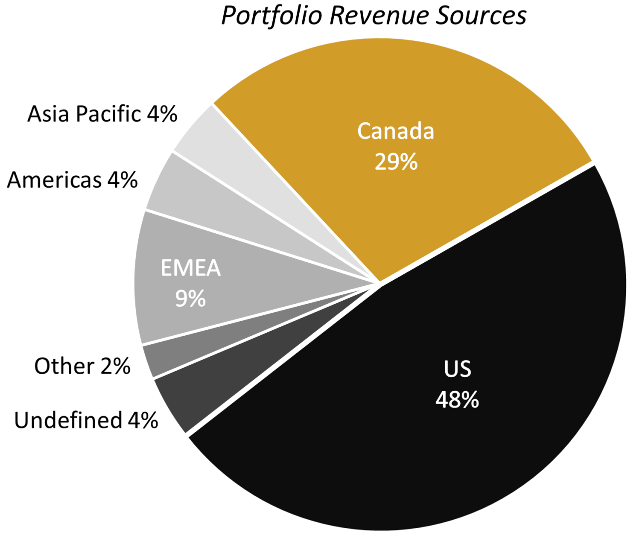
In the DM Canadian Equity Portfolio, we must now take into consideration a vastly altered landscape for trade and our economy, both with respect to what we currently own and where we might reallocate investment capital. As it happens, though, our domestic equity mix is relatively well-positioned against recent developments. For example, of the 30 positions owned in DM Canadian Equity, 22 generate more than half their revenue outside of Canada, pro-viding them with a buffer against a weaker loonie.

The portfolio is also in good shape from a trade and tariff perspective, with much of our exposure to the US economy coming from Canadian companies with operations in the states, rather than those which ship goods across the border. For example, portfolio top 10 positions such as Boyd Group Services, Alimentation Couche-Tard, Element Fleet Mgmt., and Methanex Corp. all have bigger footprints outside of Canada than they do within our borders.

As we've seen in recent days, the US tariff plan for Canada is still in flux and where it finally lands remains to be seen. Regardless, we feel comfortable with our Canadian equity mix and will make adjustments in sympathy with final trade terms as they emerge.

**DM Canadian Equity**

*Portfolio Revenue Sources*

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