Canadian Market Q&A with Alex Sasso CFA

Portfolio Manager,
NCM Income Growth Class
& NCM Small Companies Class

June 2025

We sat down with Alex Sasso to discuss the current market environment, why Canadian small caps may be poised for a comeback, and how he's positioning his portfolios in the face of persistent uncertainty.

Q: What's your overall take on the current market environment?

Alex: I'd sum it up as "less bad than feared." At least for now.

Markets are getting a bit of a reprieve after what I'd call a period of peak fear. The U.S. administration recently backed off slightly from its tariff stance, granting some material exemptions and delaying implementation, most notably with its 90-day tariff rollback with China.

This has given the market a chance to breathe, and it tells me policymakers are starting to listen. Looking ahead, there's a chance we get more positive news, including more preliminary trade agreements. That's something I'm watching closely.

"If inflation stays under control, unemployment remains stable, and GDP holds up, we could see earnings reaccelerate in 2026."

A big one is the USMCA, which comes due in 2026. Hopefully it'll be resolved well before then, and on terms that are favorable to Canada, the U.S., and Mexico as well.

We're also keeping an eye on leading indicators, which are rolling over. Consumers are pulling back and businesses are not investing right now because of the uncertainty.

We're seeing estimate revisions going negative. The percentage of upward revisions 12 months out has dropped to about 27%. The long term average is about 40%. That said, if inflation stays under control, unemployment remains stable, and GDP holds up, we could see earnings reaccelerate in 2026.

Q: What changes have you made to the portfolios lately?

Alex: We made some significant defensive moves back in November 2024, right around the U.S. election. Some of the Canadian companies in our portfolios earn their revenue in U.S. dollars, and we were concerned about the impact of tariffs on that exposure.

So we trimmed or exited several positions. One example is Martinrea, a Canadian auto parts manufacturer. It's a great company with strong fundamentals, but we worried tariffs could weigh on earnings. The stock's been weak since we sold, and we're watching it for a potential entry point in the future.

Overall, we're holding more cash than usual and staying defensive. Until we get more clarity on tariffs, Fed policy, and the direction of global trade, that's the prudent move. That said, we're always looking for moments to go on offense when the risk/reward improves.

Q: What's your outlook for Canadian small and mid-cap stocks?

Alex: I think it's an underappreciated area of opportunity right now.

Valuations are attractive. The overall Canadian market trades at a significant discount to our neighbours down south, and Canadian small caps are still trading at meaningful discounts to larger companies. And while multiples are under pressure, earnings growth in our space is actually outpacing the broader market.

"Some of the businesses we follow are already positioning to win market share from U.S. and Asian competitors who are struggling with tariff pressure."

Uncertainty tends to create opportunity. Smaller companies are often more agile. They can shift supply chains, move equipment, change business models faster than large caps. Some of the businesses we follow are already positioning to win market share from U.S. and Asian competitors who are struggling with tariff pressure.

A good example is Blackline Safety, a Calgary-based company that makes wearable chemical monitors. We took a position about six months ago. They're competing with American firms who manufacture in China and are now facing the potential for significant tariffs. Blackline, by contrast, produces in Canada, which gives them a potential advantage in the U.S. market.

Q: So why should investors allocate to Canadian small caps now?

Alex: We look for smaller companies that are on sale and have the potential to provide significant upside over a business cycle. Canada has more uncertainty than the U.S. right now, and our leading indicators have weakened, so we're mindful of the potential risks.

However, this is often when great long-term opportunities start to emerge. You're getting access to companies at a discount. And the more agile names in the small cap space may be better positioned than they appear.

For investors who want exposure to small and mid caps but are worried about timing, the NCM Income Growth Fund is a great way to start. It's more defensive, with a strong dividend component and a focus on high-quality names. As confidence builds, it's easy to shift into the NCM Small Companies Fund, which is just as focused on quality names, but offers more of a pure play on small cap growth.

Either way, we're staying cautious, but ready to move when the time is right.

Speak to your NCM sales team to learn more about how this Fund can fit in your client portfolios.

NCM DIVIDEND SOLUTIONS	F	A	T6	F6	Z
PDF NCM INCOME GROWTH CLASS *Canadian Equity Balanced*	NRP 500	NRP 503 (AA)	NRP 506	NRP 509	-
NCM WEALTH CREATION	**F**	**A**	**-**	**-**	**-**
PDF NCM SMALL COMPANIES CLASS *Canadian Small/Mid Cap Equity*	NRP 200	NRP 201	-	-	-

NCM Asset Management Ltd.
Head Office 1800-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5
client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com