DOMINION TRUST CAPITAL

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— REPORT

2025 Annual Investment Outlook

A view across the year ahead

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Prepared by the Investment Committee

DOMINIONTRUST.COM

100 KING ST W, SUITE 5700

— OVERVIEW

A Year of Selective Patience

Our 2025 outlook is constructive but disciplined. We expect modest positive returns across both equity and fixed-income mandates, with continued dispersion between sectors and geographies that will reward active selection. Recession risk in North America has receded from its 2024 peak but has not disappeared; Canadian household leverage and shelter-cost burdens remain the principal domestic vulnerability.

After three years of central-bank tightening, the cost of capital has reset to levels not seen since before the 2008 cycle. This is, in our view, a healthy development for long-term savers — and a structural headwind for the most speculative corners of the market.

> *"The next decade will favour businesses with pricing power and balance sheets that compound rather than dilute. We are positioning accordingly."*

— David Okafor, CFA · Chief Investment Officer

— MACRO FRAMEWORK

Our Base, Bull, and Bear Cases

SCENARIO	PROBABILITY	BoC RATE (Y-END)	TSX EXPECTED	S&P 500 EXPECTED
Base case — soft landing	55%	2.75%	+6% to +10%	+5% to +9%
Bull case — re-acceleration	25%	3.25%	+12% to +18%	+12% to +16%
Bear case — credit shock	20%	1.75%	–8% to –15%	–10% to –18%

Probabilities are subjective and revised quarterly. Returns are total returns including reinvested dividends and exclude management fees.

— ASSET ALLOCATION

Strategic Positioning for 2025

We have made three modest but meaningful adjustments to the composite mandates entering 2025:

1. Increased Canadian equity weighting from 22% to 26%. The TSX trades at a four-year valuation discount to the S&P; 500 on forward earnings while offering materially higher dividend coverage. Selective exposure to financials and pipeline energy infrastructure remains our highest-conviction Canadian position.

2. Extended duration in the fixed-income sleeve. With the Bank of Canada now in an easing cycle and 10-year GoC yields above 3.4%, the asymmetry favours moderate duration extension. We have rotated approximately 8% of portfolio assets out of short-dated paper into 7–10 year laddered government bonds.

3. Initiated a 4% allocation to private credit. Available exclusively in our family-office mandate, this position targets senior secured loans to mid-market Canadian businesses through institutional partners with multi-cycle track records.

— SECTOR VIEWS

Where We See Risk and Reward

Financials

Canadian banks have absorbed three years of provisioning headwinds and now trade at price-to-book levels last seen in 2020. Mortgage renewal risk peaks in 2026, but the deposit franchise and dividend coverage make the major names attractive at current valuations. We remain overweight Royal Bank and Toronto-Dominion within the composite mandates.

Energy Infrastructure

Mid-stream operators with regulated pipeline networks continue to offer 5–7% dividend yields backed by long-dated contracts. The transition to lower-carbon energy is real but slower than headlines suggest; well-positioned infrastructure will be needed for decades. We hold core positions in Enbridge and TC Energy.

Technology

Underweight. The compression of the "Magnificent Seven" risk concentration has become uncomfortable for many balanced mandates. We hold modest weights through global index sleeves but do not chase individual mega-cap names at current multiples. We see better risk-adjusted opportunities in Canadian and European mid-caps.

— RISK FRAMEWORK

What Keeps Us Awake

Three risks dominate our scenario work for 2025:

Canadian household credit stress. Mortgage payment shock from 2020-22 originations renewing at 2024-25 rates is the most concentrated domestic risk. We model a meaningful but contained impact on bank earnings; a tail outcome involves materially higher arrears than current consensus.

Geopolitical fragmentation. Trade policy uncertainty, particularly between the U.S. and its major trading partners, creates real cost-of-capital implications for Canadian export-oriented businesses. We continue to favour balance-sheet quality over top-line growth in cyclical positions.

Concentration in major U.S. indexes. The top ten S&P; 500 constituents represent a historically elevated share of the index. Passive flows into broad U.S. exposure mean increasing implicit exposure to a narrow set of companies. We address this through equal-weight and factor-tilted satellite positions.

— CLOSING NOTE

Discipline Over Forecasting

We have learned, over fifteen years and three full market cycles, that the most reliable source of long-term outperformance is not superior prediction but superior discipline. We aim to be approximately right rather than precisely wrong, to harvest volatility rather than chase it, and to ensure that no client portfolio depends on any single thesis being correct.

2025 will likely surprise us in both directions. The positioning above reflects our best current view, our humility about what we do not know, and our commitment to serving each client's specific timeline and tolerance.