Market Review

as at March 31, 2025

Global markets have experienced extraordinary volatility in 2025. The catalyst was President Trump's tariff announcement on April 2nd, dubbed "Liberation Day." He declared a blanket 10% tariff on all trading partners and additional "reciprocal" tariffs for countries with trade deficits with the United States. This announcement was worse than the markets had anticipated, sending shockwaves through the global economy. It triggered significant market volatility due to the uncertainty surrounding these tariffs and their potential impact on the global supply chain, inflation, and economic growth. Markets have calmed slightly since Trump's announcement on April 9th, which put most global tariffs, except those on Canada and Mexico, on pause for 90 days.

Asset Returns

Stocks went into 2025 with the bull market solidly intact. The S&P 500 Index made new highs in February before slipping into "correction territory" as tariff threats spooked investors and dimmed the outlook. Year-to-date, as of 11 April 2025, the S&P 500 Index has decreased by 8.9%, while the Nasdaq Index has fallen by 12.3%, largely due to significant selling pressure in the tech sector.

Another significant difference between the beginning of the year and 2024 was the phenomenon known as "market rotation." In this period, US markets underperformed compared to markets around the world. Value stocks soared, while growth stocks saw a steep decline. Notably, the "Magnificent Seven" AI-related stocks lost their momentum, recording their worst quarterly performance on record.

Europe performed well, with European stocks increasing by 11% in the first quarter. However, by April, the Euro Stoxx 50 Index began to lose some of those gains due to tariff uncertainty. This rebound was more a response to a quick shift in a previously pessimistic outlook rather than a reflection of strong long-term confidence.

As risk assets were sold off, investors adopted a risk-off approach and sought safer investments, leading to an increase in the value of government bonds. However, US long-term Treasury yields surged in recent weeks as hedge funds and other institutional investors were compelled to sell bonds to raise cash to cover stock losses. As the bond market declined and Treasury yields rose, President Trump announced a 90-day pause on most tariffs on April 9th. Overall, US Treasury bonds outperformed other credit instruments, with a year-to-date return of 2%.

Commodities, particularly precious metals like gold, have been the best-performing asset class this year. Investors view gold as a safe haven and a hedge against potential inflation caused by tariffs.

Recession Fears

What was set out by President Trump on April 2nd could lead to slower economic growth and increased inflation, raising the risk of stagflation and heightening the chances of a recession in both the US and globally. However, the most crucial question is how quickly this uncertainty will resolve, how events will unfold, and ultimately where they will lead. This situation feels reminiscent of March 2020, at the onset of the COVID-19 pandemic, as the world seeks signposts and signals for greater certainty.

There are indications that the US economy could start softening. Consumer confidence has declined for four consecutive months, reaching its lowest level since 2021. CEO sentiment has also fallen, with some surveys reporting the weakest outlook in months.

On the other hand, some recent macro data highlighted the ongoing strength and resilience of the US economy before President Trump's implementation of aggressive tariffs. In March, the US economy added an impressive 228,000 jobs, exceeding forecasts of 140,000. The unemployment rate remains healthy at 4.2%. The US inflation YoY decreased to a six-month low of 2.4% in March, down from 2.8% in February. This marks the first decline in prices on a monthly basis since May 2020.

Inflation Fears and the Tariff Debate

The word "stagflation," that unhappy mix of rising prices and slowing growth, has appeared frequently in recent headlines. However, the impact of tariffs on rising prices may be overstated.

During Trump's first term, tariffs were widely expected to fuel inflation. However, a study in the American Economic Review: Insights found that US firms and overseas producers—not consumers—bore most of the costs. In a competitive retail environment, price increases are constrained by what the market will tolerate. Retailers like Walmart would likely raise prices significantly if the market allowed, but such increases were constrained. Thus, the idea that tariffs directly lead to higher consumer prices does not hold up against the evidence.

History also reminds us that markets are often more resilient to policy theatrics than headlines suggest. Despite numerous headline shocks during Trump's first term, the S&P 500 Index rose by about 50% from 2017 to early 2020. While certain sectors faced challenges, widespread disruptions were uncommon, suggesting that a similar resilience could be observed in the current environment.

Divergence in Central Bank Policies

We continue observing divergence in central bank policies around the developed economies. The European Central Bank (ECB) took action twice in the first quarter, including a rate cut in March and a strong indication of its intentions earlier in the year. Similarly, the Bank of Canada has also made two cuts to its policy rate in 2025. In contrast, the Bank of England made one adjustment.

The Federal Reserve, on the other hand, is in a challenging position. It is caught between a trade war that could cause tight financial conditions and weigh on the economy. As a result, interest rates in the US remained unchanged in March, with Powell indicating a wait-and-see approach.

Outlook and Portfolio Positioning

Due to the significant escalation in global trade tensions and the uncertainty surrounding tariffs and their impact on the global economy, we expect continued pressure on risk assets in the short term. In light of the current political uncertainties and the highly volatile market environment, we have reduced risk in our private client portfolios. This includes adjusting our US equity exposure to a neutral position, decreasing our holdings in emerging market equities and opportunistic fixed income, and incorporating a tactical allocation to gold and short-term Treasuries.

We believe that, in the long run, what we have experienced lately will just be a blip in an upward trend. While tariff uncertainty could weigh on economic growth in the near term, we maintain that the current fundamentals of the US economy are solid. We are confident that the market will fully recover, so we stay invested.

Macro Indices Report as at March 31, 2025 (percent)

	MAR	FEB	JAN	Q1 2025	YTD	2024	Annualized 3 Years	Annualized 5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	-4.0	-0.6	3.4	-1.3	-1.3	17.5	6.9	15.2
MSCI EAFE	-0.3	2.0	5.3	7.0	7.0	4.4	6.7	12.4
NORTH AMERICA EQUITY								
S&P 500 Total Return	-5.6	-1.3	2.8	-4.3	-4.3	25.0	9.1	18.6
DOW JONES INDUSTRIAL AVG	-4.1	-1.4	4.8	-0.9	-0.9	15.0	8.7	16.2
S&P 400 Net TR	-5.5	-4.4	3.8	-6.2	-6.2	13.4	3.9	16.4
NASDAQ COMPOSITE	-8.1	-3.9	1.7	-10.3	-10.3	29.6	7.6	18.5
RUSSELL 2000 INDEX	-6.8	-5.4	2.6	-9.5	-9.5	11.5	0.5	13.2
S&P/TSX COMPOSITE INDEX	-1.5	-0.4	3.5	1.5	1.5	21.7	7.8	16.8
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	-3.8	3.6	6.5	6.1	6.1	9.5	9.2	14.3
FTSE 100 INDEX	-2.0	2.0	6.2	6.1	6.1	9.6	8.4	12.6
CAC 40 INDEX	-3.9	2.0	7.8	5.8	5.8	0.9	8.6	15.2
DAX INDEX	-1.7	3.8	9.2	11.3	11.3	18.8	15.4	17.4
ASIA EQUITY								
MSCI AC Far East Ex Japan	-2.4	3.4	1.8	2.7	2.7	9.6	-1.6	2.9
NIKKEI 225	-3.4	-6.0	-0.8	-9.9	-9.9	21.3	10.7	15.7
HANG SENG INDEX	1.1	13.4	1.2	16.1	16.1	22.9	5.8	3.2
S&P/ASX 200 INDEX	-3.2	-3.6	4.6	-2.4	-2.4	12.7	7.0	14.6
SHANGHAI SE COMPOSITE	0.4	2.2	-2.7	-0.2	-0.2	16.2	3.9	6.7
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	0.6	0.5	1.8	2.9	2.9	7.5	1.4	7.9
S&P LATIN AMERICA 40	5.5	-2.5	9.7	12.8	12.8	-22.0	0.5	13.6
BRAZIL IBOVESPA INDEX	6.1	-2.6	4.9	8.3	8.3	-10.4	2.8	12.3
S&P BSE SENSEX INDEX	5.8	-5.5	-0.7	-0.7	-0.7	9.6	11.2	22.8
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	0.5	0.7	0.4	1.6	1.6	4.1	2.8	1.2
BLOOMBERG US Agg	0.0	2.2	0.5	2.8	2.8	1.3	0.5	-0.4
BLOOMBERG Multiverse (Unhedged)	0.6	1.4	0.6	2.6	2.6	-1.3	-1.4	-1.0
Citi World BIG US Hedged	-0.5	1.4	0.4	1.3	1.3	2.6	0.6	-0.2
ICE BoA US High Yield Index	-1.1	0.7	1.4	0.9	0.9	8.2	4.8	7.2
JPM EMBI Global Core – US$	-0.8	1.5	1.3	2.1	2.1	6.2	8.9	17.7
JPM EM Global Cove – Local	1.3	0.8	2.0	4.1	4.1	-2.4	-2.8	11.7
COMMODITIES								
BLOOMBERG Commodity Index	3.6	0.4	3.6	7.7	7.7	0.1	-5.1	11.5
GOLD	10.0	0.8	7.8	19.4	25.5	25.5	60.4	93.6
OIL (WTI)	3.3	-3.2	2.8	2.8	2.8	14.4	0.8	22.9

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