

PERSPECTIVES

MARCH 2025

Each month, our experts decipher trends, opportunities and strategies shaping the financial universe of informed investors. Discover nuanced analysis and insights to guide your wealth management decisions. Forged by experience and driven by innovation, our perspectives help you build a sustainable financial legacy.



NORTH AMERICAN EQUITIES: TECHNOLOGICAL INNOVATIONS AMID ECONOMIC CHALLENGES

At the start of 2025, the markets have reached a crossroads. On the one hand, technological advances, particularly in artificial intelligence (AI), are opening up promising horizons. On the other hand, the increased concentration of the U.S. stock market, macroeconomic uncertainty and geopolitical tensions are raising legitimate concerns.

In this contrasting context, it is becoming crucial to adopt a disciplined investment approach. Here's our analysis of current trends and emerging opportunities.

AI: A revolution that requires patience

Artificial intelligence today is much like the Internet of the late 1990s: a technological revolution destined to transform the economy.

Even so, despite the current excitement, we must be patient. In the last quarter of 2024, four tech giants collectively invested \$62 billion in capex, an amount that exceeded their share buybacks for the first time.

Of particular concern are the market's expectations regarding the returns on these investments. Even though investors expect significant earnings in the next 12 to 24 months, history encourages us to moderate our expectations: As with the Internet, it will probably take a decade or even two before the full benefits of these investments are realized. Adopting a long-term perspective should temper some of the current valuations.

U.S. market concentration and the need for caution

The U.S. stock market is extremely concentrated, with the 10 largest companies in the S&P 500 accounting for 35% of the index and generating nearly a third of its return in 2024. The index's lack of diversification and big tech's dominance call for caution.

Even so, it should be noted that, apart from AI-related companies, which trade at 35 to 60 times earnings, the market remains within historical valuation norms. But the outlook has changed drastically.

Expectations of rate cuts are fading, and the Trump administration's tariff policies are likely to cause an uptick in inflation. In addition, some analysts are starting to talk about the increased probability of a recession.

Increased volatility and opportunities on the horizon

The unpredictability of Trump's policies will most likely generate volatility in the markets. We're not immune to a significant correction – with the S&P 500 already down 7-8% from its recent high. A 10-20% correction is not unlikely amid global trade tensions and uncertainties.

A correction could occur sooner rather than later, possibly as early as the second quarter of 2025. Such a correction, although destabilizing in the short term, would be a normal occurrence in a market that has seen strong growth over the past two years. Above all, it would create excellent opportunities for informed investors.

In these uncertain times, large cap stocks tend to be better positioned in the event of a flight to quality.

The energy challenge: an overlooked aspect of AI

One aspect of AI development that is often underestimated is its voracious energy appetite. European and U.S. studies indicate that we could face energy shortages if the current trend continues. AI infrastructure – buildings, servers, backup systems, etc. – will require substantial energy and mineral resources.

In the long term, this trend could benefit Canada's resource-rich economy. We expect growing demand for various metals (zinc, copper and other lesser-known metals) as well as renewed interest in other energy sources, including renewables and nuclear, whose development could accelerate in the next three to five years.

Our investment approach: stability and a long-term vision

Our investment philosophy is based on a medium-to-long-term vision (three to five years), combined with a very low portfolio turnover ratio. We have held some stocks for more than 10 years, and we usually sell only when their weighting becomes excessive. The portfolio of our North American equity strategy typically includes 30 to 40 high-conviction stocks.

Our goal is to offer an attractive risk-return profile. We aim to limit the downside in difficult markets, while capturing a reasonable share of the upside. Accordingly, we choose stocks with solid return potential in various market phases, favouring those with large and increasing dividend yields. Although we're careful about sector allocation, we tend to focus more on stock picking, without pronounced sector deviations.

Our North American portfolio maintains a strong Canadian component, complemented by U.S. stocks in sectors that are not well represented in Canada, such as technology.

Our current strategy is to own companies that generate income and have exposure to different currencies, while we wait for the opportunity to increase our positions at more attractive valuations. In these uncertain times, we're staying true to our proven approach and we're poised to capitalize on the opportunities that market fluctuations inevitably create.



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