Mackenzie Bluewater Q1 2025 Team Commentary

After a strong 2024, global equity markets provided mixed performance in the first quarter of 2025. The Canadian market was flat, the U.S. market sold off, while European markets were up sharply. The story of the quarter was unquestionably the new Trump administration in the United States. North American equity markets—and corporate management teams—had generally viewed Trump's election in late 2024 as a positive. As increasingly disruptive economic policies began to be first threatened and then erratically implemented, markets and managements have become more cautious.

Tariffs and Canada

After quarter end, on April 2, 2025, President Donald Trump announced sweeping new tariffs that include a blanket 10% levy on nearly all imports and sharply increased reciprocal tariffs for countries running large trade surpluses with the U.S.—as high as 50% in some cases. Additionally, a 25% global tariff on automobiles is set to commence on April 3rd. These tariffs target nations like China, the EU, Taiwan, and India, and are framed as a way to address long-standing trade imbalances, generate revenue for extending Trump-era tax cuts and bring manufacturing back to the US. The newly imposed tariffs are expected to significantly impede global growth by disrupting established trade relationships, fostering uncertainty in investment and business planning, and potentially triggering retaliatory measures from affected nations. At the same time, the tariffs are expected to exert upward pressure on inflation by raising the cost of imported goods, a burden that may be passed on to consumers, thus presenting a stagflationary risk to the global economy.

Canada and Mexico, while exempted from the universal 10% tariff under the United States-Mexico-Canada Agreement (USMCA), faces a separate 25% tariff on non-USMCA-compliant goods, particularly affecting the automotive sector. With tariffs already in place across a range of sectors including steel, aluminum, and energy, the outlook for trade-exposed industries has grown more fragile. Canada, whose economy is deeply intertwined with the U.S., is especially vulnerable given the current backdrop of rising unemployment, weak real GDP per capita, and the lingering effects of an interest rate shock. For many businesses, particularly those with integrated North American supply chains, the unpredictability is already weighing on capital deployment and investment planning. In response to the tariffs, Stellantis has halted operations at its Windsor Assembly Plant for two weeks starting April 7, and its Toluca, Mexico plant for the entire month of April. This disruption extends to the U.S., with 900 workers being temporarily laid off at parts-supplying facilities in Michigan and Indiana. These developments underscore the immediate and disruptive impact of the U.S. tariffs on the North American automotive industry, particularly affecting Canada. The production stoppages not only threaten jobs but also highlight the vulnerability of integrated supply chains to abrupt policy changes.

Canadian consumers will ultimately bear much of the cost of these tariffs, through higher prices, potential job losses, and further pressure on household finances. While targeted fiscal support may provide some offset—such as the recent $2 billion pledge for Canada's auto sector—it is unlikely to match the scale of past pandemic-era stimulus. Our positioning in the consumer space remains cautious and selective, with limited exposure to discretionary retail and a preference for companies positioned to benefit from downtrading and food inflation.

From a portfolio standpoint, our direct exposure to tariff risk remains limited. We have deliberately avoided sectors highly dependent on U.S. exports, focusing instead on businesses driven by secular, idiosyncratic growth drivers that operate independently of macroeconomic cycles. These types of companies have historically proven more resilient during periods of geopolitical or policy-driven uncertainty and are well-positioned to adapt should trade tensions escalate further. Additionally, many of our holdings are either services-oriented (e.g., Thomson Reuters, Aon), domestically focused, or structured with localized supply chains—providing further insulation from global trade disruptions. Our investment philosophy continues to emphasize businesses with durable economic moats, solid balance sheets, and operational agility.

Why tariffs can't bring back manufacturing

The structure of the U.S. economy has evolved profoundly over the past century, with services now accounting for the dominant share of both employment and consumer spending. Since the Industrial Revolution, the U.S. has moved through three broad economic eras: from agrarian, to manufacturing, and now to services.

At the turn of the 20th century, over 40% of American workers were employed in agriculture. This figure steadily declined as the economy industrialized. By the end of World War II, agriculture employed just 15% of the labor force, while manufacturing had become the engine of the economy—providing over 25% of all jobs and with more than half of consumer spending dedicated to purchasing physical goods. This period marked the peak of the U.S. manufacturing era.

Since then, structural shifts—including globalization, automation, and technological progress—have led to a steady decline in manufacturing employment, even as output has remained high. Today, goods represent about 30% of consumer spending while services comprise the other 70%. Manufacturing employs less than 10% of the overall workforce, while agriculture has dropped below 2%. This trend is not unique to the United States; it mirrors developments across most advanced economies. As with farming before it, the manufacturing sector has seen large productivity gains that allow for sustained output with far fewer workers.

In contrast, service industries such as healthcare, education, and government have become central to job creation, driven by demographic and societal forces that are unlikely to reverse. This raises critical questions about the narrative that reshoring or protectionist trade policies—particularly tariffs—could reignite a massive industrial revival. That vision is not only economically outdated; it runs counter to how the structure of the modern economy actually works. Policies based on this premise risk raising consumer prices without meaningfully improving employment or long-term productivity.

What's particularly striking is how disconnected much of the current U.S. industrial policy appears from the sectors most likely to drive future global growth. While competitiveness in the coming decades will hinge on leadership in areas like robotics, clean energy, electrification, and advanced materials, U.S. efforts still often focus on preserving legacy manufacturing sectors. In contrast, countries like China are investing aggressively in exactly these next-generation domains—blending state support, scale, and technical depth to position themselves at the forefront of industrial transformation.

To be clear, investing in advanced manufacturing can and should be part of a forward-looking economic strategy. But doing so doesn't mean returning to a 1950s industrial base. It means recognizing that modern industrial policy must be rooted in emerging technologies—like battery storage, AI-driven automation, and next-gen semiconductors—and supported by ecosystem-wide coordination that goes beyond just capital spending. Ultimately, the U.S. doesn't lack the capital, talent, or innovation capacity to lead. But if technological advancement is the engine of long-term growth, then economic policy must align with where that engine is actually heading—not with where it once was.

Durable growth

Alcon, Verisk, and Waste Connections exemplify the qualities of businesses we look for and reinforce our conviction in owning companies capable of weathering shifting policy environments without compromising long-term value creation.

Alcon (CA, NA, US, GBL mandates) is a global leader in eye care, with a broad portfolio spanning surgical equipment, ophthalmic pharmaceuticals, and vision care products—including the contact lenses and solutions many consumers recognize. At its core, the company operates in specialized, procedure-driven markets with high barriers to entry and consistent demand dynamics. Its recent acquisition of Lensar, a company developing laser-assisted systems for cataract surgery, extends Alcon's capabilities in ophthalmic robotics—a growing area of healthcare technology. While clinical outcomes from Lensar's platform are broadly comparable to traditional techniques, its faster, more streamlined workflow can improve surgical efficiency, enabling higher throughput and potentially better access for patients. This aligns with a broader trend we've observed in holdings like Stryker and Intuitive Surgical: the integration of robotics and precision tools into established clinical practices, not necessarily to reinvent them, but to make them more scalable, repeatable, and resilient. Alcon's position at the intersection of innovation and consistent patient need makes it a compelling long-term holding in our portfolio.

Verisk (CA, NA, US, GBL) is a highly durable business with deep moats and mission-critical offerings. The company plays a foundational role in the U.S. P&C insurance ecosystem, helping clients price risk more accurately, manage claims more efficiently, and detect fraud—all deeply embedded within customer workflows. Over 80% of revenue is subscription-based, with high customer retention and a model that scales exceptionally well. We recently met with management, which reaffirmed our view of the business as one of the most consistent and underappreciated compounders in our universe. Verisk is leveraging decades of proprietary data and expanding its capabilities through product development and AI, positioning itself to deliver consistent mid-to-high single digit organic growth, margin expansion via operating leverage, and disciplined capital allocation. With minimal exposure to macro risk factors like tariffs, a small cost footprint for customers, and a long runway of incremental growth opportunities, Verisk is a key example of the type of idiosyncratic, high-quality business we want to own in an uncertain world.

Waste Connections (CA, NA, US, GBL) is the third largest waste services provider in North America and the best operator in the industry. It's a defensive, recession-resilient business with a predictable and growing stream of free cash flow. The company focuses on secondary markets where it can achieve dominant positions through exclusive contracts or control of strategic infrastructure, leading to industry-leading margins and pricing power. We like it because it is completely insulated from tariffs, has a long track record of disciplined, value-creating M&A, and stands out as an idiosyncratic compounder in an otherwise uncertain macro environment.

Portfolio Changes

Descartes Systems Group (CA, Next Gen) is a recent addition to the Canadian Growth portfolio that stands out as a quietly compounding force in the global logistics and supply chain technology ecosystem. The company delivers mission-critical solutions through its Global Logistics Network (GLN), a cloud-based platform that facilitates the movement of goods and information across modalities, geographies, and regulatory frameworks. Its offerings span transportation management, customs and regulatory compliance, warehousing, and global trade content—essential infrastructure in an increasingly complex and digitized supply chain environment.

The business model is highly attractive with over 80% recurring revenue stemming from the mission-critical nature of their solutions being deeply embedded in customers' workflows, leading to strong retention and pricing power. Descartes has demonstrated exceptional discipline in capital allocation, with a long track record of accretive, small-to-mid-sized acquisitions that expand its network, capabilities, and customer base.

Importantly, Descartes operates in a fragmented market where legacy systems and manual processes remain prevalent, offering a long runway for organic penetration. As global trade becomes more fragmented—driven by de-globalization trends, the rise of protectionist policies, and the formation of regional trading blocs—Descartes' value proposition becomes even more critical as they enable customers to manage through the complexity. Taken together, Descartes combines structural tailwinds, customer stickiness, and capital allocation excellence in a way that decouples growth from macro noise. It's a rare example of a business that compounds value steadily—even when the broader environment doesn't cooperate.

Another recent addition is **TD Bank** (CA). We exited our position in 2022 due to concerns around leadership shortcomings and the resulting erosion in corporate culture, employee morale, and client experience. These issues were compounded by poor capital allocation decisions—most notably the proposed acquisition of First Horizon, which we viewed as lacking both strategic and financial merit—and persistent operational missteps, including material Anti-Money Laundering (AML) deficiencies. Collectively, these developments signaled a breakdown in internal discipline and governance, prompting a decisive exit in line with our sell discipline: when the investment thesis deteriorates, we act—regardless of valuation.

Since then, the investment case has materially evolved. We now view the bank as undergoing a meaningful inflection. The appointment of a new Chief Executive Officer, accompanied by a comprehensive reshaping of the executive team and board composition, signals a fresh strategic direction. Importantly, the global resolution of the AML issues has cleared a critical overhang, paving the way for a more focused and accountable operating environment. With legacy challenges largely addressed and a revitalised leadership structure in place, we believe TD is poised to unlock internal efficiencies and drive sustainable value creation.

Throughout, we have maintained our view of TD's core Canadian franchise as fundamentally strong. We continue to favour financial institutions that demonstrate underwriting consistency through the cycle, strong wealth management platforms (characterised by high returns on equity and capital efficiency), and solid deposit franchises—attributes TD continues to exhibit.

We acknowledge that near-term results will be burdened by elevated regulatory expenses as the bank works through the tail-end of its remediation efforts. However, we expect this to be transitory.

Over the medium to long term, we believe the US asset cap will facilitate capital into higher-return businesses and/or pursue share repurchases—both of which we view as accretive.

Conclusion

Bluewater concentrates on a select group of global businesses that are truly differentiated—market leaders in structurally attractive industries, backed by durable competitive advantages and long-term secular growth drivers. This targeted approach results in a high active share portfolio that is meaningfully diversified from the broader market structure, positioning it well for long-term compounding in a more resilient and consistent manner.

By focusing on companies with the ability to grow free cash flow at above-market rates across cycles, and acquiring them at disciplined valuations, we embed downside protection into the portfolio. This enables us to better manage through macroeconomic uncertainty, market volatility, and drawdowns. The strategy has consistently added value by preserving capital during challenging periods while compounding returns for clients—ultimately delivering superior risk-adjusted performance over the long term.