

2025 **ECONOMIC OUTLOOK**

A Trifecta of
Headwinds and Tailwinds.
Economic Hat Trick?



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SOLID
for

+120
YEARS



THE LARGEST
cooperative
financial group in
North America¹

Assets under
management
\$464.7B

#1
among major Canadian
banking institutions
according to *The Banker* magazine³

First
in Responsible
Investment (RI)⁴



¹ <https://www.desjardins.com/ca/about-us/desjardins/who-we-are/quick-facts/index.jsp>

² As at September 30, 2024

³ Silvia Pavoni, "Top 1000 World Banks – Desjardins out in front of Canadian field," *The Banker*, July 1, 2020. <https://www.thebanker.com/Top-1000-World-Banks/Top-1000-World-Banks-Desjardins-out-in-front-of-Canadian-field?ct=true>

⁴ First in RI : Canada's widest responsible investment (RI) lineup with over 50 product options.

Desjardins internal research, December 31, 2023. Data subject to change.



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2025 Economic Outlook

A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?

Randall Bartlett, Deputy Chief Economist

January 15, 2025



2025 ECONOMIC OUTLOOK

A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?

➤ 3 big headwinds facing the Canadian economy in 2025

- US economic policy in a new Trump administration
- Sharply slower population growth
- Impending wall of mortgage renewals

➤ 3 long-term tailwinds gradually boosting the Canadian economy

- Accelerate AI adoption
- Scale up Canadian businesses
- Leverage Canada's vast critical mineral resources

US ECONOMIC POLICY

What are Canada and the World in for?

Tariffs are coming

- We just don't know when, on what and by how much

Other measures could also be a drag on the US economy

- Deportations could be particularly damaging

Tax cuts could provide a partial offset

- But they should be inflationary and increase the federal deficit, keeping rates higher than otherwise

Further deregulation is rarely a bad thing for growth

- This was a bright spot in Trump 1.0

Additional geopolitical uncertainty and volatility

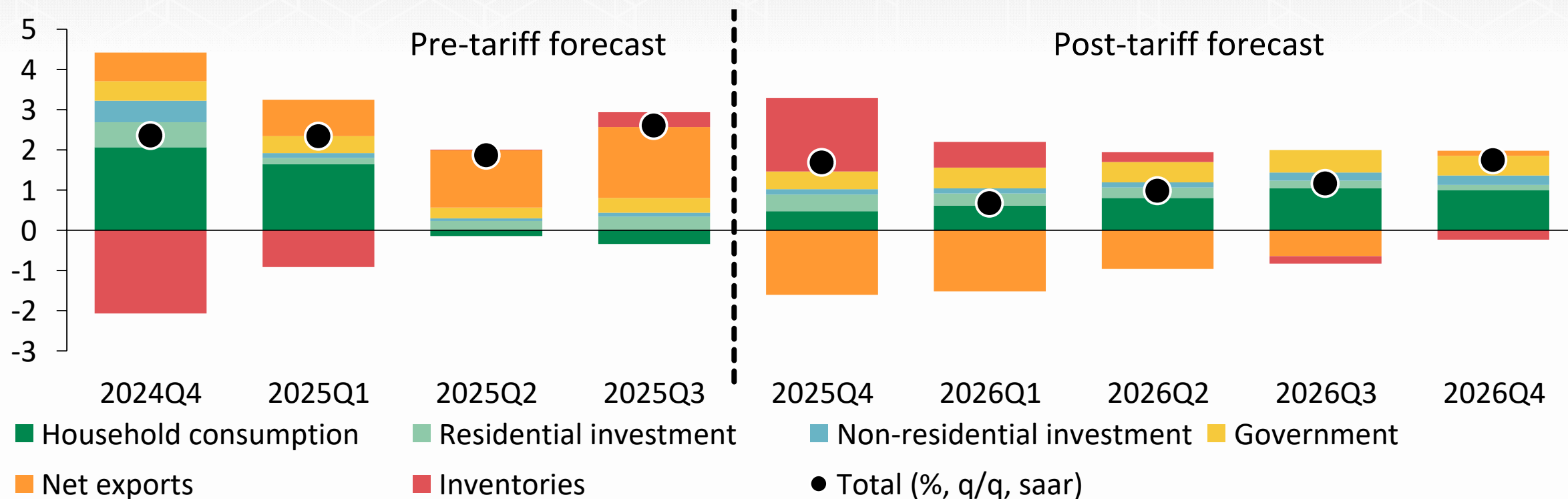
- Trump is transactional, values personal relationships and often announces policy over social media before typically walking it back as a negotiating tactic

CANADA ECONOMY

Trade Should Drive Growth Higher in 2025 before Tariffs Take Effect

Contributions to the quarterly Canadian real GDP growth forecast

Percentage points, annualized rates

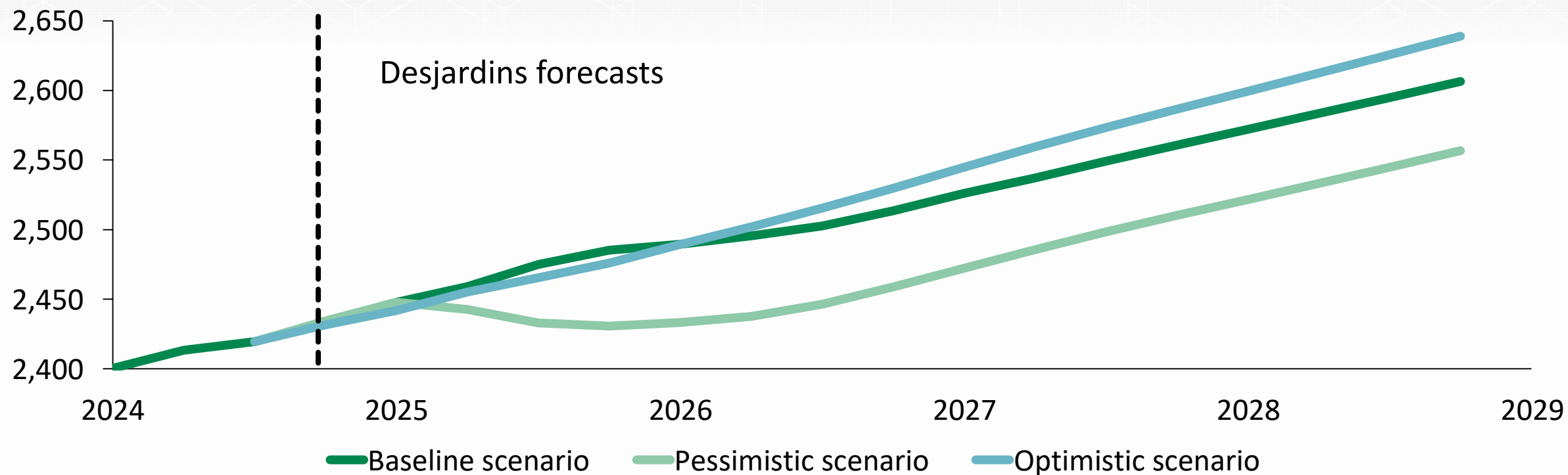


CANADA ECONOMY

Risks to Our Baseline Are Balanced but the Downside Could Be Severe

Canada real GDP forecast scenarios

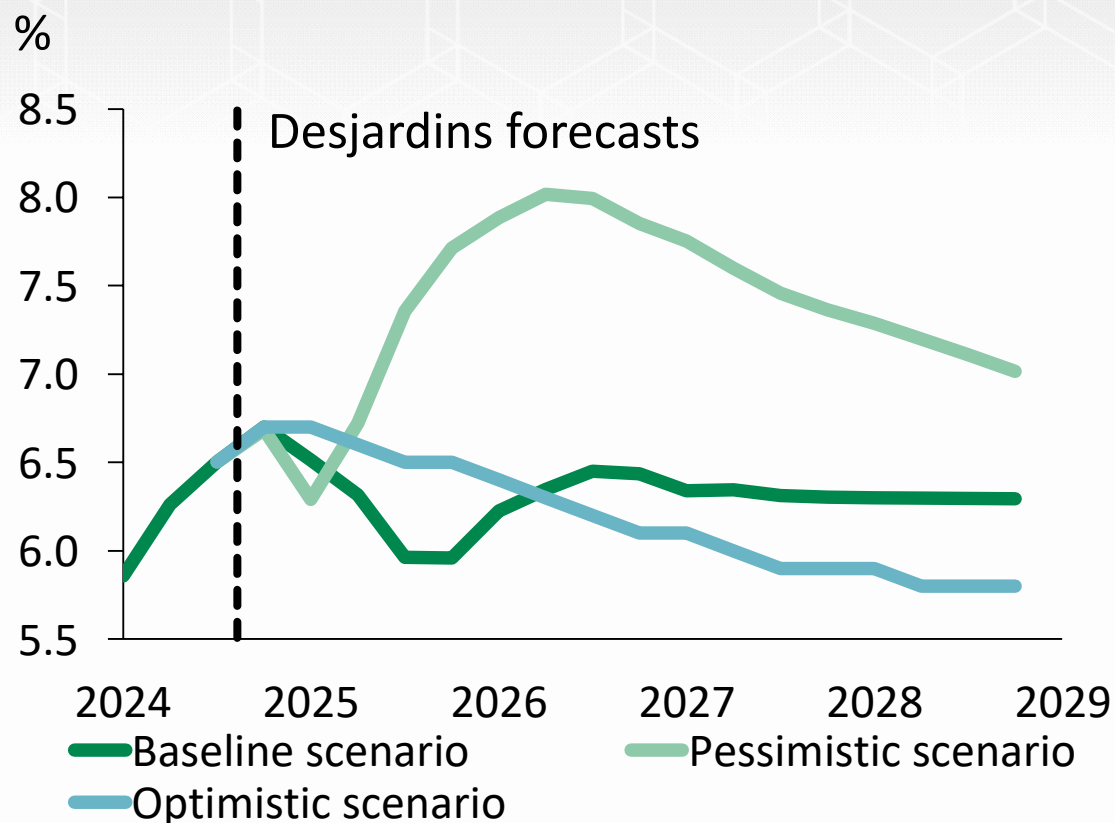
\$B of 2017 dollars



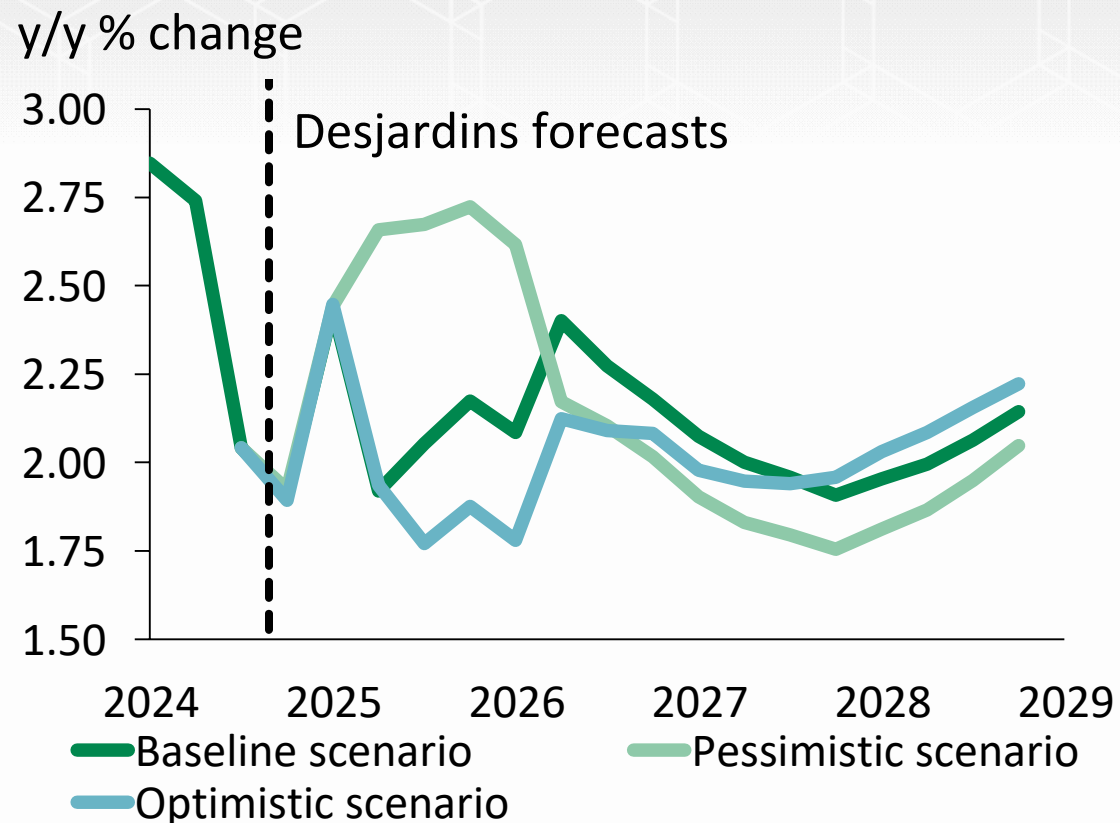
CANADA ECONOMY

Pessimistic Scenario Could See Sharply Higher Unemployment and Inflation

Canada unemployment rate scenarios



Canada CPI inflation scenarios

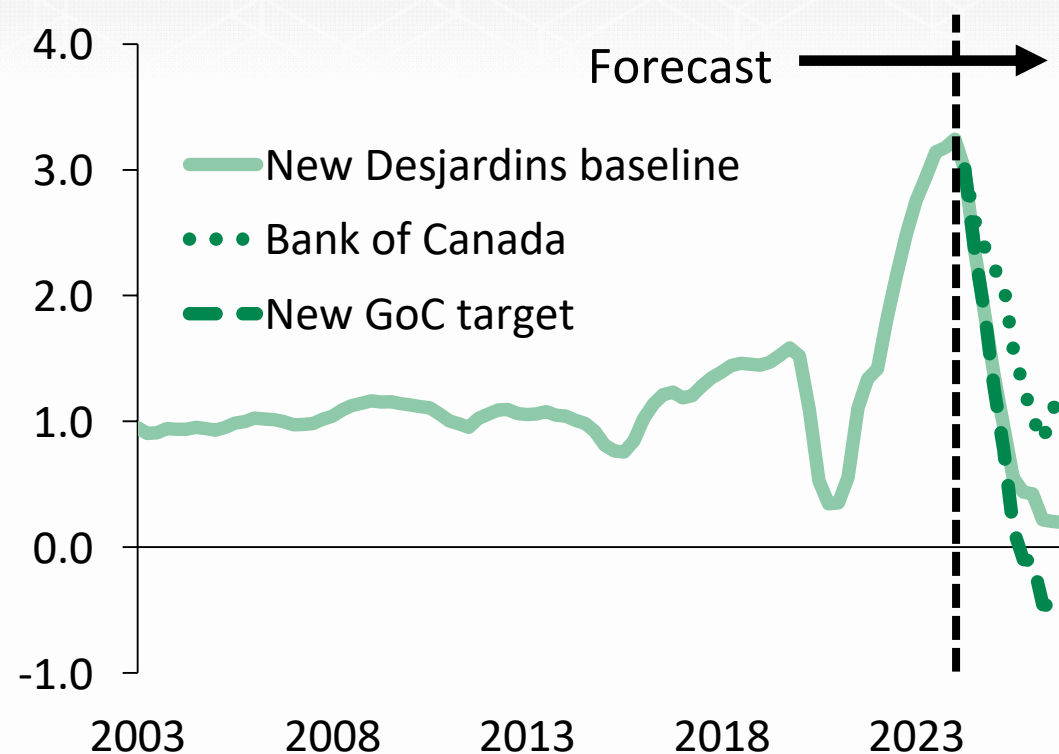


CANADA LABOUR MARKET

Population Boom Has Boosted Demand but May Slow Sharply Ahead

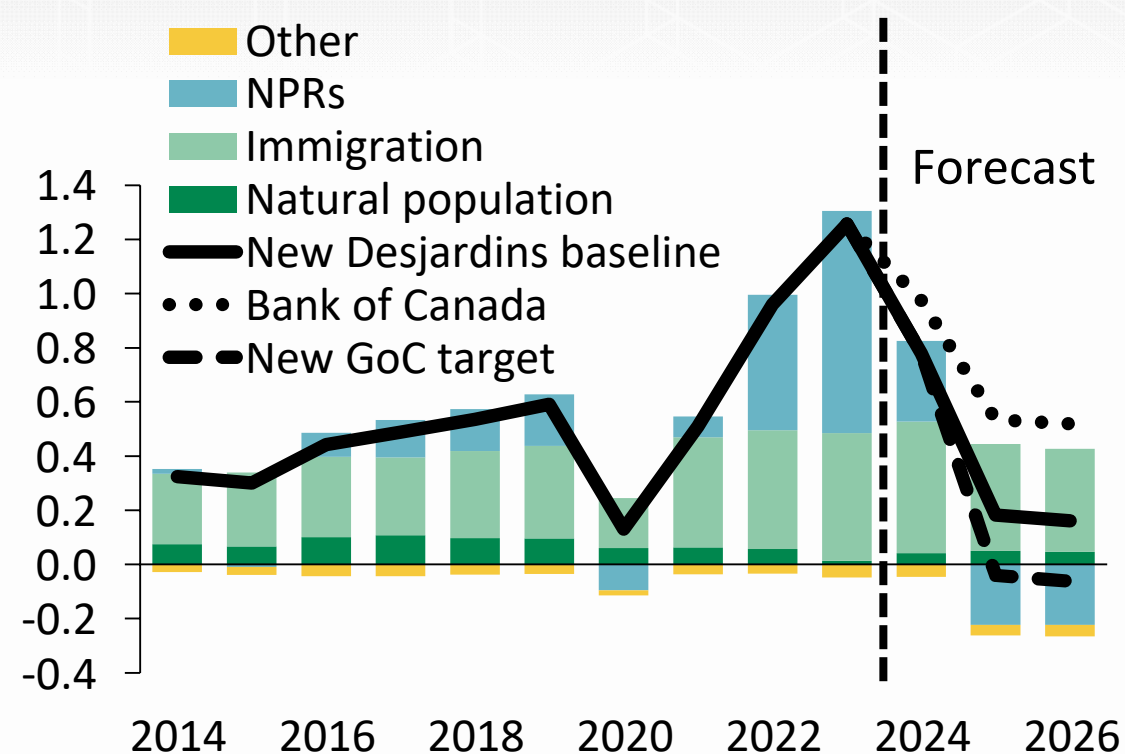
Population growth

y/y % change



Change in population level by source

Millions of people

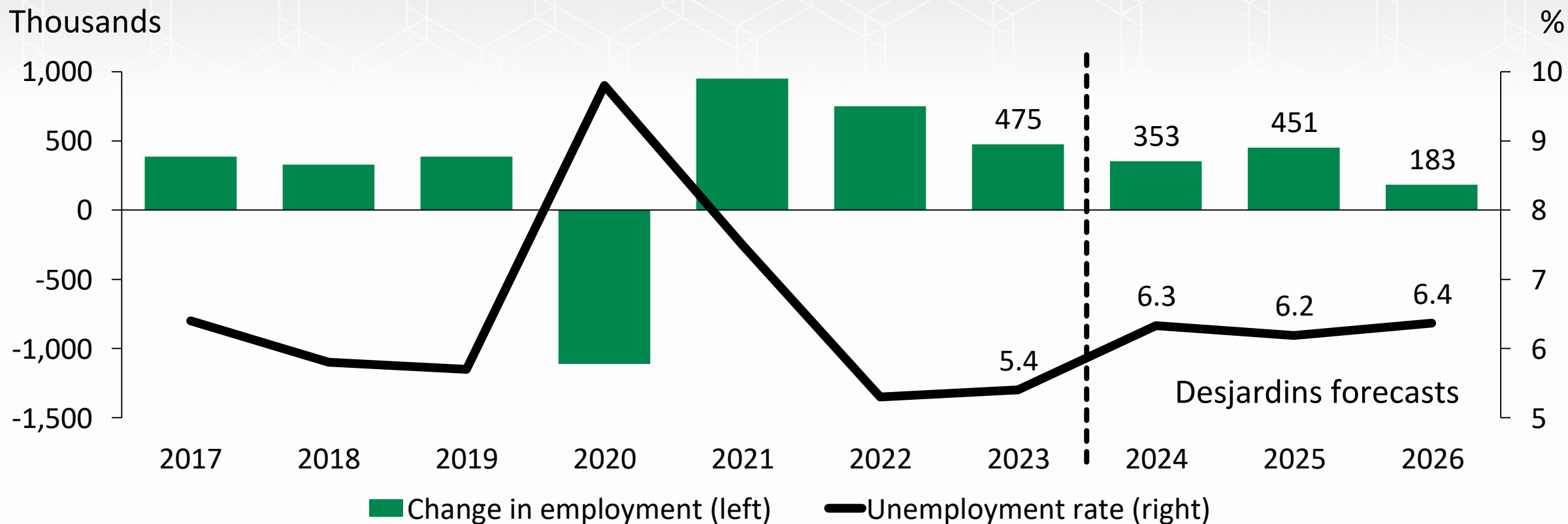


Note: Annual population is presented on a calendar-year basis.
NPRs: Non-permanent residents; GoC: Government of Canada

CANADA LABOUR MARKET

Unemployment Rate Remains Broadly Stable in Our Baseline Scenario

Change in employment versus the unemployment rate

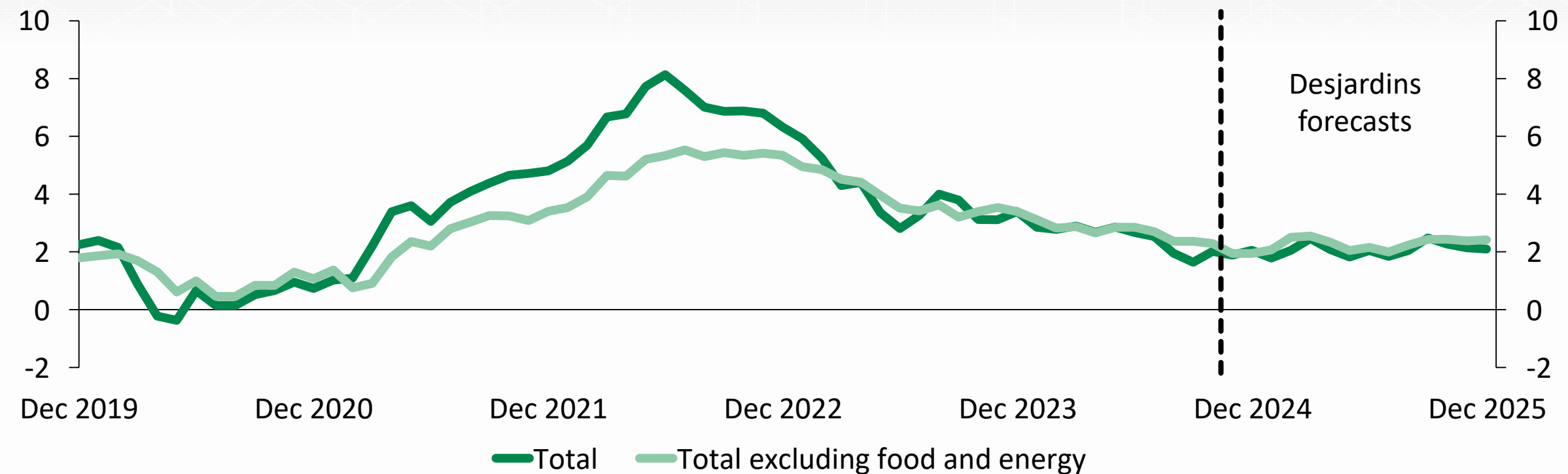


CANADA INFLATION

Despite Some Wiggles, Total CPI Inflation Should Stay around 2% in 2025

Total and core CPI inflation*

% y/y change



*Calculated using fixed basket weights

Statistics Canada and Desjardins Economic Studies

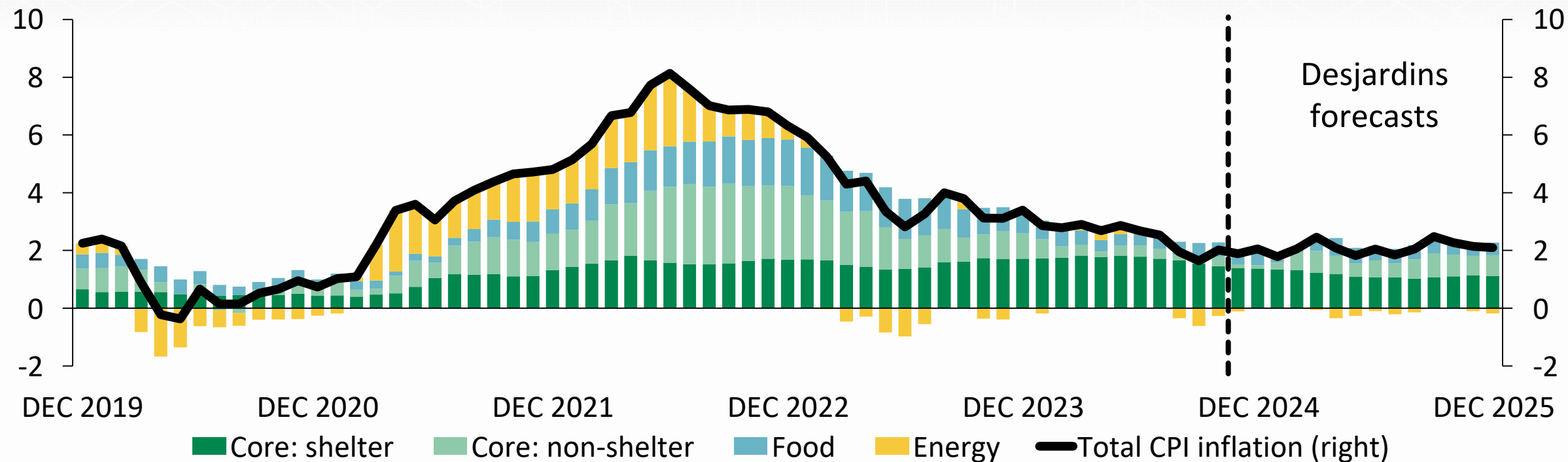
CANADA INFLATION

Lower Interest Rates Should Take Pressure Off Shelter Inflation

Total CPI inflation and its underlying decomposition*

Percentage points

y/y % change



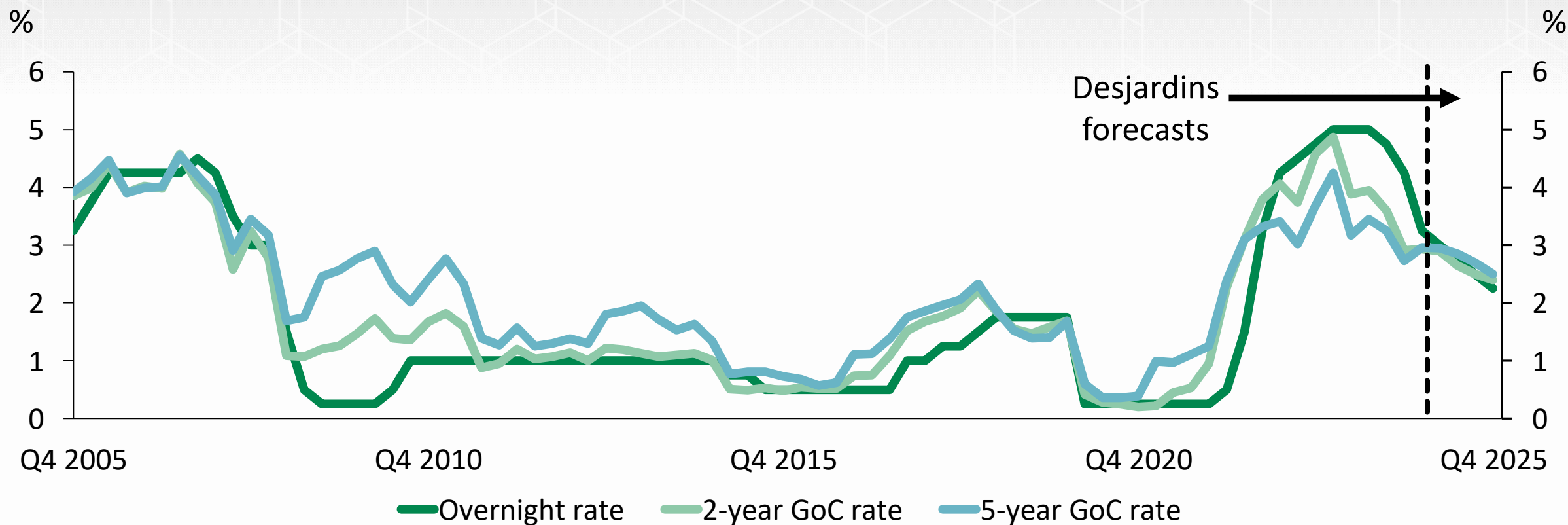
*Calculated using fixed basket weights; Core refers to the total CPI index excluding food and energy

Statistics Canada and Desjardins Economic Studies

CANADA INTEREST RATES

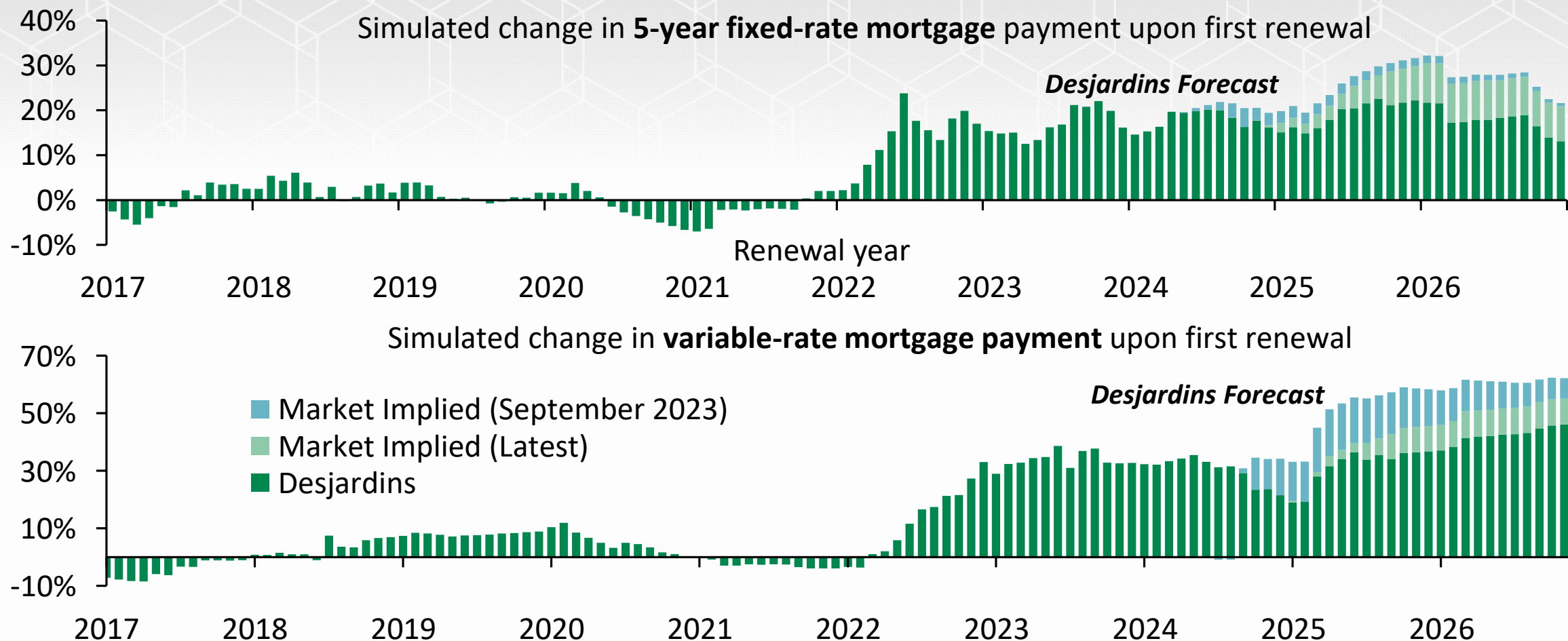
Interest Rates are Expected to Fall Further in 2025 along with Inflation

Policy rate and Government of Canada (GoC) bond yields



CANADA INTEREST RATES

Impact from Higher Mortgage Rates at Renewal Is Just Getting Started

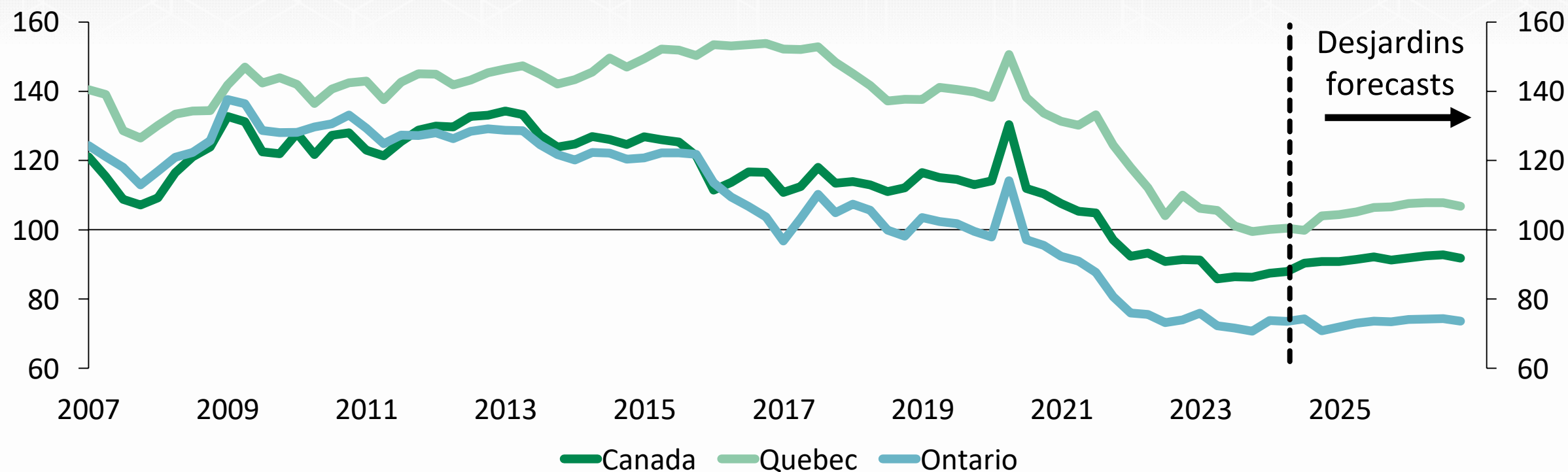


CANADA HOUSING MARKET

Affordability Is Unlikely to Improve Materially Over the Next Two Years

Desjardins Affordability Index

Index, > 100 = affordable

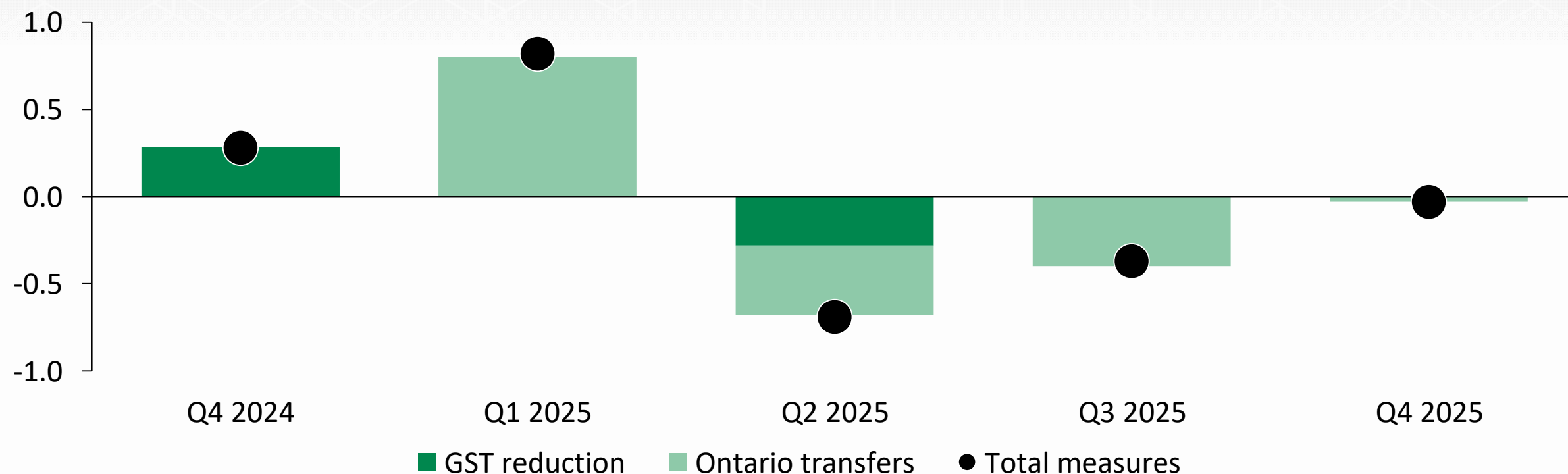


CANADA CONSUMER

New Stimulus Will Boost Growth Now but Will Quickly Fade Away

Contribution to the Canadian real GDP growth forecast

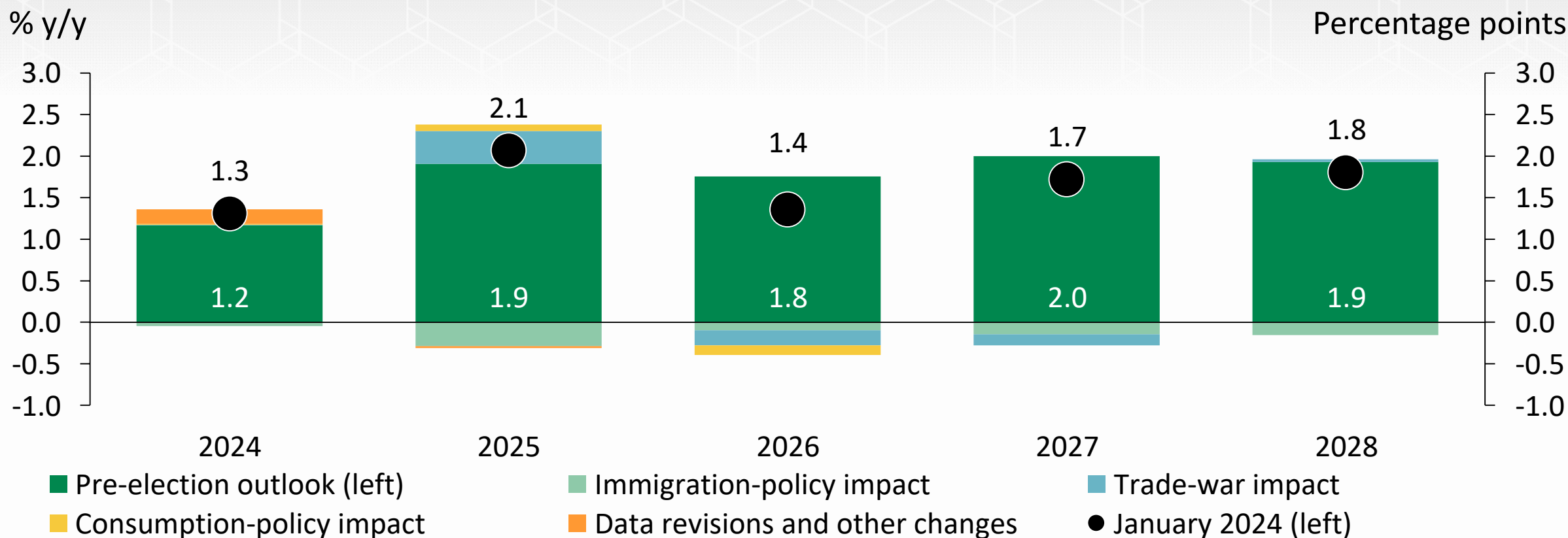
Percentage points, annualized rates



CANADA ECONOMY

Stronger Near-Term Growth Should Give Way to Lower Long-Term Growth

Contributions of changes to the medium-term Canadian real GDP forecast



EFO: Economic and Financial Outlook

Statistics Canada, Immigration, Refugees and Citizenship Canada, and Desjardins Economic Studies

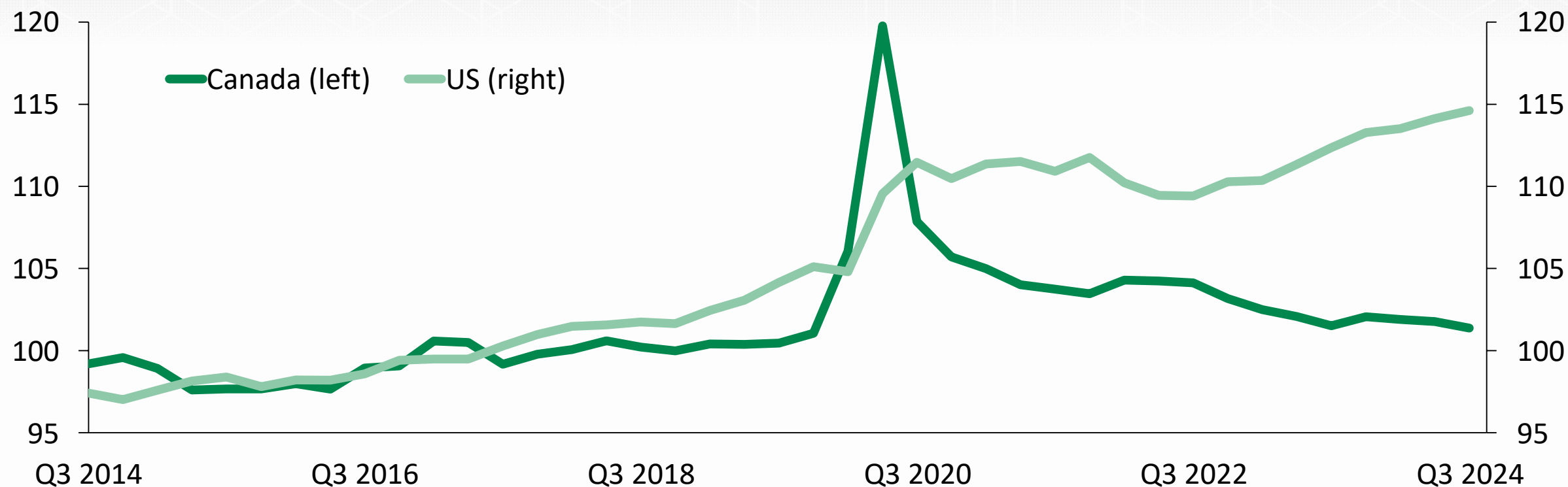
LABOUR PRODUCTIVITY

Since the Pandemic, Canadian Productivity has Significantly Trailed the US

Canada and US business sector labour productivity

Index, 2017 = 100, real GDP per hour worked, CA\$

Index, 2017 = 100, real GDP per hour worked, US\$

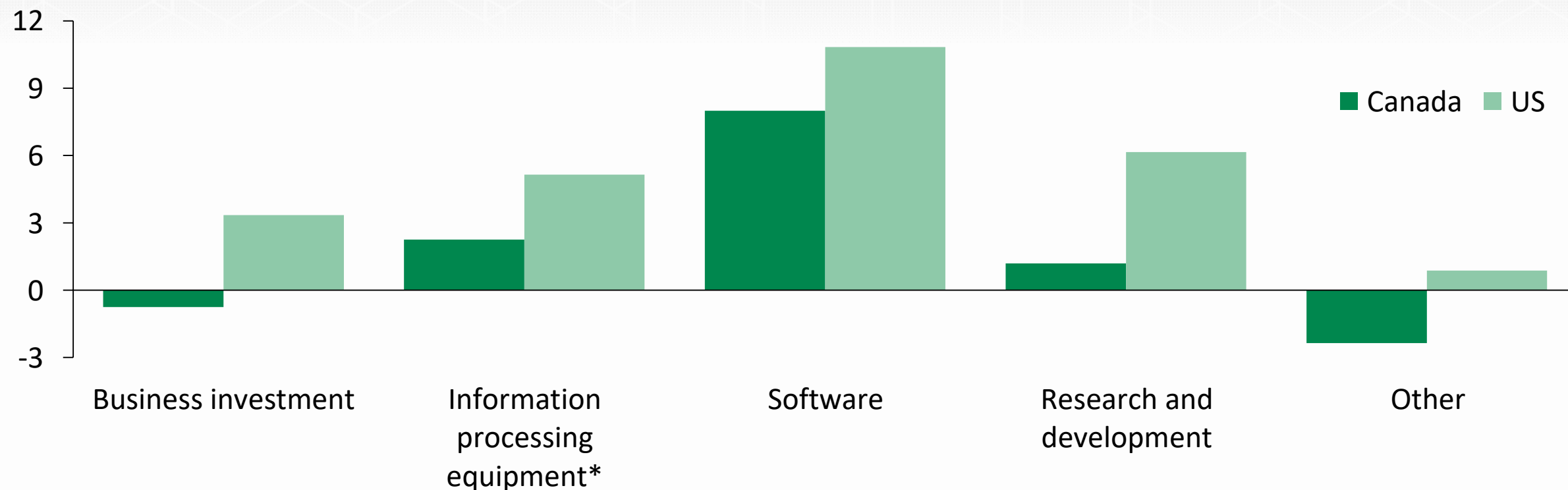


LABOUR PRODUCTIVITY

US Business Investment Has Been Concentrated in Innovation

Real business investment by expenditure category

%, average annual growth, 2015 to 2023



*For Canada, this includes computers and computer peripheral equipment; communications and audio and video equipment; and other electrical and electronic machinery and equipment.

ACCELERATE AI ADOPTION

Canada Is among the Top 10 in International AI Rankings

CRITERIA	INVESTMENT, INNOVATION, IMPLEMENTATION	GOVERNMENT READINESS	AI PATENTS PER 100,000 INHABITANTS	PRIVATE INVESTMENT IN AI
SOURCE	TORTOISE, 2023	OXFORD INSIGHTS, 2023	STANFORD UNIV., 2022	STANFORD UNIV., 2023
#1	US	US	South Korea	US
#2	China	Singapore	Luxembourg	China
#3	Singapore	UK	US	UK
#4	UK	Finland	Japan	Germany
#5	Canada	Canada	China	Sweden
#6	South Korea	France	Singapore	France
#7	Israel	South Korea	Australia	Canada
#8	Germany	Germany	Canada	Israel
#9	Switzerland	Japan	Germany	South Korea
#10	Finland	Netherlands	Denmark	India

Oxford Insights, Stanford University (2024), Tortoise Media, different websites and Desjardins Economic Studies

ACCELERATE AI ADOPTION

Canada Lags Its G7 Peers on AI Computing Capacity

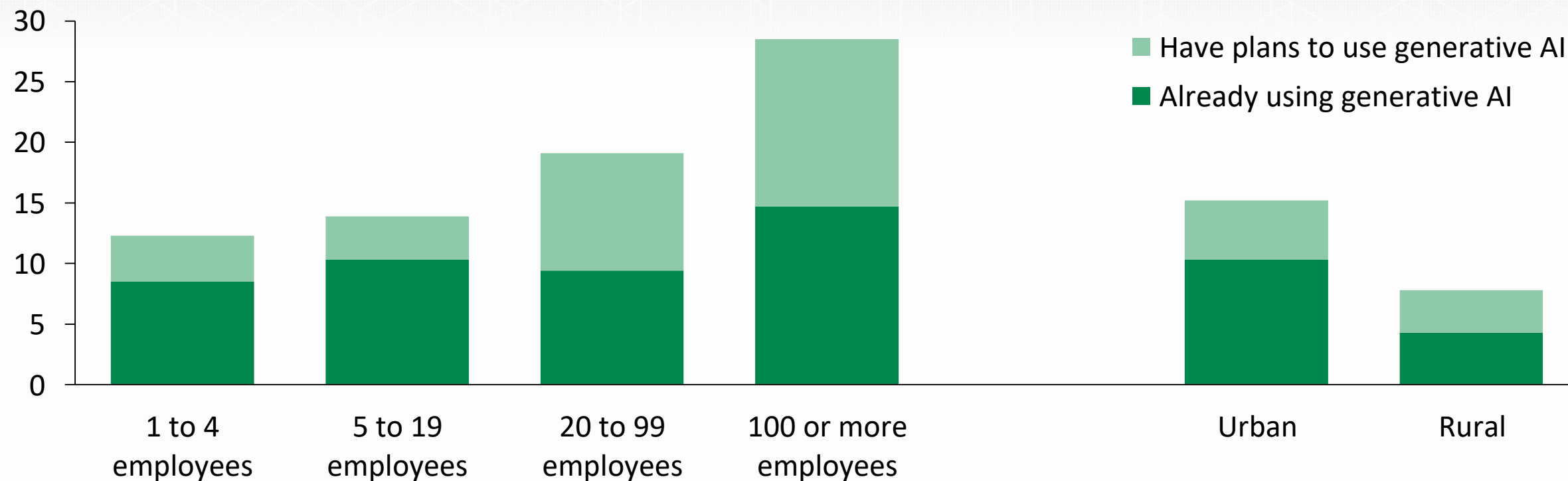
RANK	COUNTRY	UNADJUSTED COMPUTE PERFORMANCE CAPACITY	PER CAPITA PERFORMANCE
1	US	90.4	10.6
2	Japan	16.3	7.6
3	Italy	8.5	5.6
4	Germany	6.2	1.9
5	France	4.2	2.4
6	UK	2.0	1.2
7	Canada	1.0	1.0

ACCELERATE AI ADOPTION

Large and Urban Businesses Are More Likely to Be Using Generative AI

Business use of generative AI, Q1 2024

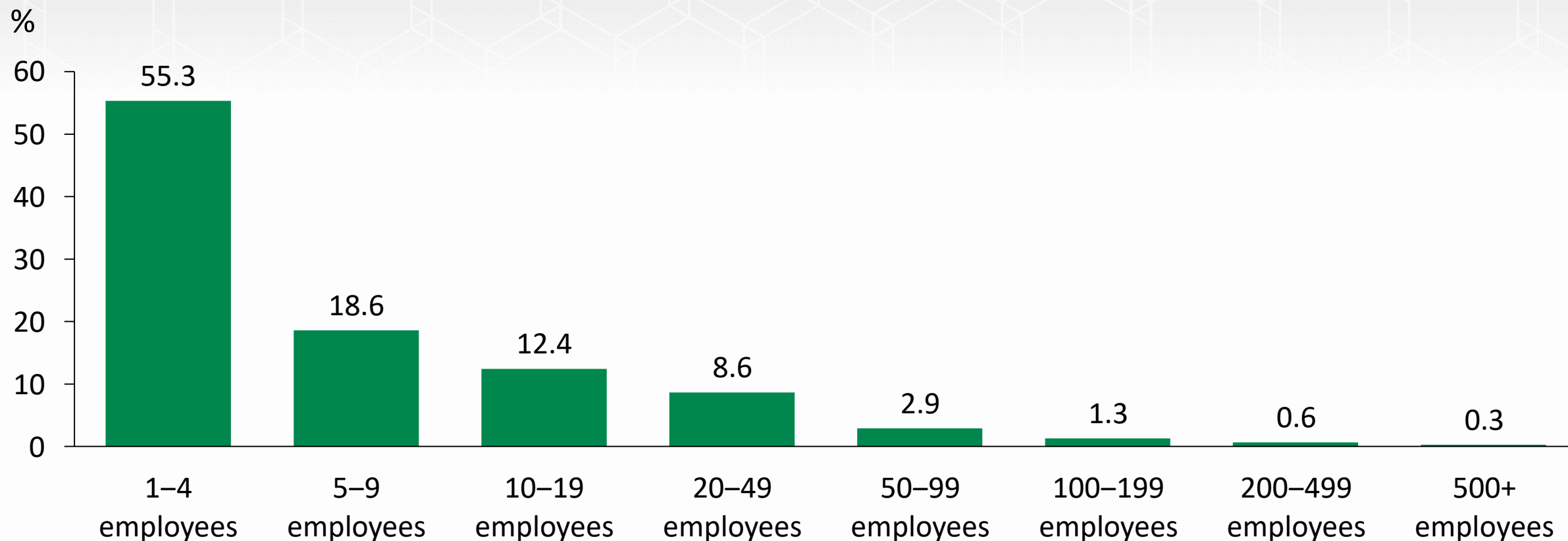
Percent of total



SCALE UP CANADIAN BUSINESSES

Canadian Companies Tend to be Disproportionately Small

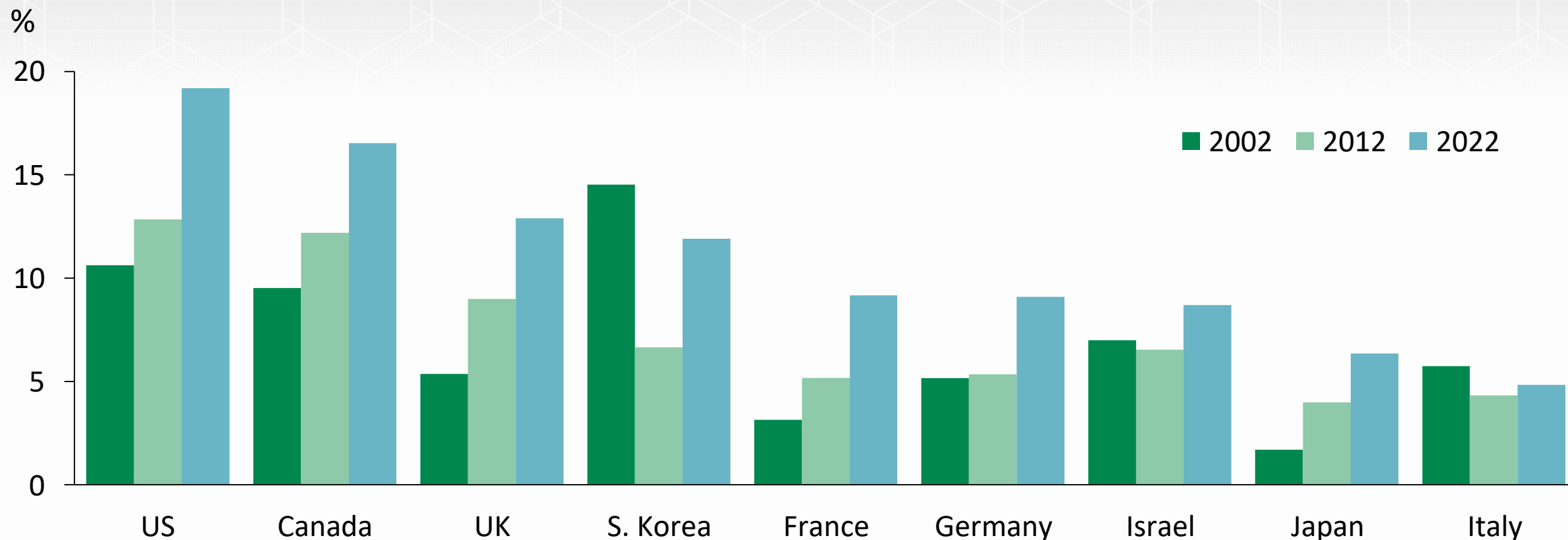
Share of Canadian employees by business size



SCALE UP CANADIAN BUSINESSES

Canadians are Good at Starting Businesses but Not at Scaling them Up

Total early-stage Entrepreneurial Activity (TEA)



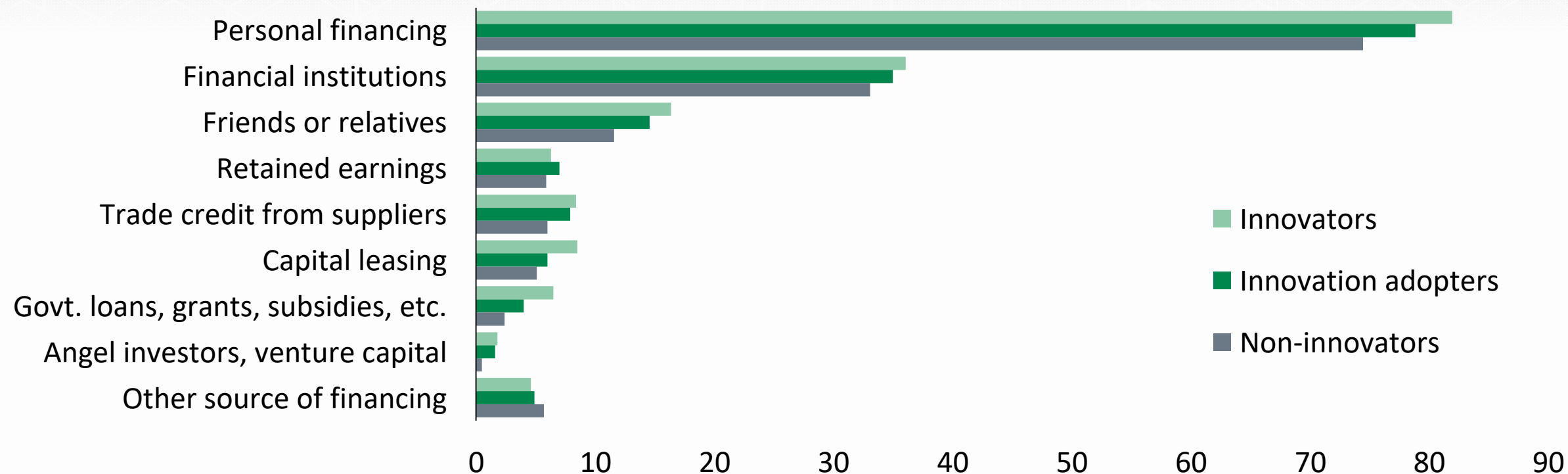
Total early-stage Entrepreneurial Activity (TEA) Rate: Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

SCALE UP CANADIAN BUSINESSES

Opportunity for Financial Institutions to Play a Greater Role

Sources of financing used to start-up businesses of under 500 people, 2022

%



SMEs: Small- and medium-sized enterprises

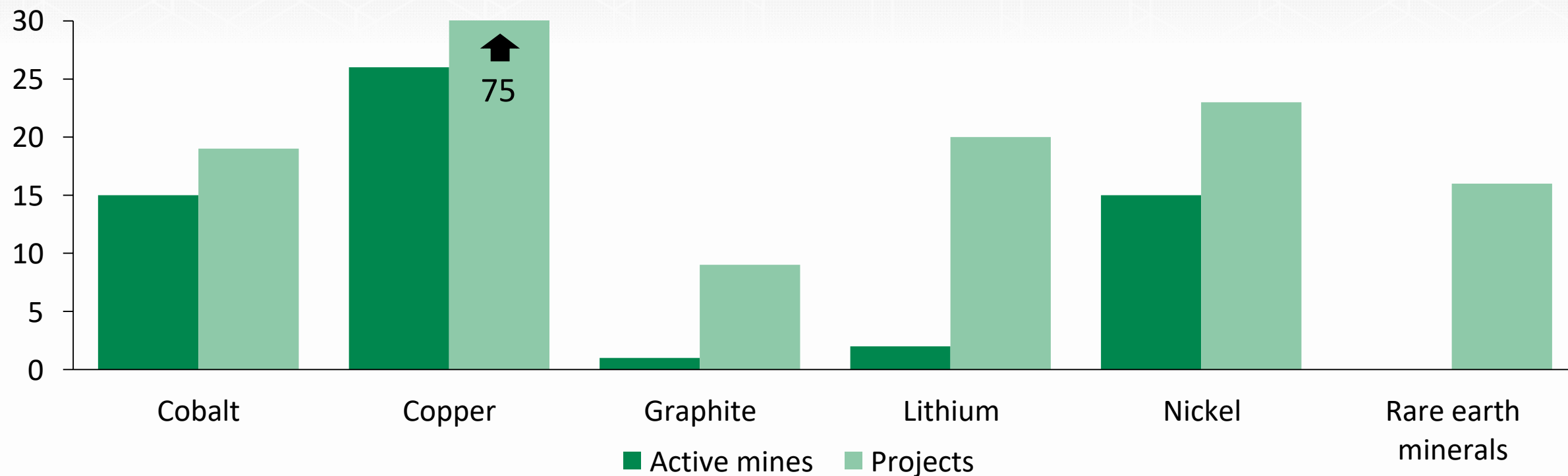
Statistics Canada and Desjardins Economic Studies

COMMODITIES

Mining for Critical Minerals is Expected to Keep Ramping Up in Canada

Number of active critical mineral mines and projects in Canada*

Number**



*Projects listed by the government of Canada as of January 8, 2025.

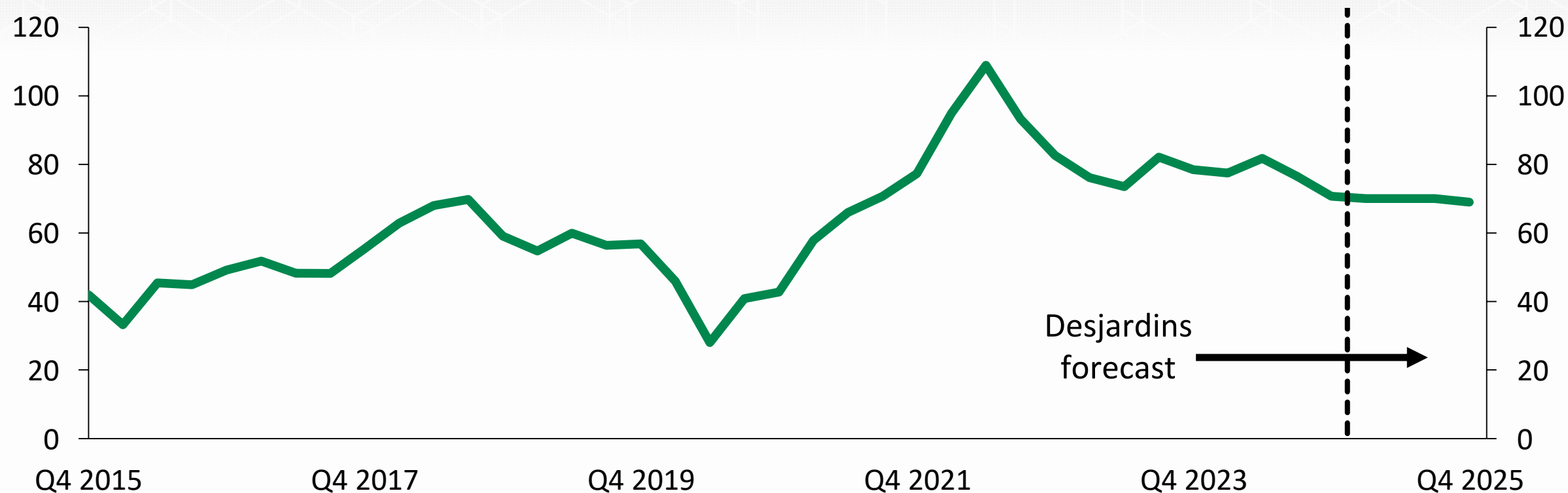
**This may be the mine or project's main production or a byproduct. Consequently, some mines and projects may be included in more than one mineral.

COMMODITIES

Oil Prices are Likely to Trend Lower on More Output and Less Demand

West Texas Intermediate (WTI) crude oil price

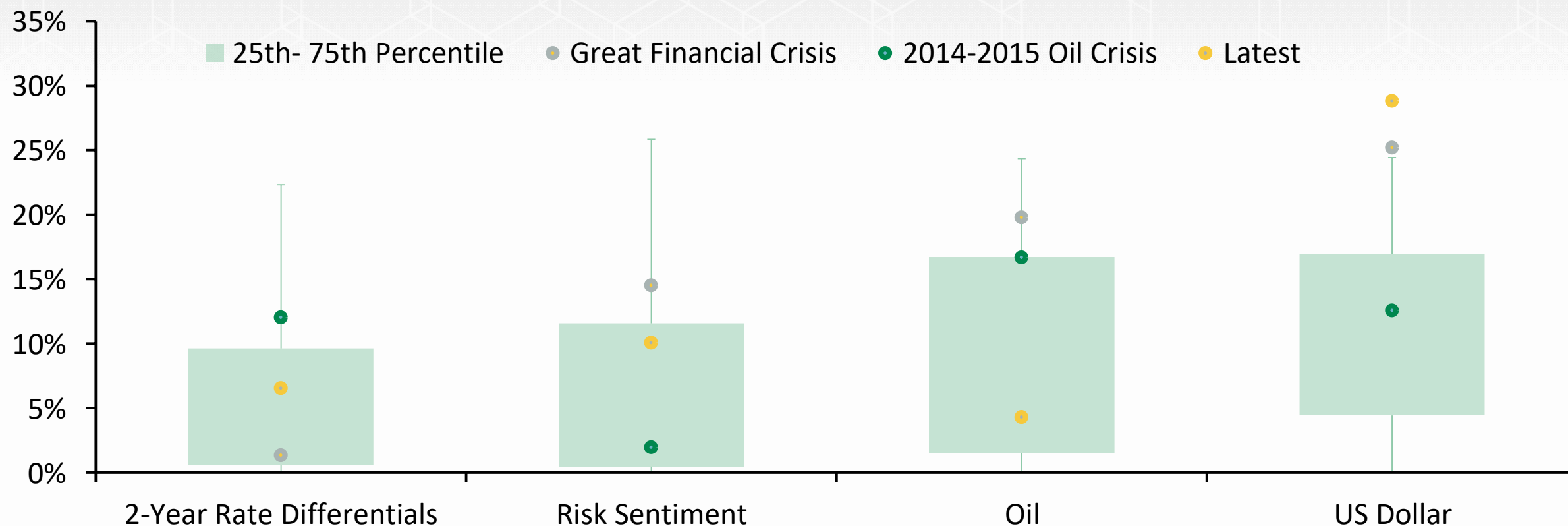
US\$ per barrel



CANADIAN DOLLAR

Oil Prices are Just One Factor Driving Canadian Dollar

Factors explaining changes in Canadian dollar*

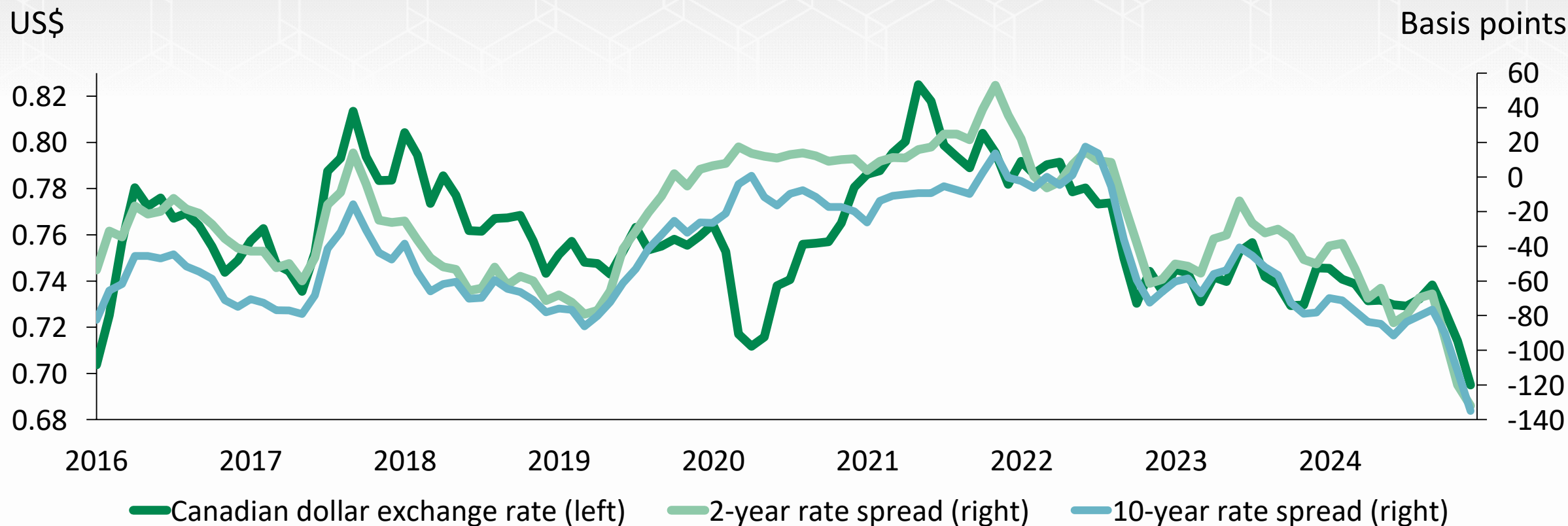


*R-squared of 1-year rolling univariate regressions on daily returns of each factor. Risk sentiment is represented by the S&P500. The US dollar factor is represented by the DXY index excluding the Canadian dollar. Error bars represent the 10th and 90th percentile observations while the shaded areas are interquartile ranges

CANADIAN DOLLAR

The CAD Is Getting Hit by Wider Interest Rate Spreads

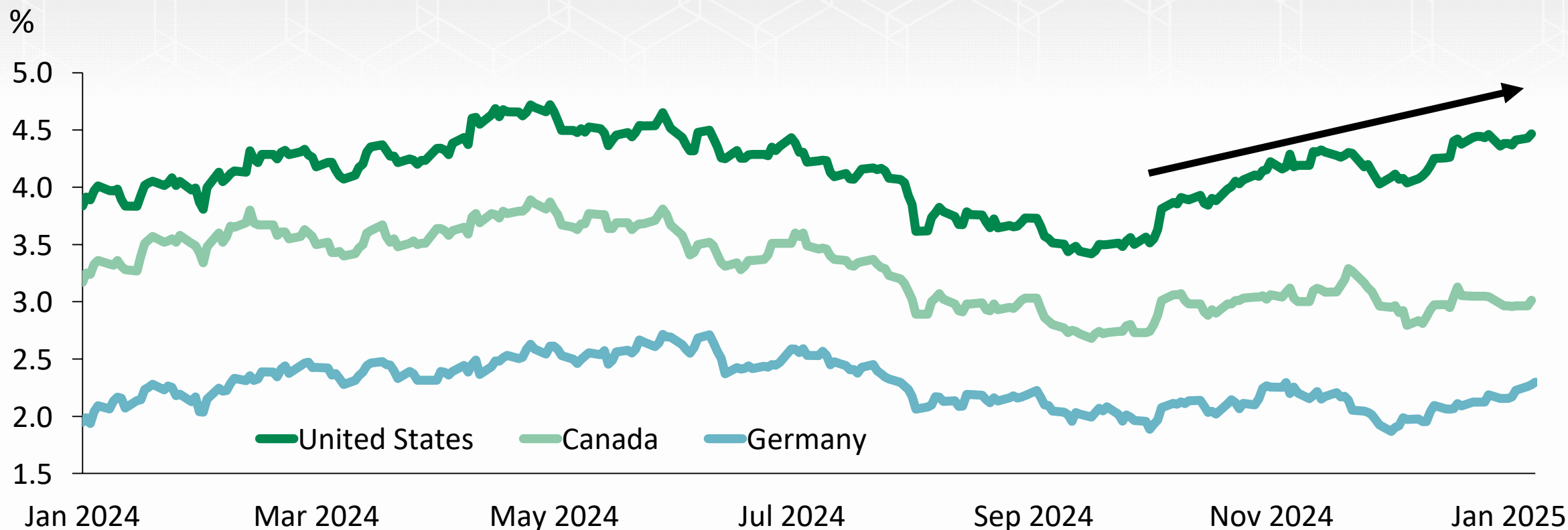
Canadian dollar exchange rate



CANADIAN DOLLAR

US Bond Spreads Continue to Widen Against Other Major Economies

5-year government bond yields

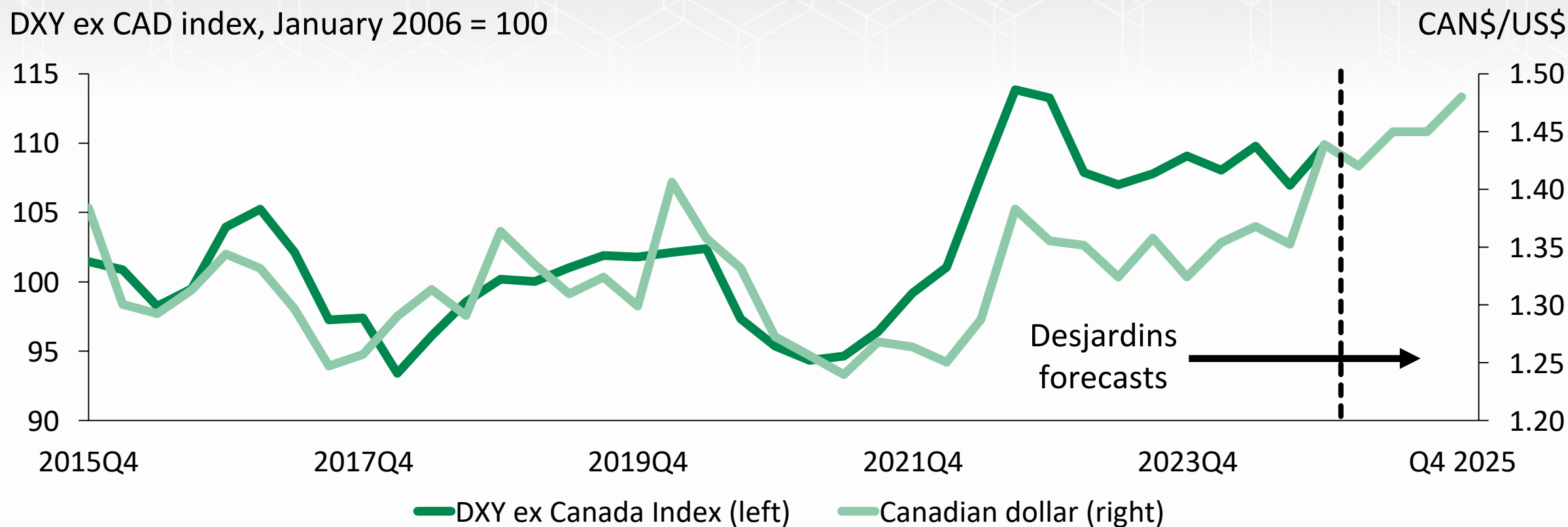


CANADIAN DOLLAR

USD Outperformance Should Continue to Weaken the CAD

USD index excluding the CAD versus the Canadian dollar

DXY ex CAD index, January 2006 = 100



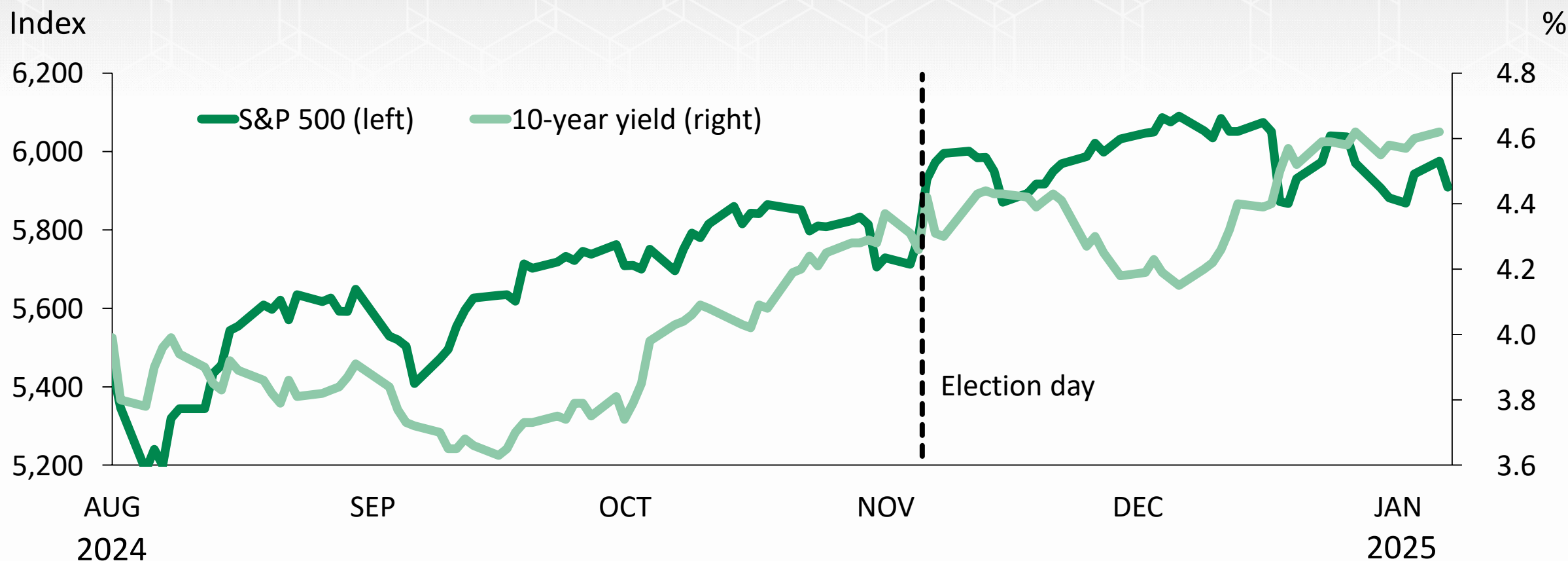
USD: US dollar; CAD: Canadian dollar; estimates and forecasts are for end-of-period values

US Federal Reserve and Desjardins Economic Studies

EQUITY MARKETS

US Stock Markets Have Welcomed the Re-Election of Donald Trump

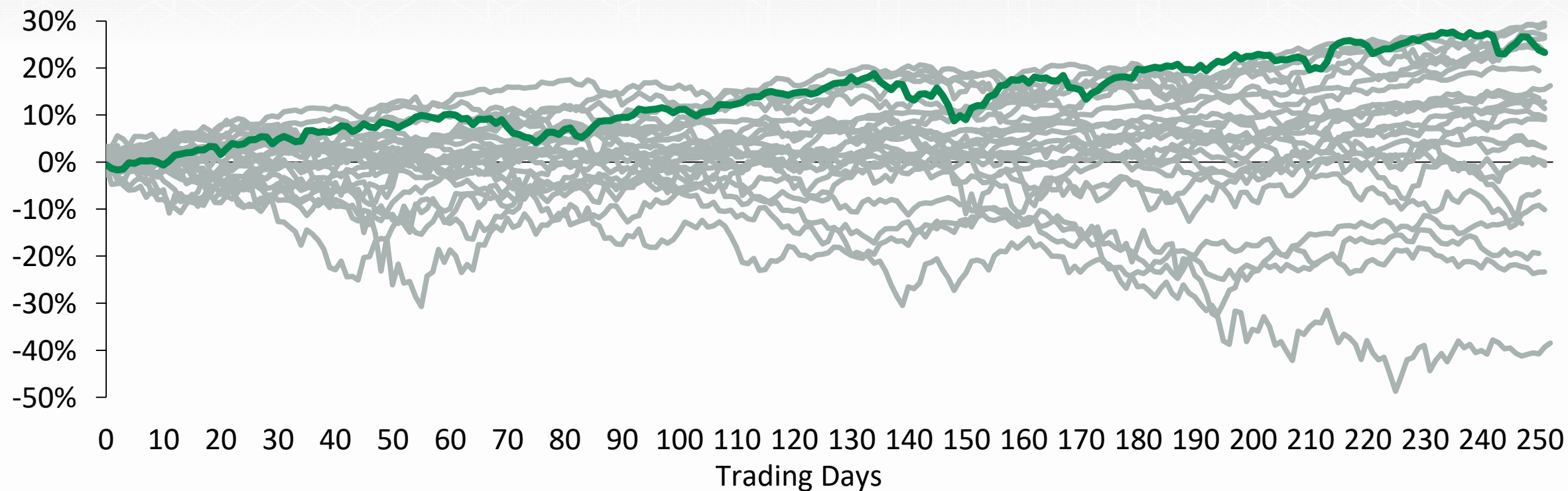
Stock index and US federal bond yields



EQUITY MARKETS

US Equities Ended 2024 on a Relative High Note

S&P 500 YTD returns since 2000

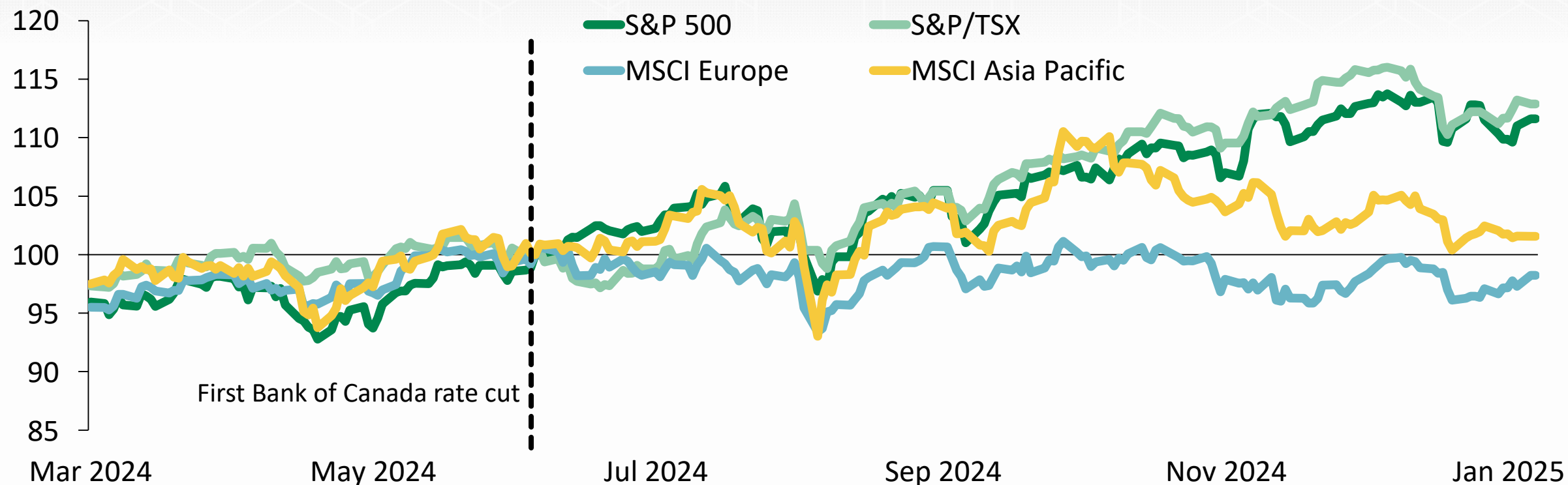


EQUITY MARKETS

The TSX Has Performed Well since Rates Started Coming Down

Global stock indexes

June 5, 2024 = 100

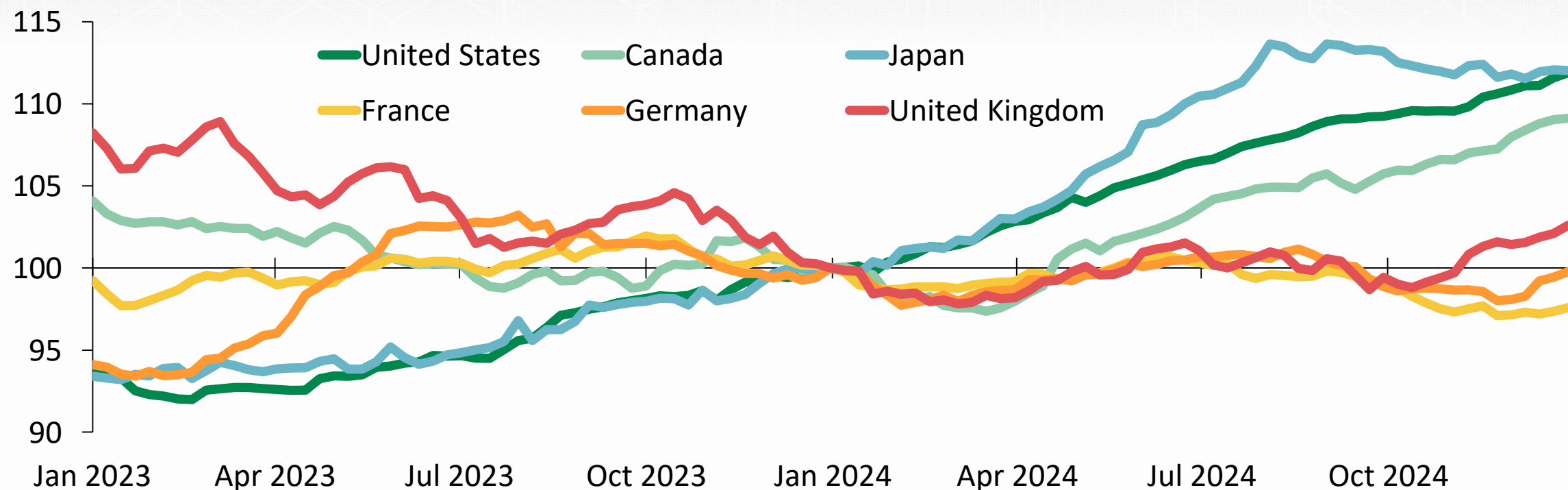


EQUITY MARKETS

Analysts Believe Earnings Have More Room to Run in North America

Stock indexes by country:* Average estimated earnings per share over the next 12 months

December 2023 = 100



*MSCI indexes.

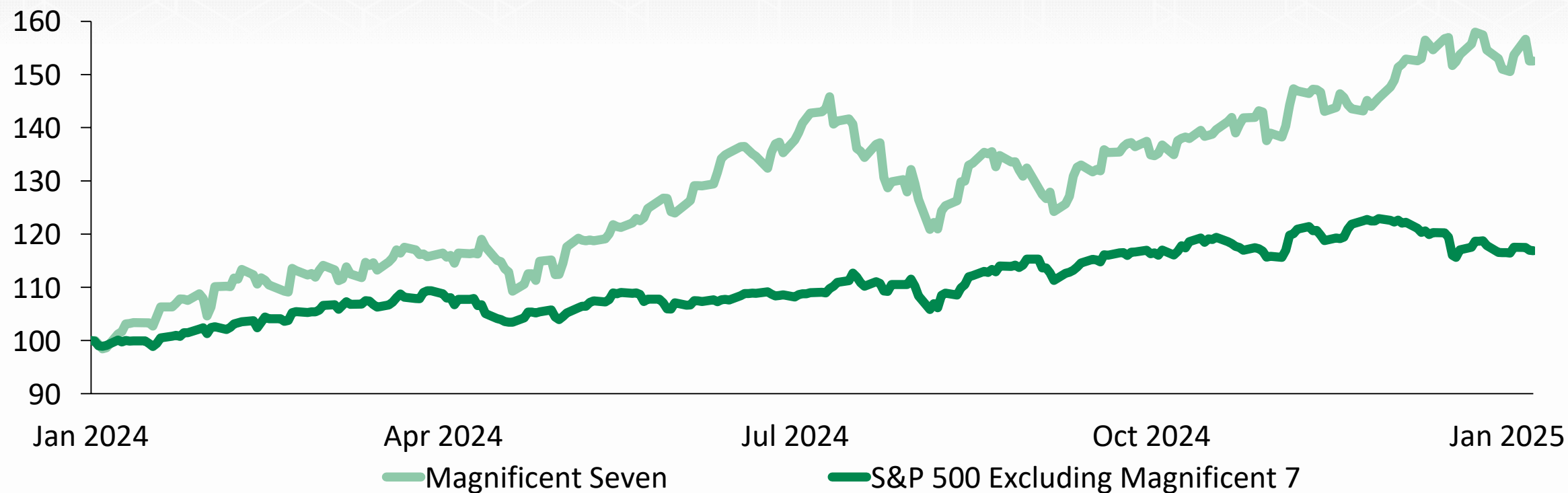
Datastream and Desjardins Economic Studies

EQUITY MARKETS

Most US Equity Performance has been Concentrated in a Few Names

Cumulative equity returns

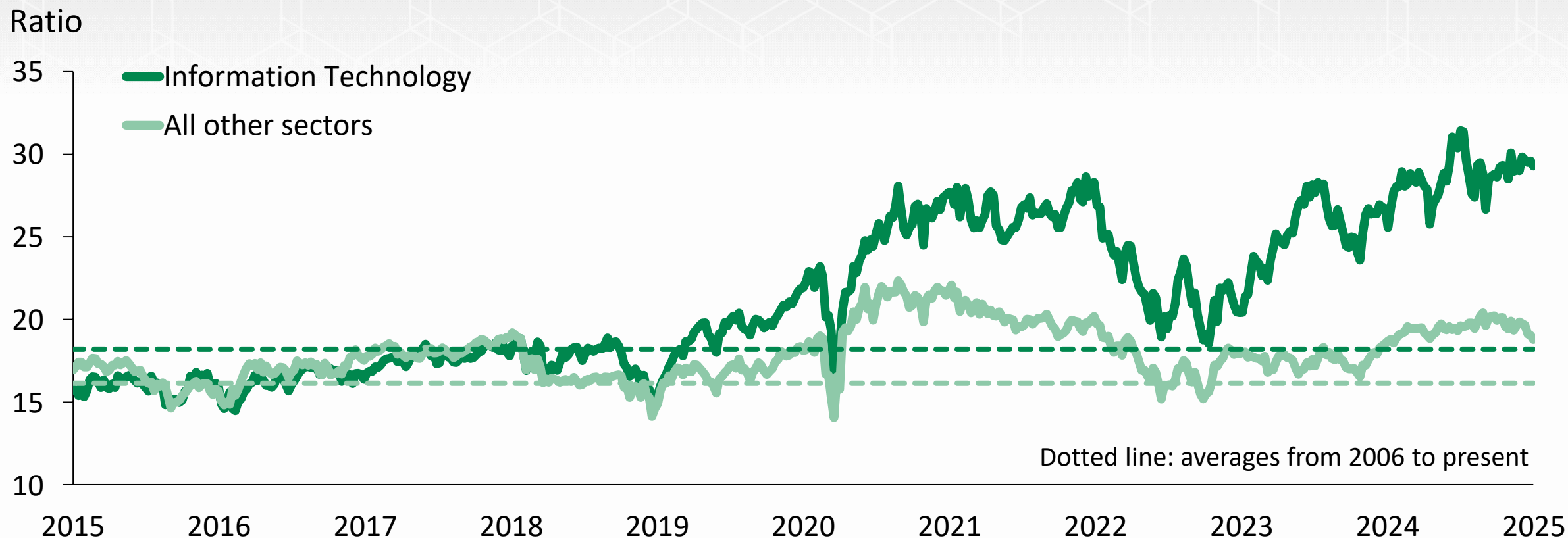
Index (January 2024 = 100)



EQUITY MARKETS

S&P 500 Stock Valuations Are Hitting Historic Highs

Average price-to-earnings ratio – Projected earnings for the next 12 months



EQUITY MARKETS

Investors are Positioned for More Positive Equity Performance Ahead

Equity futures held by asset managers (in USD)

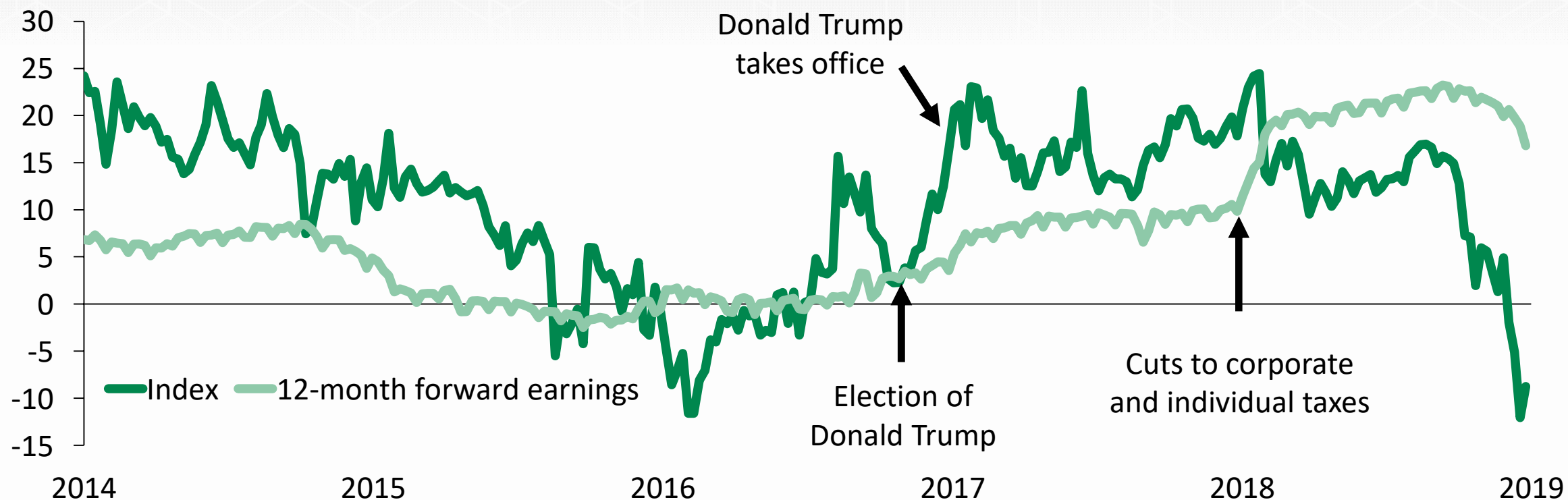


EQUITY MARKETS

Markets Loved Trump the First Time, Until They Didn't

S&P 500 index and 12-month forward earnings

y/y % change



FINANCIAL MARKETS

Positive Asset Class Returns are Widely Expected This Year and Next

Asset class returns (%)						
End of year in % (Unless otherwise stated)	CASH	BONDS	CANADIAN STOCKS	US STOCKS	INTERNATIONAL STOCKS	EXCHANGE RATE
	3-month T-bill	Bond index*	S&P/TSX index^	S&P 500 index (US\$)^	MSCI EAFE Index (US\$)^	C\$/US\$ (% change)†
2014	0.9%	8.8%	10.6%	13.7%	-4.5%	9.4%
2015	0.6%	3.5%	-8.3%	1.4%	-0.4%	19.1%
2016	0.5%	1.7%	21.1%	12.0%	1.5%	-2.9%
2017	0.6%	2.5%	9.1%	21.8%	25.6%	-6.4%
2018	1.4%	1.4%	-8.9%	-4.4%	-13.4%	8.4%
2019	1.6%	6.9%	22.9%	31.5%	22.7%	-4.8%
2020	0.9%	8.7%	5.6%	18.4%	8.3%	-2.0%
2021	0.2%	-2.5%	25.1%	28.7%	11.8%	-0.8%
2022	1.8%	-11.7%	-5.8%	-18.1%	-14.0%	7.2%
2023	4.7%	6.7%	11.8%	26.3%	18.9%	-2.2%
2024	4.9%	4.2%	21.7%	25.0%	4.3%	8.6%
2025 forecast	3.0%	4.6%	8.3%	10.8%	9.9%	-1.4%
range	2.3% to 3.7%	1.6% to 7.6%	0.3% to 16.3%	2.8% to 18.8%	1.9% to 17.9%	-4.6% to 3.4%
2026 forecast	2.1%	4.0%	7.0%	5.9%	8.6%	-0.7%
range	1.3% to 2.9%	0.5% to 7.5%	-3% to 17%	-4.1% to 15.9%	-1.4% to 18.6%	-4.7% to 3.3%

* FTSE Canada Universe Bond Index;

^ Dividends included;

† Negative = appreciation, positive = depreciation.

Sources: Datastream and Desjardins Economic Studies

2025 ECONOMIC OUTLOOK

A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?

- Canada's economy faces several near-term and substantial headwinds
- Tailwinds to growth are blowing but will be more gradual
- Most drivers of the CAD suggest there should be further weakness ahead
- Equity returns should be positive in 2025 but expect ongoing volatility

Thank you!

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Desjardins Target Date Investment Grade Bond Funds

Fund	Class	Code
<u>Desjardins Target 2025 Investment Grade Bond Fund</u>	C (Advisor)	DJT03140
	F (Fee-based)	DJT03140
<u>Desjardins Target 2026 Investment Grade Bond Fund</u>	C (Advisor)	DJT03141
	F (Fee-based)	DJT03141
<u>Desjardins Target 2027 Investment Grade Bond Fund</u>	C (Advisor)	DJT03142
	F (Fee-based)	DJT03142

A portfolio is only as strong
as its foundation



Take the complexity out of bond investing.

Desjardins Target Date Investment Grade Bond Funds are a suite of innovative, low-cost fixed income solutions that have built-in tax efficiency to help your clients make the most of their investments before year end.

Visit the Fund page for more details on series, fees, portfolio managers, and more.

Maturity date 2025: Desjardins Target Date Investment Grade Bond Funds



Maturity date 2026: Desjardins Target Date Investment Grade Bond Funds



Maturity date 2027: Desjardins Target Date Investment Grade Bond Funds



Disclaimers

The Desjardins Funds are not guaranteed, their value fluctuates frequently, and their past performance is not indicative of their future returns. The indicated rates of return are the historical annual compounded total returns of the date of the present document including changes in securities value and reinvestment of all distributions and do not consider sales, redemption, distribution or other optional charges, or income taxes payable by any securityholder that would have reduced returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by registered dealers.

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Questions?



Take this time to complete the CE quiz.



A passing grade of 7/10 is required to qualify for credits.

If you run out of time, you must complete it again once the replay is ready (within the next 24 hours).

Thank you!