



REVIEW AND COMMENTARY 2nd QUARTER – 2025

North American equity markets demonstrated a strong rebound in the latter half of the second quarter, particularly in the U.S., where high-beta technology stocks regained favor. However, returns lacked breadth, concentrating in a limited number of large-cap stocks, suggesting that equity investors should exercise caution.

A number of issues should be forefront of North American investor's minds going forward in 2025. One is the economy, both domestic and in the U.S. Canadian GDP is showing similar signs of strain as the U.S. economy. At the U.S. Federal Reserve's June meeting, economic growth expectations were revised downward from 1.7% to 1.4%. Additionally, growth predictions for 2026 were lowered from 1.8% to 1.6%. Goldman Sachs has reduced its growth expectations for the S&P 500 index to 3% annualized returns through 2034.

Another issue of note is President Trump's "Big Beautiful Bill," which is getting closer to enactment. The U.S. Senate's latest revisions were passed by a narrow margin and sent back to Congress. Concerns about the anticipated historically high debt levels associated with this Bill have bond investors anxious. The 10-Year U.S. Treasury Bond yields 4.29 percent (at the time of writing) and has posted a small loss year-over-year. Generally, weaker economic prospects lead to falling interest rates, but inflationary worries are elevated among bond investors. Core U.S. inflation, year-over-year, was 2.8% in May. The combination of a weakening economy and higher inflation has rarely been favorable to equity investors.

Adding to the complexity of forecasting the future direction of equity markets is the uncertainty surrounding tariffs. When the world's largest economic power seeks to unilaterally alter trade terms, other nations have limited recourse. Negotiations are difficult when President Trump is unwilling to honor the trade agreement he renegotiated during his first term. Prime Minister Carney's previous experience as Governor of the Bank of Canada and the Bank of England during the tumultuous periods of COVID and Brexit should prove valuable. Canadians should find some reassurance

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that his mettle has been tested under similarly challenging circumstances. The most encouraging outcome of the tariff trials is that Canadians are more unified and collectively resilient in the future challenges tariffs may impose. Hopefully, our politicians will follow suit and work towards building a stronger and more durable economy.

Major Canadian equity indexes posted gains in the past quarter and have outperformed their U.S. counterparts year-to-date. The S&P Composite Total Return Index posted a quarterly gain of 8.5% and boasts a 10.2% return year-to-date. This compares favorably to the SP500 Total Return (CDN Dollars), which showed a 4.9% quarterly gain and a 0.5% year-to-date return. The Canadian dollar strengthened by 5.4% relative to the USD year to date, most of the gain in the recent quarter. Consumer Discretionary and Financials sectors were second only to Information technology during this period. Given persistent inflation, potential U.S. tariffs casting shadows over major economies, and the potential future debt levels in the world's largest economy, it is not surprising that metals have performed well. Gold, silver, and copper prices have all rallied just under 30% year-to-date, and equities in these areas have been among the top performers in the SP/TSX index.

With U.S. equity markets reaching new highs, we remain comfortable with our defensive investment style. Given the limited breadth of the recent market ascent, broader exposure should bode well if returns were to moderate for the remainder of the year.

