
Newsletter

**Fundamental Growth
and Core Equity**

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Investing in Uncertain Times

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Introduction



Michael Solecki, CFA, CIO
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Markets began 2025 relatively stable before shifting US tariff policy introduced massive uncertainty. Investors had prepared for a challenging period as the Trump administration unveiled its economic priorities, but frequent changes in tariff targets and amounts created more uncertainty than expected, and historic volatility followed. Volatility eased in late April and May, and markets regained much of their losses. Uncertainty remains high, however.

State Street Global Advisors' house view is that the US economy will slow for the rest of the year but is unlikely to enter recession. The Canadian economy is likely to follow suit, though uncertainty about US tariff policy remains. Although we expect the US Federal Reserve to continue exercising caution on interest rates in the near term, we anticipate opportunities for rate cuts later in the year. The Bank of Canada paused in April. However, our house view calls for two more rate cuts by July due to economic damage from US tariffs. Inflation should decline, but we expect it to be sticky on the way down as changes to supply chains constrain supply.

We continue to see the wisdom of an active and long-term investment approach, especially one focused on quality companies that have shown the ability to produce durable growth and trade at reasonable valuations. We are particularly focused on opportunities in advanced manufacturing and automation, with an eye toward identifying companies that will likely benefit from supply chain disruption and reshoring. In addition, the explosion of artificial intelligence (AI) presents opportunities to seek promising investments in AI businesses and to identify companies that are integrating AI into their existing processes in ways that boost their competitive advantage.

The articles that follow explain our thinking about topics of particular concern. In the first piece, our Active Fundamental Equity team discusses their responses to 2025 market volatility, including the portfolio adjustments they have made to date. Next, we discuss how our proprietary confidence quotient informs our investment process, including a look at how tariffs and trade disruption affect our assessment of a company's quality. Finally, we share a deep dive into the often-overlooked waste sector, where careful analysis reveals a number of high-quality companies with appealing business models.

Investing in Uncertain Times: A Conversation With State Street Active Fundamental Equity Portfolio Managers



Chris Sierakowski, CFA
Head of North America
Portfolio Management and
US Equity Portfolio Manager



Nicolas Caron, CFA
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Equity markets have obviously been volatile this year, and the United States is the epicenter of that volatility. Chris, as a US equity portfolio manager, how have the markets looked to you?

CS: Uncertainty is the universal theme in the US economy right now. The Fed is currently on the sidelines as it weighs its dual mandate and the conflicting policy actions needed to address a stagflationary impulse from a self-induced trade war. The US market saw a steep decline as concerns around Trump's aggressive tariff policy weigh on growth expectations and stoke fears of inflation returning. This was followed by an equally steep recovery. While the market is signaling increased optimism and [State Street's house view](#) remains that the US will avoid a recession, the risks remain elevated.

What we saw in the S&P 500 in the first quarter was a significant market rotation toward defensives and low-volatility names and away from growth and momentum stocks. Also caught up in the sell-off was quality, which also underperformed, albeit to a lesser extent than growth and momentum.

Nick, what's your perspective as a Canadian equity portfolio manager?

NC: The noise and confusion coming from the Trump administration made for a very volatile start to the year. Soon after the inauguration, tariffs were announced on both Canada and Mexico, only to be delayed a few times at the last minute. When the rules of the game are constantly changing, investment decisions become more difficult. That's especially true for the corporate executives who are trying to make long-term capital spending decisions.

Uncertainty is slowing economic activity, including in Canada. If permanent and reasonable trading policies aren't put in place soon so executives and investors can get back to making decisions, we risk kick-starting a negative flywheel that will be hard to stop.

At the same time, advancements in artificial intelligence (AI) are just beginning to make an impact on companies and society. While AI is still in its infancy, it will be a secular driver of growth and equity returns in years to come.

The Canadian market has outperformed the US market so far this year. How are you thinking about the impact of tariffs?

NC: The new tariffs on Canada and Mexico are contrary to the terms of the United States-Mexico-Canada Agreement (USMCA), which Trump himself negotiated in his first term and which many exporting companies depend on.

As of this publication, those tariffs have been delayed or watered down for many goods that fall under the USMCA. In addition to providing relief to the Canadian market, these delays inspired hope that the governments could find a middle ground or renegotiate parts of the USMCA in the near future. However, should those tariffs prevail, Canadian companies, and indeed the Canadian economy as a whole, would be affected, as would Canadian equity valuations.

Regrettably, segments of the economy including aluminum, steel, and the automobile industry are seeing real new tariffs and slowing accordingly. The impact has yet to appear in the GDP numbers, but it will emerge over time. Fortunately, Canada is home to many great companies with solid market positions and the strength to manage in a slowing economy. The Canadian market outperformance this year is also due to the precious metals industry, which represents about 10% of the S&P/TSX Composite Index and has produced very strong year-to-date returns.

Your active fundamental process is forward-looking and long-term. How do you maintain that approach in this environment?

NC: We rely on our confidence quotient (CQ) methodology to identify companies with durable growth and strong market position, meaning they have good pricing power and can win and defend market share in different economic environments. We also look for companies that have good controls on their input costs. Those companies tend to thrive in good economic times and to stay afloat better than their peers in periods of uncertainty or economic weakness. As a result, we are quite comfortable with our holdings despite the current economic duress. In fact, over the Canadian Fundamental Equity Strategy's 24-year history, the strategy's emphasis on higher-quality companies, as defined by the CQ, has helped it outperform in six of seven down markets.¹

The Canadian market includes many commodities companies. Our process enables us to identify the commodities firms with the durable growth and cost structures to better withstand economic weakness. However, most of these companies have little to no pricing power and consequently tend to experience high volatility. We manage this complexity through our robust portfolio construction process, which considers multiple attribution factors. We purposely reduce allocations to these higher-beta types of stocks while emphasizing the ones with higher CQ scores.

Chris, would you add anything there? What are you hearing from your companies?

CS: I would reiterate what Nick said on quality. Our core investment philosophy remains focused on quality, durable growth, and reasonable valuation, and we continue to take a longer-term investment perspective. But as part of our risk management, we will buy and sell around valuation. For example, we trimmed many of our outperforming large- and mega-cap quality names in the second half of 2024, which helped earlier this year as many of these quality names underperformed.

Given the uncertainty I mentioned previously, management teams do not have much visibility into the year ahead. So far in this earnings season, results have been decent, but guidance has been weaker, reflecting that uncertainty.

Have you made any changes in the face of this year's volatility?

CS: During the market turbulence in the first quarter and into April, I would categorize our portfolio changes in a few broad themes. One was to reduce the most economically sensitive names that would be most exposed should the US economy edge lower into a recession. The second theme was to add to our defensive positioning where we still found decent risk and reward. Lastly, given our longer-term investment horizon and desire to take advantage of market volatility, we started rotating back into some of our highest-quality long-term compounders while also looking for new names with attractive entry points.

NC: We started our work on tariff disruption right around Trump's election last year. We did a thorough analysis of our holdings to understand how potential new tariffs would affect them. Surprisingly, we found that very few of our holdings would be directly impacted by tariffs, unless tariffs were imposed on commodities. Our portfolio's exposure to tariffs was much more to their secondary impact of slowing the economy.

When the tariff rhetoric kicked in early this year, we made multiple moves to position the portfolio for a more challenging economic outlook in Canada. First, we significantly trimmed our exposure to Canadian banks. This sector quickly reflects the health of the economy through loan growth and provisions for defaulting loans. At the time, Canadian banks had somewhat elevated valuations that did not reflect this potential negative outlook.

On the other hand, we have increased our investments in industrial companies that can play both offence and defence. For example, we increased our allocation to waste collection companies (we own both Waste Connections and GFL). These companies have strong market positions that allow them to increase prices consistently, helping defend their margins.

Our weighting in engineering firms has also increased. There is strong secular demand for engineering at the moment, due to aging infrastructure worldwide and the need to adapt to climate change. Those companies can do well even in a darker economic scenario, in part because governments often intervene in a slowing economy with large infrastructure projects.

We have been overweight in gold companies for some time, and we increased our weight this year. Current gold prices, combined with a lower Canadian dollar and lower oil prices, make this a strong operating environment for gold miners positioned in Canada.

Uncertain periods also provide an opportunity to look at high-quality companies that previously had elevated valuations. We have taken the opportunity to add to names that have come down hard, including Celestica, which is a key player in global AI infrastructure deployment.

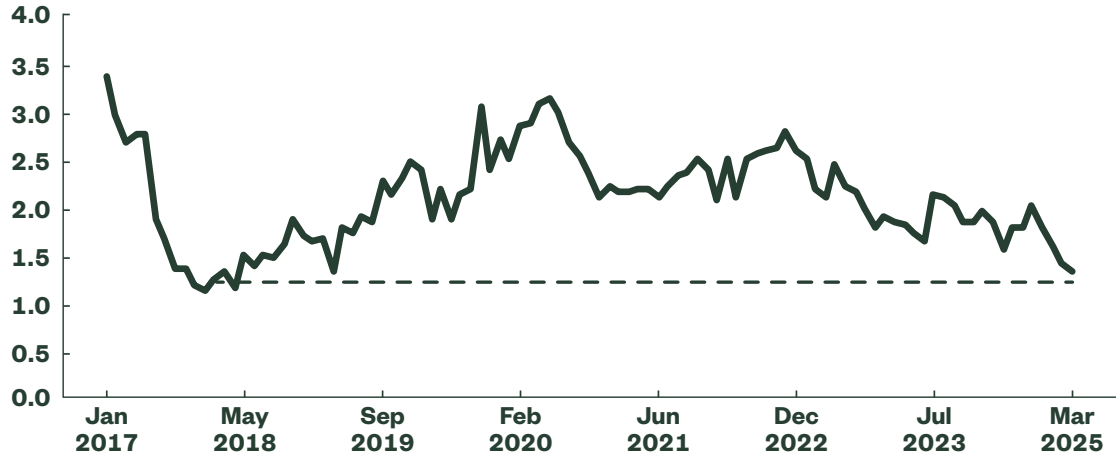
Spotlight on the Confidence Quotient

The Active Fundamental Equity team uses a proprietary framework called the confidence quotient (CQ) to evaluate the quality of a company. There are many definitions of the term “quality” in the investing world. Most are quantitative in nature and therefore tend to be backward-looking. In contrast, the CQ is a forward-looking qualitative assessment made by our experienced fundamental research analysts. Rather than focusing on quantitative factors such as earnings volatility, the CQ seeks to identify the characteristics of companies with durable competitive advantages, including a strong business model, pricing power, business moats, solid balance sheets, and trustworthy management. Like quant metrics, the CQ is a scoring system and therefore can be measured over time.

Figure 1 shows the valuation of high-CQ companies relative to low-CQ companies over time. We expect the highest quintile to trade at a premium to the lowest CQ, as it does as of March 2025. But this premium is at a seven-year low. While this derating has been painful, it also represents opportunity.

For the long-term investor, this is a chance to buy the highest-quality companies, as measured by our time-tested framework, at historic discounts.

Figure 1
Top CQ Quintile
Valuation Relative to
Bottom CQ Quintile
Valuation (PCEGY)



Source: State Street Global Advisors, as of March 31, 2025. PCEGY = Price to cash earnings divided by long-term expected growth plus dividend yield. PCEGY is a valuation metric used by the State Street Active Fundamental Equity team.

How Near-Term Events
Can Affect Quality

Our process is long-term, so in times of market volatility and economic uncertainty, we try to look “across the valley,” with a focus on company fundamentals. We can’t predict future events. But we can say that based on years of experience, companies with quality attributes will likely be best able to navigate the turmoil.

However, that doesn’t mean we ignore near-term events. We recognize that recent events around tariffs and trade wars can disrupt a business model and therefore lower our assessment of a company’s quality. In the examples below, our analysts believe recent events will affect two companies’ prospects differently.

Potential Winner	Potentially Disrupted
<p>United Rentals: Supplying the Equipment to Rebuild America’s Manufacturing Complex</p> <p>United Rentals is one of the largest commercial and construction equipment renters in the world, serving customers in the commercial, construction, industrial, and residential sectors. It operates through a network of some 1,355 locations in the United States and Canada, providing general construction and industrial equipment, aerial work platforms, trench safety equipment, power equipment, and general tools and light equipment.</p> <p>United Rentals is uniquely positioned to benefit from the resurgence of construction activity that will come from the “reshoring” of US manufacturing. It is also one of the very few rental companies that can support the equipment required for mega projects such as leading-edge semiconductor foundries.</p> <p>—Anthony Mariani</p>	<p>Best Buy: Caught Between Tariffs and a Hard Place</p> <p>Best Buy is the largest specialty consumer electronics retailer in the United States. This is a competitive, highly discretionary category in retail, with EBIT margins below 5%. While Best Buy directly imports only 2%-3% of the products it sells, the company estimates that its vendor base is reliant on China for 55% of goods it sells and Mexico for 20%. Key vendors including Apple, Samsung, HP, Sony, and LG comprise 55% of product purchases. On Best Buy’s 2024 Q4 earnings call, management estimated that a 10% tariff on Chinese imports might hurt annual comps by 1%. The company said the impact of incremental tariffs on comps would not be linear.</p> <p>Since this earnings call, the Trump administration announced upward of 145% tariffs on China and 10% tariffs on Mexico. We believe Best Buy’s sales, margins, and earnings would be down sharply in 2025 as these tariffs are passed on to consumers. On April 11, the Trump administration rolled back the reciprocal tariffs impacting electronics while maintaining base-level tariffs of 20% on China and 10% on Mexico. Even under this more moderate tariff scenario, we see declining earnings per share at Best Buy. With the prospect for Section 232 “sectoral tariffs” on this category later in the year, Best Buy and its vendor partners are operating in an extremely difficult planning environment.</p> <p>—Jeff Looby</p>

Stock Study: From Trash to Treasure — Uncovering Quality in the Waste Sector



Alden Noble, CFA

Active Fundamental Equity
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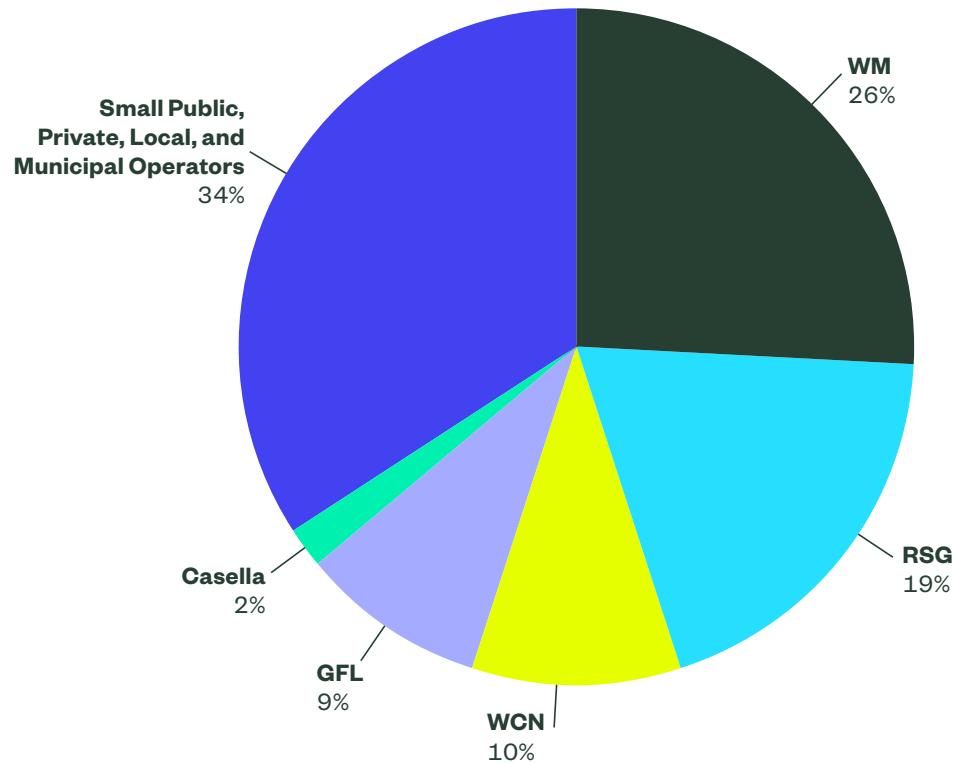
Waste companies have historically been perceived to have unexciting, utility-like business models with limited innovation opportunities. In reality, the industry can offer investors both defensive and structural growth characteristics. Many industry participants have also been investing in new business lines such as recycling and renewable energy to capture incremental growth over the legacy solid waste business and support sustainable outcomes while also delivering strong returns on invested capital.

Overall, the waste industry's recurring revenue model, pricing power, and disciplined capital allocation principles position these firms as quiet compounders with attractive fundamentals during times of uncertainty.

Favourable Market Position and Scale

Waste companies generally have robust market positions and significant barriers to entry, and therefore tend to score high in our confidence quotient (CQ) framework. The majority of the industry is concentrated, often resulting in regional monopolies or oligopolies that are dominated by a few large, well-established players often referred to as the Big 4: Waste Management (WM), Republic Services (RSG), Waste Connections (WCN), and GFL. Large companies derive substantial benefits from economies of scale, enabling them to build route density, optimize fleet logistics, and negotiate favourable terms for equipment procurement — advantages that are unavailable to smaller competitors.

Figure 2
**North America Waste
 Market Share**



Source: State Street Global Advisors analysis based on 2024 financial statements from the listed companies, and a total market size estimate of \$85 billion from GFL Environmental.

Moated Business Models Anchored by Large Entry Barriers

Developing and maintaining landfills is a capital-intensive endeavor that represents a significant financial and regulatory hurdle for potential new entrants. Upfront building costs are estimated between \$300,000 and \$800,000 per acre,² which would represent a total cost outlay of \$100 million-\$240 million for a 300-acre landfill, exclusive of annual operating costs.

Beyond capital outlays, regulatory complexities pose another obstacle. Landfill permitting processes in the US are rigorous and typically span multiple years. The number of solid waste landfills in the US has decreased over time, with 7,900 in 1988,³ close to 2,000 in 2000,⁴ and approximately 1,500 open and operating landfills as of 2023.⁵

Existing landfills represent uniquely valuable assets that are difficult to replicate and bring significant value to haulers and communities, as they offer the final destination for waste. Owning landfills creates stable pricing power, significant entry barriers, and competitive insulation for large waste peers.

Structural Growth and Defensive Characteristics

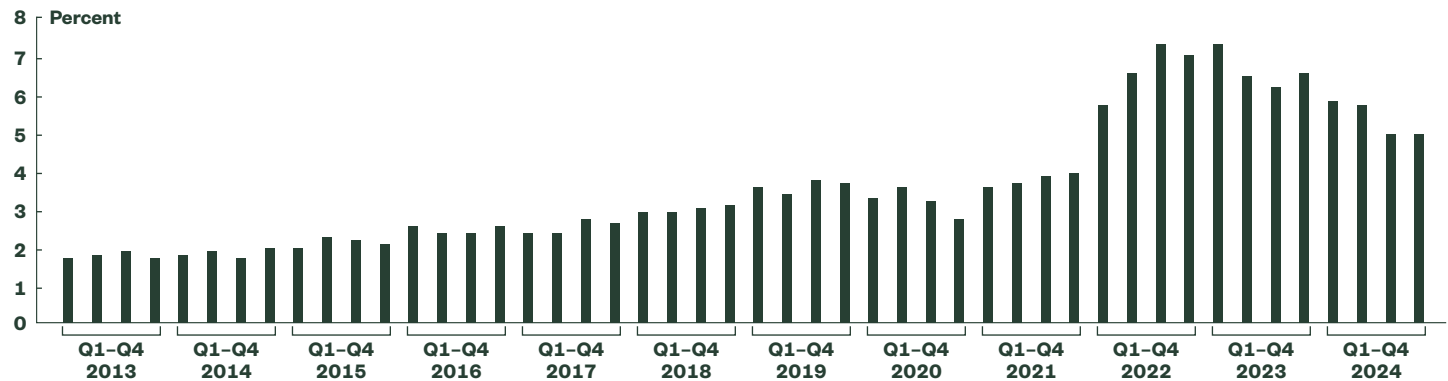
It may come as a surprise that the companies running your local garbage routes have the potential to be high-growth businesses. Waste companies have grown revenues 7%+ annually since 2019.⁶ We can attribute this growth to a combination of pricing power, volume growth, and strategic mergers and acquisitions (M&A). Waste volumes historically trend with GDP, and collection contracts are typically negotiated over a multiyear period, making for a stable and recurring revenue stream that is also an essential service for homes and businesses.

Companies have also exercised consistent pricing power, anchored by valuable disposal assets and index-linked pricing contracts. Moreover, waste services constitute only a small fraction of overall costs for the average customer, making it easier for them to absorb periodic price increases. This pricing power allows waste companies to price above cost inflation and strengthen margins.

In addition to organic growth levers, the industry fragmentation beyond large peers represents a \$5 billion-\$7 billion addressable M&A market composed of smaller local or regional operators that larger peers can acquire to supplement organic growth and extract synergies.⁷

Figure 3

Average Annual Collection & Disposal Pricing



Market cap weighted pricing basket across WM, RSG, and WCN. Source: Company reports, State Street FGC analysis, as of December 31, 2024.

Recycling and Renewable Energy Investments Fuel Returns and Growth

In recent years, large waste companies have made big strides investing in capabilities outside of traditional garbage collection. These strategic investments include major incremental capital expenditures in recycling automation and renewable natural gas projects fuelled by landfill gas. Both capabilities help enable a circular economy by growing the industry's stream of recycled materials and repurposing landfill gases into renewable energy.

Spotlight on Waste Management

WM stands out as a company that scores high in our CQ framework. WM is the largest solid waste operator in North America and benefits from leveraging its scale to internalize operations and maximize its existing footprint through bolt-on M&A.

Strategically, the company has been an industry pioneer investing in high-return sustainability-related projects like landfill-gas-to-energy and recycling. WM has consistently returned capital to shareholders through dividends and share repurchases. This capital allocation balance and overall business model resiliency make WM a strong candidate during a volatile market.

Endnotes

- 1 Down market years were 2001, 2002, 2008, 2011, 2015, 2018, and 2022. The portfolio outperformed in all except 2011. Source: State Street Global Advisors.
- 2 https://3.epa.gov/ttnecas1/docs/eia_ip/solid-waste_eia_nsps_proposal_07-2014.pdf.
- 3 https://3.epa.gov/ttnecas1/docs/eia_ip/solid-waste_eia_nsps_proposal_07-2014.pdf.
- 4 <https://archive.epa.gov/epawaste/nonhaz/municipal/web/pdf/report-00.pdf>.
- 5 <https://epa.gov/lmop/lmop-landfill-and-project-database#comp>.
- 6 State Street Global Advisors' analysis based on 2024 financial statements for the largest three companies (Waste Management, Republic Services, and Waste Connections).
- 7 GFL Environmental, as of December 31, 2024.

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For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$4.67 trillion[†] under our care.

* Pensions & Investments Research Center, as of December 31, 2023.

[†]This figure is presented as of March 31, 2025 and includes ETF AUM of \$1,553.58 billion USD of which approximately \$106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Because of their narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies.

Narrowly focused investments and investments in technology stocks may involve greater risk of capital loss and higher price volatility.

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