Nine Canadian fund managers offer their top picks and portfolio advice for 2025

DARCY KEITH

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It’s easy to forget – especially given that we hear it every year – that this time 12 months ago many professional investors were boldly predicting 2024 would be a “stock picker’s market.”

Well, that fizzled out again. If anything, this past year was an “index investor’s market,” thanks to a 24-per-cent surge in the S&P 500 and an almost 19-per-cent jump in the S&P/TSX Composite Index. And those returns don’t even include dividends.

No matter. A new year is about to unfold, and nine fund managers are putting their investing intuition to the test again in our annual survey of their top investment advice and stock picks for the year ahead.

This year, we’ve added a couple of new names to the roster. They replace Stephen Takacsy of Lester Asset Management, whom we’re putting in the penalty box for not narrowing down his picks to a single stock (we do note, however, that two of his picks for 2024 – Park Lawn and Mdf Commerce – had impressive gains thanks to both being taken private), and François Bourdon of Nordis Capital. Mr. Bourdon declined to participate this year (though his pick for 2024, KraneShares California Carbon Allowance ETF (KCCA-A +0.56% increase), might have made him eligible for a trip to that same penalty box. The ETF lost more than 16 per cent for the year.)

Laura Lau, chief investment officer, Brompton Funds

New participant

With a Republican sweep, we expect a more business-friendly, pro-growth environment in the U.S. As a result, it appears the Federal Reserve has successfully navigated a soft landing. Earnings growth is projected to be double digits in the U.S. and Canada. With tariffs, tighter immigration policies and better growth, inflation is expected to be higher, pushing longer-term yields up. As a result, we believe equities will outperform bonds. The first year of a new president is typically a good year. We do expect higher-than-normal volatility, with tariffs and the possibility of trade wars. The market has broadened out beyond the Magnificent Seven, and we expect this to continue with better overall growth, so we favour cyclical stocks over defensive.

Top pick for 2025: Automatic Data Processing Inc. (ADP-Q -1.54% decrease). This is one of the largest providers of business outsourcing, which includes solutions for payroll, human resources, taxes and benefits. We see the AI theme broadening out into AI adopters and enablers. ADP is rolling out generative AI tools for customers and using AI to improve its own internal processes and improve efficiency. Another dynamic we see is the better growth environment benefiting small to medium-sized businesses. We believe ADP’s diversified set of human capital management/payroll businesses could help it deliver mid/high single-digit annual revenue growth over the long term, with sustainable cash flows funding reinvestments, tuck-in acquisitions, share buybacks and the dividend, which has grown at a 12-per-cent compounded annual rate over the past five years and currently yields 2 per cent. We believe the risk/reward profile is balanced, given that its market positioning and expense discipline more than offset risks from both a weaker employment and economic environment and increasing competition.

Stan Wong, portfolio manager and senior wealth adviser, Scotia Wealth Management

New participant

I continue to favour U.S. equities. The U.S. economy appears to be in a "Goldilocks" scenario – neither too hot nor too cold – characterized by steady GDP growth, easing inflation, a resilient consumer and a stable labour market. This backdrop fuels optimism for a third consecutive year of gains for U.S. equities. Corporate America continues to perform well, with S&P 500 earnings projected to grow by more than 12 per cent in 2025 and more than 11 per cent in 2026. Mid-cap companies are expected to see even stronger earnings growth. As well, money market assets have reached a record high of US$6.7-trillion, which could further bolster equities as interest rates decline. Lastly, with an incoming U.S. administration likely to implement pro-business policies and reduce regulatory burdens, there is a very reasonable case for continued upside in equities in 2025.

Top pick: Although valuations in the overall U.S. technology sector appear rather extended, Alphabet Inc. (GOOGL-Q +2.73% increase) stands out as particularly attractive. With projected fiscal 2025 revenue exceeding US$350-billion, Alphabet, the parent company of Google, is the clear leader in search and digital advertising, commanding about 90 per cent of the global search market and generating substantial cash flow from digital advertising, which accounts for more than 75 per cent of its overall revenue. The Google Cloud and YouTube segments continue to experience rapid growth, while hardware sales diversify revenue streams. Additionally, the monetization of Gemini, Alphabet's AI-driven platform, is expected to enhance revenue streams significantly. Recent advancements in quantum computing with the Willow chip further bolster Alphabet's innovation profile. With a 1.4x PEG (price/earnings-to-growth) ratio and an expected average annual earnings growth rate exceeding 16 per cent, Alphabet offers compelling value among major tech giants.

Kim Shannon, founder and co-chief investment officer, Sionna Investment Managers

Last year's pick: Magna International Inc. (MG-T +0.67% increase), with a 2024 negative return of 19.9 per cent

U.S. and global markets are at some of the highest valuations in market history, which suggests prudent investors should take a more defensive stand. Given the difficulty of timing markets, we suggest investors broadly diversify portfolios and asset mixes using 500-year-old investment advice from German businessman "Jakob Fugger the Rich," who recommended trimming areas that have done well and replacing them with segments that have lagged. Using this logic, investors should likely be trimming U.S. and global equities and growth and momentum styles and adding to Canadian, European and emerging markets, as well as the beaten down value investment style, which is proven to outperform when inflation is greater than 2.5 per cent (U.S. inflation is at 2.7 per cent).

Top Pick: Canadian, value and high-yielding stocks would likely be approved by Jakob Fugger based on his comments. While we still own and expect above-average results for our previous stock pick, Magna, we wanted to highlight a different name this year that has seen quite a lot of attention lately. The pro-actively regulated banking sector, virtually an oligopoly in Canada, has been a long-term source of steady, above-average returns for decades. Although most of the group recently has risen out of bargain territory, Toronto-Dominion

Bank (TD-T unch no change) is the recent laggard due to anti-money-laundering breaches in a handful of retail branches and is certainly in the penalty box in many investors' minds. TD's strong capital position, low cost and broad retail focus, with renewed investment and focus on controls and compliance, will likely eventually lead to a recovery. And, while investors wait, it offers a 5.1-per-cent dividend.

Denis Taillefer, senior portfolio manager, Caldwell Investment Management

Last year's pick: Jacobs Solutions Inc. (J-N -0.72% decrease) with a 2024 return of 42.3 per cent (includes share distribution of CSC spinoff/merger with Amentum)

We enter 2025 with optimism for U.S. small- and mid-cap companies. While policy uncertainties may increase volatility, we believe a confluence of factors will create a favourable environment for growth. These include protectionism, deregulation, potential tax cuts and inflation. Our funds focus on companies with robust growth catalysts such as reshoring, AI, grid expansion and modernization, automation and infrastructure development. We prioritize businesses with strong pricing power and the ability to navigate inflation. Following a period of underperformance, we believe small- and mid-cap companies with exposure to these secular trends are poised for attractive returns.

Top pick: Vertiv Holdings Llc (VRT-N +6.71% increase). It's well-positioned for robust growth as a leader in thermal and power management for data centres. The surge in AI infrastructure investments, coupled with power and heat management challenges, presents significant growth opportunities. VRT's leadership in high-margin liquid cooling solutions, crucial for AI workloads, provides a competitive advantage. Under new leadership, VRT has demonstrated a commitment to operational excellence, driving margin expansion through strong pricing power. The company has also initiated a $3.5-billion M&A program to accelerate growth. Robust cash flow and deleveraging are enhancing its credit profile. We see continued upside driven by strategic execution and very strong market fundamentals. We continue to hold a positive view on Jacobs and will still own it.

Anish Chopra, managing director, Portfolio Management Corp.

Last year's pick: Emera Inc. (EMA-T -0.58%d ecrease) with a 2024 return of 12.5 per cent

The most important philosophy to enshrine within investor portfolios for 2025 is risk management. There will be a new president in the U.S. and potentially a new prime minister in Canada by the end of 2025. Generally speaking, it can take time for changes to government economic policies to be felt by the average Canadian; however, there are ways to circumvent this and impose significant changes in short order, such as tariffs. This is to say it would be best to be ready for surprises in 2025. Manage the risk by keeping portfolios diversified with respect to asset classes, geography and across business lines.

Top pick: We continue to like Emera, the Canadian power utility that operates on Canada's East Coast and in Florida. Emera's earnings are significantly derived from regulated utilities providing stable and predictable cash flows. Approximately 85 per cent of its adjusted net income comes from its regulated operations, including its electric and gas utilities in Florida, Nova Scotia and other jurisdictions. Emera has exposure to growth through its two Florida utilities, Tampa Electric and Peoples Gas, which benefit from a growing population and increasing electrification. Economic uncertainty, a slowing Canadian economy and falling interest rates should continue to make this consistent dividend payer attractive to investors.

Christine Poole, CEO and managing director, GlobeInvest Capital Management

Last year’s pick: Thermo Fisher Scientific Inc. (TMO-N +0.99% increase) with a 2024 negative return of 1.7 per cent.

With inflation receding, most central banks have pivoted toward interest-rate cutting and supporting economic growth, trends that are expected to continue in 2025. The post-U.S. election rally suggests brighter growth prospects for the U.S. economy, accompanied by higher corporate profits.

Top pick: Underperformance in Thermo Fisher Scientific was attributable to a delayed recovery in spending and investment by its customers. Its longer-term outlook remains positive, and we continue to own the stock. My pick for 2025 is WSP Global Inc. (WSP-T -3.35% decrease), a Canadian-based leading professional services firm, providing strategic advisory, engineering and design services. Its global client base is in both the public and private sectors and spans numerous end markets. Strong demand for WSP’s services is driven by secular trends such as decarbonization, energy transition, aging infrastructure and urbanization. WSP is committed to its proven growth strategy of being a consolidator within a fragmented industry, continuous margin improvement and growing organically while maintaining a strong balance sheet.

Jason Del Vicario, portfolio manager, and Steven Chen, analyst, at Hillside Wealth | iA Private Wealth Inc.

Last year’s pick: Calnex Solutions (CLX in the U.K.) with a 2024 return of 9.4 per cent

We recommend holding a concentrated portfolio, say 15 to 25 names, of exclusively high-quality stocks acquired at favourable prices and held for the long term.

Top pick: Evolution Gaming Group (EVO in Sweden). Evolution is the largest casino in the world you’ve probably never heard of. This is because it dominates live online gambling and white labels its services to the likes of MGM and provincial lottery corporations. It is founder-run and -owned and has no debt, but it has high margins and a strong track record of achieving consistently high returns on invested capital. However, it is the valuation that sees it rise to the top of our recommendation heap, as they barely trade over 15 times earnings.

Our pick last year, Calnex, barely advanced in 2024, but we continue to hold it and are of the opinion that it is only a matter of when, not if, their results resume their upward trajectory.

Craig Jerusalim, senior portfolio manager, CIBC Asset Management

Last year’s pick: Trisura Group Ltd. (TSU-T -1.97% decrease) with a 2024 return of 14.6 per cent

The most prudent advice I can offer is to focus on earnings. While deep fundamental analysis allows for differentiation in individual company performance, as long as North American companies can continue to deliver double-digit earnings growth, valuations can remain elevated longer than most anticipate. We have likely pulled forward some of 2025′s equity returns in recent weeks, making individual company earnings growth the key determinant of outperformance.

Top pick for 2025: DRI Healthcare Trust (DHT-UN-T +0.69% increase), which we believe will continue to compound double digits for the foreseeable future, given the tremendous mismatch between its current price and our expected book value. DRI is a diversified health-care investor seeking to monetize pharmaceutical royalties of innovative drugs and therapeutics. We consider the company to be lower risk given its highly predictable cash flows from patented pharmaceutical royalty streams. Its niche offering is in high demand, driven by growth in R&D and the significant need for external capital. Resilience of pharmaceutical sales during economic downturns should provide downside protection and relative outperformance throughout the economic cycle.

Ken O'Kennedy, chief investment officer, Dixon Mitchell Investment Counsel

Last year's pick: Intercontinental Exchange (ICE-N -2.14%decrease) with a 2024 return of 17.4 per cent

The current landscape presents challenges, with U.S. markets at elevated valuations amid extreme bullish sentiment. Canadian markets offer better value but are saddled with higher cyclicality, weaker domestic fundamentals and the spectre of tariffs alongside a weak Canadian dollar. U.S. valuations reflect strong growth prospects, favourable regulatory and taxation environments and potential AI-driven productivity gains. Meanwhile, the Canadian market faces economic headwinds due to weak domestic demand, amplified by the tariff threat.

Top pick: For the third year in a row, we are recommending Intercontinental Exchange (ICE-N -2.14% decrease), a global financial services company that operates regulated exchanges and clearing house, and provides data services across major asset classes. ICE's valuation is being held back by cyclical weakness in its mortgage segment. It maintains high margins in its other businesses, while continuing to generate prodigious cash flow, facilitating a significant reduction in debt. We believe strong competitive positioning across many businesses and sound capital allocation should continue to drive value for shareholders in the coming years.

The 2024 figures are total returns that include dividends and are based on Morningstar data.

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