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Allocating Defensively and Effectively: Canada and Value

Investors today face a rapidly changing geopolitical environment, compounded with waves of speculative retail enthusiasm. As fundamental value managers, our North Star will always be valuation, regardless of the market sentiment. Today, broad equity markets appear expensive and vulnerable to corrective phases, but there are defensive areas within certain markets that investors are potentially missing out on with allocations to value at record lows.

Given the uncertainty in today's market, we believe both defensive value and the relatively inexpensive Canadian and international markets are well positioned to perform in the coming years.

Canada: Underappreciated and Undervalued

The Canadian stock market has delivered some of the highest regional returns, and remarkably, with the lowest risk or volatility over a period of 124 years.

Nominal Equity Returns % (1900–2024)			
Series	Geometric Mean	Arithmetic Mean	Standard Deviation
Canada	8.9	10.2	16.7
Europe	7.2	8.9	19.4
World	8.3	9.7	17.0
World ex-US	7.4	9.0	18.6
Developed Markets	8.4	9.8	17.1
United States	9.7	11.6	19.6

Source: UBS. *Global Investment Returns Yearbook 2025*.

Despite this fact, most cap-weighted global benchmarks today are suggesting a 75% U.S. weighting. This leaves all other countries, including Canada, with shrinking portfolio allocations, resulting in some of the lowest allocations in history.

Canadian investors following global cap-weighted allocation guidelines, are now significantly underweight Canadian equities even though the Canadian market looks more attractive than the U.S. on several metrics, including P/E. Historical data¹ suggests that at current P/E levels, the S&P 500 and the MSCI World may offer only a 1% expected return over the next 10 years, whereas the S&P/TSX Composite Index could deliver an expected return of 5% over the same time – an example of the classic investment theory that buying low can increase your odds of achieving higher returns. In addition to having a cheaper P/E, Canada has a P/B multiple that is half of the U.S., and the S&P/TSX's dividend yield is double the S&P 500's, underscoring a more defensive positioning and a greater potential upside.

Canadians often justify avoiding Canada based on the stunning Magnificent 7 returns. While those returns have been impressive, investors have become vulnerable with the market's over-concentration to these stocks. Diversifying beyond the S&P 500 is one way to mitigate this risk and the Canadian and International markets are attractive options for investors. It is interesting to note that during the last 25 years, despite the "high-flying U.S. market", the Canadian market has quietly offered comparable annualized returns.

¹ Plexus Asset Management (based on data from Prof Robert Shiller and I-Net Bridge). As at September 30, 2012

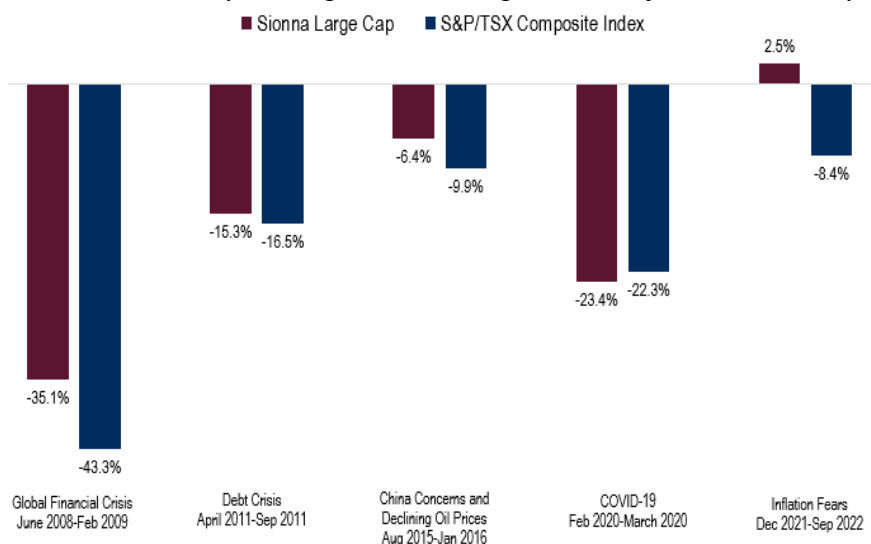
Jan 2000 – Sept 2025	Annualized Return (CAD)
S&P/TSX Composite	7.9%
S&P 500	7.9%
MSCI World	6.7%
MSCI EAFE	4.7%
MSCI Canada	7.8%

Source: FactSet. Gross total returns. S&P 500 CAD returns calculated using estimated exchange rates between 2000-2002.

Value can be defensive

There is a lot of uncertainty in the market these days and investors are starting to get nervous. Investors are experiencing shifts in the global geopolitical landscape and economic uncertainty stemming from higher inflation and interest rates. While the recent strength in the market has been a positive experience for many, investors are starting to think about the downside, because what goes up, inevitably comes down.

Value investing has a proven ability to defend and outperform in most declining markets and so does Sionna. Sionna's portfolios are defensively positioned with classic value characteristics showing discounts between 20-30% cheaper than the broad market, providing material margins of safety and downside protection for clients.



Source: Sionna Investment Managers. Sionna's flagship Large Cap strategy is shown as it has the longest track record. Performance is gross of fees.

Markets are experiencing high levels of herd mentality – pushing individual stocks and markets to extremes. But sometimes the crowd mentality is wrong. We encourage investors to focus on the facts and not narratives. Wealth has been earned these last five years in the defensive value style and we expect there is more to come.

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