



Multi-Strat View

THE 2025 PICTON REPORT

Navigating Growth, Inflation, and Interest Rate Risks through a 40/30/30 Lens

Big Picture: What We See Ahead

We believe the underlying economic and market conditions are aligned with an ongoing “risk-on” period – however given valuations and some speculative activity, the market is at risk to external shocks or changes in policy. Examples include the market reaction to the December Federal Reserve meeting and uncertainty around U.S. government shutdown.

Base Case: Economic Growth with Some Friction

Our base case calls for continued economic expansion, with inflation ticking higher, particularly more concentrated in the services sector. This environment supports equities, but elevated valuations may present a headwind limiting upside potential. Meanwhile, economic growth-driven increases in longer-term interest rates (notably a steepening 10-2 Year U.S. Treasury yield curve) could weigh on returns for both stocks and bonds. Eventually, we expect higher rates to puncture the speculative bubble that has inflated equity valuations, leading most traditional asset markets back to more historical norms.

Asset Class Positioning: Where We Stand

In terms of positioning, weightings are discussed relative to a broad 40/30/30 target allocation of equities/fixed income/alternatives based on our belief that this asset allocation approach is a better way to build portfolios that deliver greater certainty.

EQUITIES

Neutral Stance, But Open to Opportunity

- **We Are Neutral.** Valuations remain stretched, but ongoing economic growth could drive broader market participation.
- **Where We’re Focused:** We’re looking for opportunities across sectors and themes as market leadership broadens.
- **Inflation Impact:** We’re tilted toward service-oriented sectors where price pressures are stickier, while being cautious on manufacturing, where inflationary pressures are easing.

FIXED INCOME

Underweight with a Hedged Approach

- **We’re Underweight.** Rising government bond yields reduce return potential, especially as inflation risks persist.
- **Credit View:** We view the credit market broadly as overvalued and expensive, prompting our defensive, hedged stance in this sub-asset class.



ALTERNATIVES

A Vital Diversifier

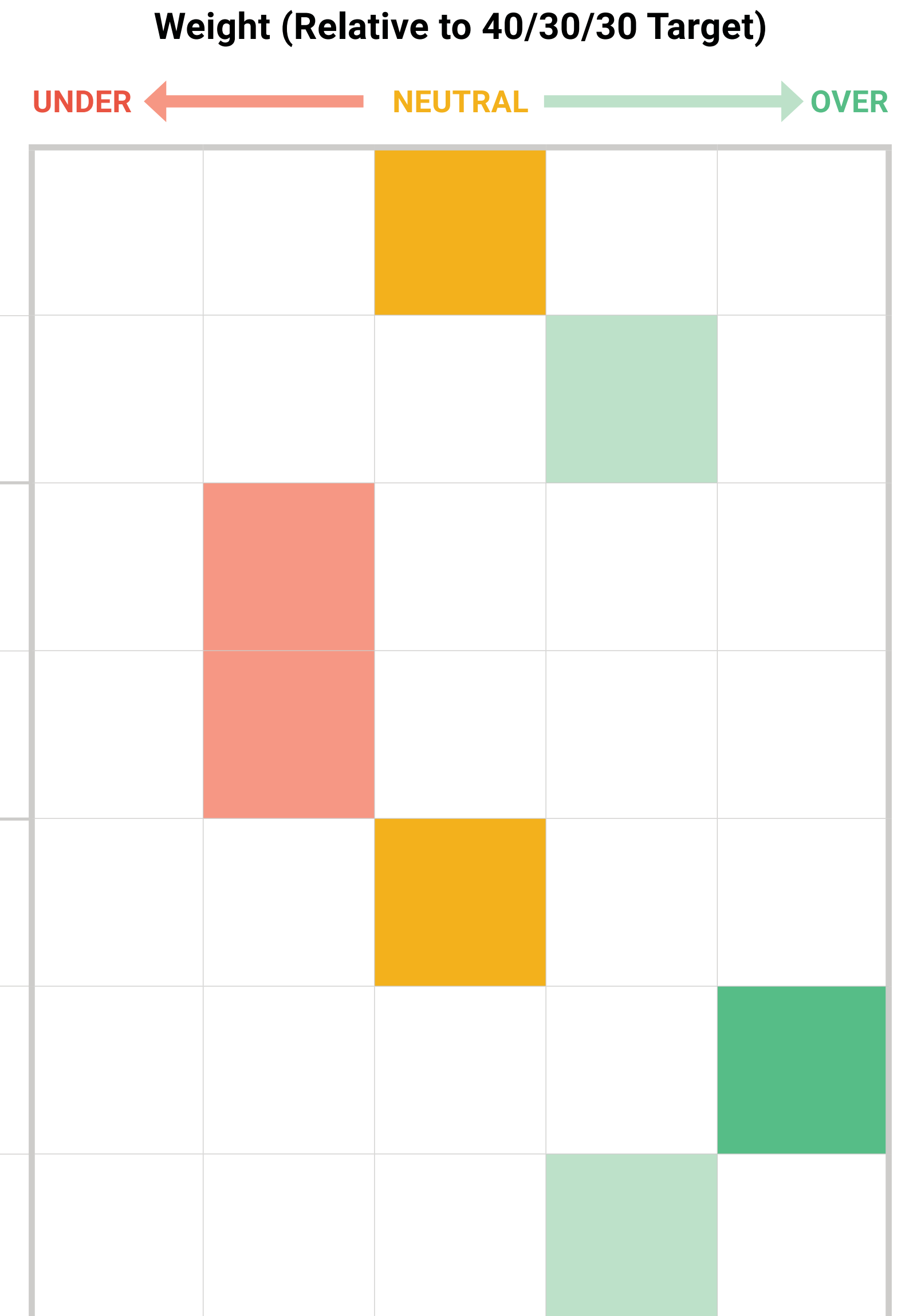
- While our base case leans optimistic, we remain vigilant to tail risks, including unexpected policy shifts from the Fed or geopolitical developments, which could significantly alter the trajectory of markets. These risks are reasonably accounted for in our probability-weighted scenario forecasting.
- With heightened uncertainty around rates and equity valuations, alternatives remain a key pillar of our diversified model. Alternatives are comprised of three components: enhancers which can supplement equity or fixed income risk; diversifiers which provide returns independent of market moves; and inflation protection.
- Within the alternatives, investors may consider shifting their exposure from enhancers to diversifiers which may reduce the beta of their overall portfolio to traditional equity or fixed income risks. For example, a shift from long only equity to long/short strategies, or a shift from long/short exposure to market neutral strategies.
- Consider introducing or maintaining exposure to inflation protection given we see the risk of inflation surprising to the upside.

Key Risks We're Watching

While our base case leans positive, we remain vigilant to potential disruptors:

- **Federal Reserve Policy Shifts:** A sudden change in rate policy could upend market assumptions.
- **Geopolitical Events:** Unexpected developments on the world stage could increase market volatility.

To navigate this landscape, we're staying nimble, leveraging a scenario-based approach that helps prepare for a range of possible market conditions. Our allocation decisions are tied to a core 40/30/30 framework (Equities/Fixed Income/Alternatives), with positioning adjustments as market dynamics shift.



Head Office

33 Yonge Street, Suite 320
Toronto, Ontario
M5E 1G4

Telephone: 416-955-4108
Toll Free: 1-866-369-4108
Retail Sales: 1-833-955-1344

General Inquiries

invest@pictonmahoney.com

Vancouver

Four Bentall Centre
1055 Dunsmuir Street, Suite 3370
Vancouver, British Columbia
V7X 1L3

Calgary

Bankers Hall, West Tower
888 3rd Street SW, 10th Floor
Calgary, Alberta
T2P 5C5

Montréal

1155 Metcalfe Street, Suite 1502
Montréal, Québec
H3B 2V6

pictonmahoney.com

All figures provided are sourced from Bloomberg L.P. unless otherwise specified, and are based on data as at the dates indicated.

This material has been published by Picton Mahoney Asset Management (PMAM) as at January 10, 2025. It is provided as a general source of information, is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable; however, the accuracy and/or completeness of the information is not guaranteed by PMAM, nor does PMAM assume any responsibility or liability whatsoever. All investments involve risk and may lose value. This information is not intended to provide financial, investment, tax, legal or accounting advice specific to any person, and should not be relied upon in that regard. Tax, investment and all other decisions should be made, as appropriate, only with guidance from a qualified professional.

This material may contain “forward-looking information” that is not purely historical in nature. These forward-looking statements are based upon the reasonable beliefs of PMAM as of the date they are made. PMAM assumes no duty, and does not undertake, to update any forward-looking statement. Forward-looking statements are not guarantees of future performance, are subject to numerous assumptions and involve inherent risks and uncertainties about general economic factors which change over time. There is no guarantee that any forward-looking statements will come to pass. We caution you not to place undue reliance on these statements, as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made.

All projections provided are estimates and are in Canadian dollar terms, unless otherwise specified, and are based on data as at the dates indicated.

There is no guarantee that a hedging strategy will be effective or achieve its intended effect. The use of derivatives or short selling carries several risks which may restrict a strategy in realizing its profits, limiting its losses, or, which cause a strategy to realize or magnify losses. There may be additional costs and expenses associated with the use of derivatives and short selling in a hedging strategy.

® Registered trade-marks of Picton Mahoney Asset Management.

© 2025 Picton Mahoney Asset Management. All rights reserved.