



“Less Bad”

Equities

Developed Market (DM) equities posted healthy gains worldwide in the second quarter, making it difficult to recall the dramatic drop in the first two weeks of April in response to a “Liberation Day” of stringent import tariff announcements from the Trump administration.

In the US, the S&P 500 Index rose 10.9% in US dollar terms over the quarter while the MSCI EAFE markets of Europe and Asia rose 11.8%, also in US dollar terms. For Canadian investors, a strengthening Canadian dollar reduced these gains to 5.2% and 6.0%, respectively. The Canadian market rose 8.5% on broad-based strength, with all 11 sectors rising. Gold stocks tempered their gains during the quarter but remain a standout group for performance lately, with the sub-industry group of Canadian gold producers rising 42.9% thus far in 2025.

Across all regions, the Information Technology sector led the way this quarter, recouping lost ground from earlier in the year, on renewed enthusiasm for artificial intelligence adoption and improving demand for semiconductors. Conversely, the Energy sector was a sore spot across the board this quarter, posting declines in every region as the OPEC+ group of oil-producing nations capitulated to pressure from President Trump for increased crude oil production.

Although the initial shock of import tariffs announced by the Trump administration on April 2, 2025 triggered a rapid 11% decline in the S&P 500 Index by April 8, 2025 - subsequent digestion of this news and a tempered view of resolution led investors to move back into stocks over the remainder of the quarter. The event serves as a reminder that more volatility may lie ahead, and that investors are well served to avoid immediate judgment of announcements issued by the current US administration.

From here, a balance of factors leads to a balanced but positive outlook for stocks, with headwinds like a slowing housing market offset by signs of strengthening industrial demand and an increased government emphasis to stimulate growth via infrastructure funding and a reduction in domestic trade regulations. In this context, reasonable valuation levels for many high-quality stocks in several sectors offer a constructive setup for investment in a diversified portfolio of DM equities.

Fixed Income

After starting the quarter continuing to exhibit the volatility that characterized the first three months of the year against the heightened uncertainty surrounding US trade policy, fixed income markets settled into more narrow trading ranges as the more aggressive tariff rates were delayed and there were signs of progress on negotiations that could lessen the degree of trade barriers.

The resulting reduction in the probability of worst-case outcomes saw marginal improvements in expectations for both growth and inflation, which, in turn, saw market expectations for further policy easing scaled back.

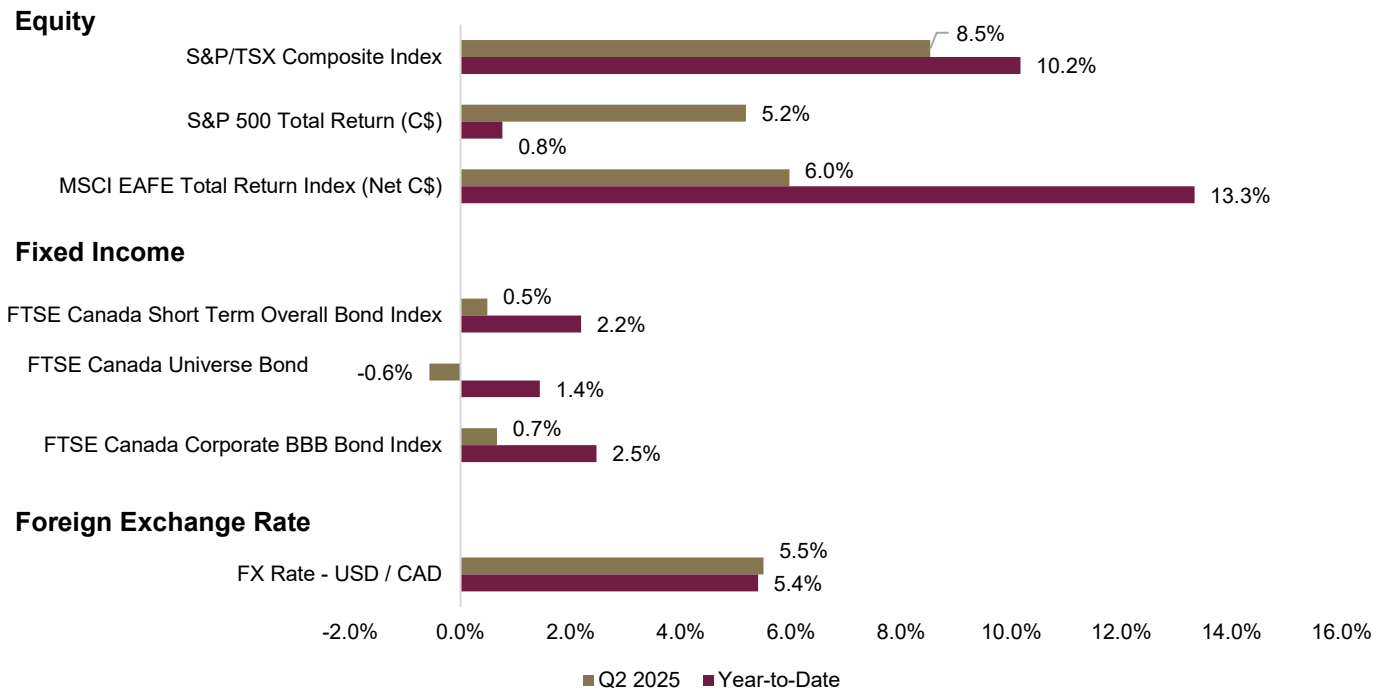


Combined with rising concerns about gaping government deficits and the related growing supply of debt, the net result was that domestic market interest rates finished the quarter modestly higher than their levels at the end of March, and the curve bear-steepened, providing a headwind to bond market performance. The broad benchmark FTSE Canada Universe Bond Index ended down 0.6% for the quarter as a whole, with less rate-sensitive short duration (FTSE Canada Short Term Bond Index +0.5%) and corporate bond (FTSE Canada All Corporate Bond Index +0.5%) outperforming, while longer term-to-maturity (FTSE Canada Long Term Bond Index -2.3%) and government bonds (FTSE Canada All Government Bond Index -0.9%) lagged.

The looming end of the pause on the more onerous and broad tariffs may well inject a renewed bout of volatility into the marketplace, but the general expectation is that deals will be made to avoid the most punitive rates. That said, the negative impact on economic activity from the tariffs in place will likely become more evident in the months to come. Indications of softening growth momentum combined with any added clarity on the policy outlook would set the stage for central banks, including the Bank of Canada, to cut rates into the “easy” side of the estimated range of neutral before the end of the year.

Longer-term interest rates, however, are not anticipated to see material downward pressure as markets remain concerned over fiscal sustainability as well as the potential for inflation (and inflation expectations) to remain elevated. Such an environment in which broad yields remain range-bound would suggest that fixed income performance could be driven predominantly by the coupons on offer and support continued investor demand for corporate credit.

Market Indices Performance (C\$ - June 30, 2025)



Source Bloomberg: All figures stated in Canadian dollars as of June 30, 2025



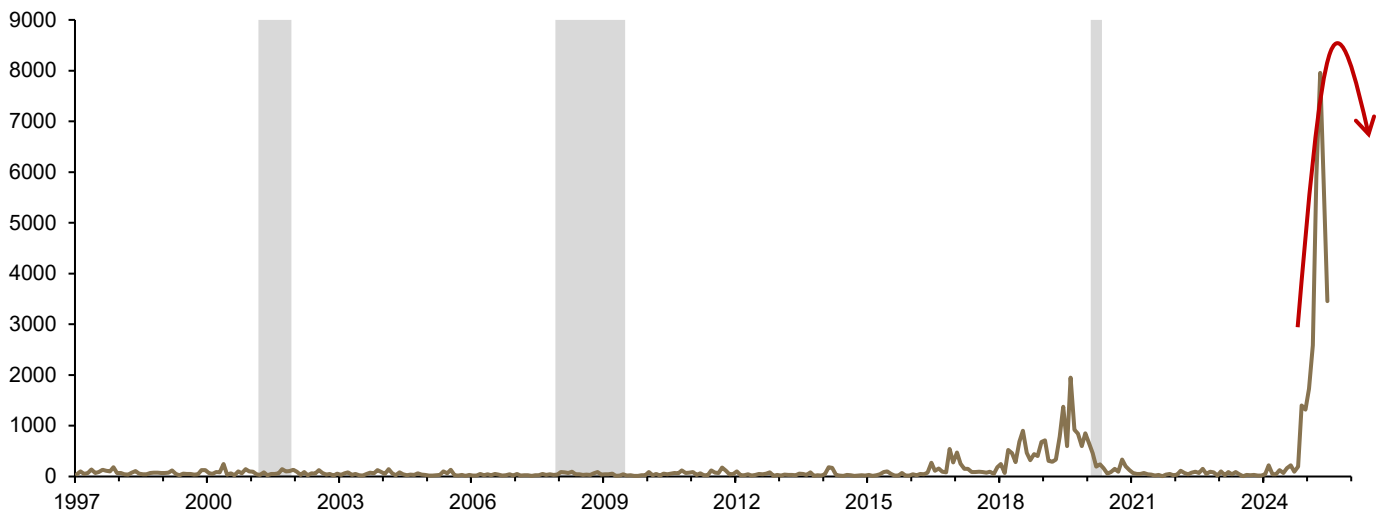
Commentary

The simplest way to characterize how the global economic outlook has developed over the last three months — and with it, the general behaviour of financial markets — would be “less bad”.

Economic uncertainty remains unfathomably high due to the persistent lack of clarity on the direction of US trade policy, but the potential for a “scorched earth” approach that was tabled three months ago on “Liberation Day,” and the subsequent escalation of tensions with China that put tariff rates to levels not seen since the turn of the 1900s, now looks to be off the table. Efforts are being made toward establishing agreements with lower barriers.

US Trade Policy Uncertainty Index¹

(index; pre-2015 average=100)



Shaded regions represent periods of US recession; source: Guardian Capital using data from [PolicyUncertainty.com](https://www.policyuncertainty.com) to June 2025

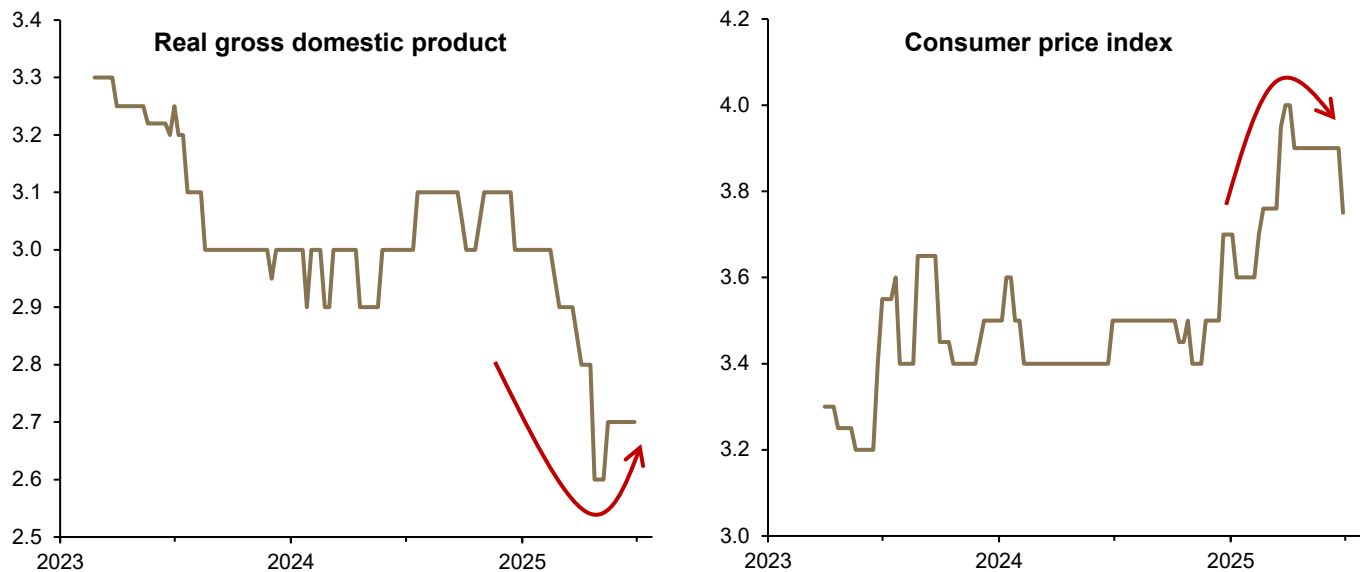
General tariff rates appear likely to remain higher than at any point in the post-World War II era and stand to restrain economic activity while also putting upward pressure on prices. The estimated 10% to 15% average levy on goods imported into the US, however, is considerably less painful for businesses and consumers than the rates north of 30% proposed three months ago and likely means less of a ripple effect across the global economy. It remains the case that underlying activity has continued to be firmer than was anticipated against the numerous headwinds seen this year.

Accordingly, consensus expectations for growth, which were on a one-way ticket lower since the start of the year — and inflation expectations, which have been moving sharply higher — have both begun moving in more favourable directions. Relative to the start of the year, global growth is still expected to be notably slower and inflation higher, but the outlook for both is “less bad”.



Consensus forecasts for global growth and inflation for 2025

(year-over-year percent change)



Source: Guardian Capital using data Bloomberg to June 27, 2025

The prospect of less potential inflation pressure eases the burden on global central banks tasked with the stewardship of their respective currencies, with markets again beginning to price in the prospect of further, albeit modest, easing by the end of the year and taking market rates down from recent highs.

The combination of “less bad” expectations for growth, inflation and interest rates has translated into analysts making fewer downward (and more upward) revisions to earnings forecasts, which have factored into global equity markets staging a near-20% rebound from their April lows — though the broad MSCI World Index remains marginally below its early-year all-time highs and has registered a modest 3.9% return year-to-date on Canadian dollar terms.

The question of where things go from here clearly depends on whether the downside risks to the outlook continue to subside — and that is clearly a big “if” as trade policy will soon return to the forefront with the 90-day tariff delays lapsing in the coming weeks, the geopolitical backdrop remains fraught, concerns are rising over fiscal sustainability as government table budgets that show little restraint, while the impact of tariffs and related uncertainty will become more prevalent in the dataflow.

Markets, however, are aware of the many hazards on the road ahead and have shown a willingness to continue to climb the “Wall of Worry²”. There is also potential for the outlook to not only turn “less bad” but possibly actually “good” — for example, if the trade deals are reached which reduce tariffs to a greater degree, geopolitical tensions cool, focus in the US turns to market-friendly developments such as deregulation and/or added progress concerning developments in artificial intelligence — that in turn could give markets an added boost through the remainder of the year.



Endnotes

¹ The US Trade Policy Uncertainty Index is a daily version of one of the category-specific Economic Policy Uncertainty (EPU) indexes. It reflects the frequency of articles in American newspapers that discuss policy-related economic uncertainty and also contain one or more references to trade policy.

² The “Wall of worry” is the financial markets’ periodic tendency to surmount a host of negative factors and continue ascending.

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