

Canada's IMCO focuses on long-term strategy amid market volatility and policy shifts

With investors reacting to November's US presidential election results and the quarter-point interest rate cut from the Federal Reserve, the Investment Management Corporation of Ontario remains focused on positioning its portfolio for the long term. Over the next few months, the asset manager will evaluate how different asset classes might either capitalize on or be challenged by policy-driven developments.

IMCO, which manages more than C\$77bn (\$54.8bn) in assets on behalf of public sector clients in Ontario, is closely monitoring macroeconomic factors such as fiscal policy, trade, immigration, and monetary policy in the wake of Donald Trump's election.

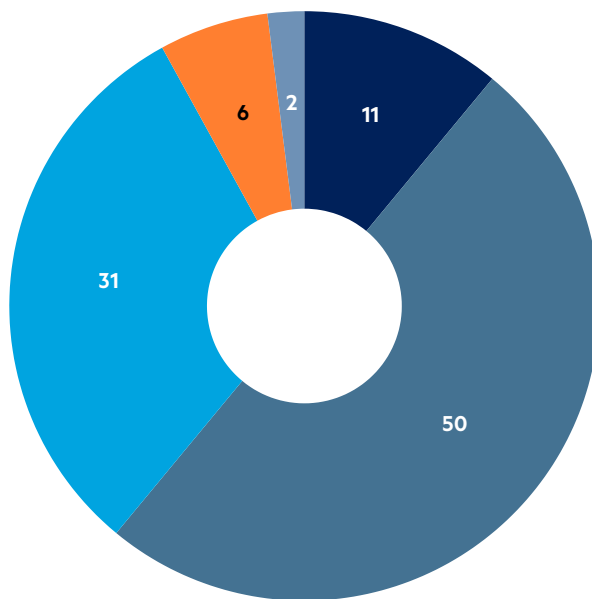
However, Nick Chamie, IMCO's chief strategist and head of total portfolio and capital markets, says the Canadian asset manager's portfolios are "structured with long-term resilience in mind."

"As fundamental investors, we've built flexibility and strong liquidity into our strategy, ensuring our portfolios tolerate market volatility to reliably deliver risk-adjusted returns for clients."

The US represents a major market destination for IMCO, with as much as 50 per cent of assets under management located in the country, according to its 2023 [annual report](#).

IMCO's regional allocation of assets under management (%) (As at December 31 2023)

■ Europe ■ US ■ Canada ■ Asia-Pacific ■ Other regions



Source: IMCO

IMCO, one of Canada's largest institutional investors, expects the US to remain a significant part of its portfolios in the future, "given the country's enduring strengths in capital markets," Chamie says.

"Despite the short-term volatility that may accompany a second Trump administration, the US offers strong long-term potential due to its economic dynamism, market size and historic resilience," he says.

Inflationary environment

Regardless of a recent deceleration in inflation, Chamie says inflation remains high relative to pre-pandemic norms and central bank targets in key economies. He says the recent easing in price pressure signals a cyclical pause within an ongoing structural shift to higher and more volatile growth and inflation.

He notes that investors can better prepare for this new macro regime in several ways.

Investors should have adequate exposure to inflation-linked bonds, such as US Treasury inflation-protected securities, a heightened focus on portfolio liquidity and diversification amid elevated volatility, and a strong underwriting process to ensure individual investments "stand on their own fundamental merits" – rather than overly-relying on aggressive financial leverage.

He also advises investors to consider allocations to asset classes that may experience boosts in an inflationary environment, such as private credit, regulated infrastructure, and assets with contractual escalators or cost pass-throughs.

Policy perspective

A second Trump term and Republican control of Congress will likely mean larger budget deficits due mostly to lower taxes as well as less regulation and a change in environmental, social, and governance-related policies to the benefit of fossil fuels, Chamie predicts. Potential shifts in US foreign policy could also be on the cards, he says.

An overhaul of immigration policy could create labor shortages and wage pressures, further adding to these inflationary dynamics, he adds.

The shifting policy dynamics "are likely to be inflationary and consistent with higher bond yields, while the overall impact on growth and equities is more uncertain," Chamie says.

IMCO says it sees Trump's announced tariffs as part of a larger trend of deglobalization it has already been following, and with significant potential to impact investment returns.

"With the reshoring of manufacturing and critical technologies comes both investment opportunities to seize, and risks to mitigate," he says.

The asset manager will spend the coming months analyzing the impact across asset classes that could either benefit or face headwinds from policy-driven changes.

Conviction in sustainable investing

IMCO continues to view the energy transition as an enduring global theme with strong tailwinds, despite a second Trump presidency likely slowing short-term momentum in the US.

"Energy security remains a concern, and we are seeing nations around the world doubling down on their commitments to achieve net zero," Chamie says.

With a focus on sustainable companies with quality customer contracts, IMCO also seeks to ensure it is not overly exposed to deals reliant on government-led environmental initiatives or subsidies.

This is to avoid "stroke-of-the-pen" risk, or risk from investments that could be impacted by sudden policy reversals, new regulations or alterations from a new administration, Chamie explains.

Recent examples in the US include the Biden administration's Inflation Reduction Act, and Chips and Science Act, which included major investments in clean energy and domestic semiconductor manufacturing, respectively.

"Our approach is centered on positioning portfolios to manage risks associated with long-term trends while capturing emerging opportunities in sectors like renewable energy and technologies that support the broader market evolution," he says.

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