Quarterly Commentary

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Tariff Uncertainty

	3 Mo %	YTD %
Fixed Income		
FTSE Canada Bond Universe	2.02%	2.02%
Canada		
S&P/TSX Composite	1.51%	1.51%
United States		
S&P 500 Composite	-4.20%	-4.20%
Dow Jones Ind Avg	-0.80%	-0.80%
International		
MSCI EAFE	7.08%	7.08%
MSCI Emerging Market	3.08%	3.08%
Currency		
CAD/USD	0.07%	0.07%

Source: Factset, Morningstar, Raymond James Ltd. All returns are quoted in CAD as of Mar 31 2025

The first quarter of 2025 has been all about uncertainty, both political and economic. While investors worried that things could turn turbulent this year, given U.S. President Trump's return to power, few predicted the kind of rodeo ride it has been. Since President Trump took office, he seems intent on fixing America's problems by tariffing his way out of debt. The reality is these trade disputes are slowing economic growth and causing economic anxiety, as businesses and households around the world delay spending decisions. Despite all the negative news, investor portfolios remained largely stable this past quarter, highlighting the crucial role of diversification.

Inflation

Inflation remains a central concern for global economies. Tariffs are causing prices to increase and forcing central banks to reconsider their rate-cutting decisions. Higher inflation numbers in the U.S. have caused the Federal Reserve to keep its benchmark rate unchanged, emphasizing that any future rate cuts will depend on economic data. If tariffs remain in place, policy makers may shift their focus from controlling inflation to ensuring economic stability, potentially leading to further rate cuts. However, this strategy has the potential of creating stagflation, a challenging scenario where economic growth stalls while inflation remains high, making it difficult for policymakers to navigate.

Fixed Income

Government bonds have served as a haven amid market uncertainty. Yields have fallen in both Canada and U.S., reflecting investors' demand for low-risk assets. The combination of tariffs and slower economic growth is likely to drive further demand for bonds. While inflation remains a key risk, weaker economic conditions may help keep bond yields low. As global trade tensions persist, fixed-income investments are expected to provide stable returns.

Canada

Despite trade wars, political uncertainty, and retaliatory tariffs, Canada's stock markets have performed admirably, returning 1.51% and outperforming the United States. The unpredictability of President Trump's policies has driven investors towards safe-haven assets like gold, benefiting the S&P/TSX Composite Index, which has been led by gains in gold and materials. However, Canada's reliance on trade with the U.S. presents economic risks. If trade tensions escalate further, the Canadian economy could face a potential recession.

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United States

U.S. equities fell sharply in late February, after reaching record highs earlier in the quarter. By the end of the quarter, the S&P 500 is down -4.20% year-to-date, while the tech-heavy Nasdaq Composite has dropped -9.80%. The sell-off has been concentrated in high-valuation growth stocks. Initial optimism surrounding Trump's second term is fading due to stronger tariffs and weaker business and consumer confidence. If tariffs do persist, corporate earnings forecasts may be revised downward, increasing the risk of further equity declines.

International

International equities have delivered strong performance this past quarter, rising 7.08%. While Europe continues to struggle with sluggish growth, high inflation, and political uncertainty, stocks have benefited from lower interest rates, monetary stimulus, and increased military and infrastructure spending.

Emerging market equities have outperformed the U.S. this past quarter, gaining 3.08%. Tariffs on China have been less significant than previously expected and easing tensions between the Chinese government and private sector have boosted investor confidence. Although China's housing market remains weak, early signs of stabilization are emerging.

Key Themes

While President Trump's tariff-driven approach has sparked economic uncertainty and slowed growth, the resilience of a diversified investment portfolio has been a reassuring factor for investors. The market's ability to withstand volatility underscores the importance of a well-balanced strategy in uncertain times. As geopolitical and economic tensions persist, maintaining a disciplined and diversified approach will be key to navigating the challenges ahead.

If you want to talk about how market turbulence has affected you or your plan, let's set up a time to chat. We're here to listen, to review your situation, to explain things clearly and to help you make informed decisions based on evidence and long-term thinking.

Over the next few months, our focus will be on:

- Tax preparation
- Ensuring clients' portfolios have enough liquidity for 12-18 months
- Making sure all portfolios are within their long-term asset allocation