Economic Commentary

First Quarter 2025

Trump Tariff Threats Rattle Financial Markets

U.S. President Trump rattled global financial markets in early February as he announced that tariffs would be applied to Canada and Mexico as a result of the perceived fentanyl crisis of drugs entering into the U.S. By stating that it was a national emergency, he was able to avoid congressional approval in order to implement his tariff plan. In addition, 20% tariffs were also going to be applied to all Chinese goods entering the U.S. Additional measures were announced and eventually delayed, causing extreme volatility in global financial markets. April 2 was deemed Liberation Day by President Trump when he would announce his reciprocal tariff plan. This plan implemented higher-than-expected tariffs on many countries around the world, with tariffs of at least 10% across the board, with several countries at much higher levels. The announced tariffs on Canada and Mexico were lower than expected, however, the existing onerous tariffs are still in place, leading to uncertain economic conditions going forward. The initial market reaction was negative as equity markets around the world plunged dramatically .

Bank of Canada Lowers Rates; U.S. Fed Pauses

The Bank of Canada continued lowering interest rates as they cut rates by 25 bp each at its two meetings during the quarter. Uncertainty with respect to the impact that Trump's tariffs will have on future economic conditions certainly came into play in the Bank of Canada's latest interest rate decision. The Bank of Canada remains the most aggressive central bank amongst the G7 countries in terms of both the magnitude and number of interest rate cuts since the beginning of last year. After cutting rates at each of its last three meetings in 2024, the U.S. Federal Reserve decided to pause at its two meetings during the quarter. Despite inflationary fears developing on the back of Trump's tariff plan, there are concerns that the economy will weaken going forward. As a result, the Fed decided to stand pat, although they did forecast two additional interest rate cuts by the end of the year. They also lowered expected GDP growth and increased projected inflation levels over the next two years.

Canadian Inflation Trends Higher

Canadian inflation, which had shown consistent declines during the fourth quarter, started trending higher into 2025. Annual inflation finished the year at 1.8%, before increasing to 1.9% in January and then surprised on the upside with a 2.6% reading in February. U.S. inflation, on the other hand, had been trending higher into the end of the year, ending 2024 at 2.9% before inching higher to 3.0% in January and then surprising on the downside with a 2.8% annual rate in February. This brought the headline inflation levels in Canada and the U.S. much closer than they had been over the previous year. Core levels remain higher than the headline rate, with Canada at 2.9% and the U.S. at 3.1%. In terms of economic growth, both countries ended 2024 on solid footing with fourth quarter annualized GDP at 2.6% in Canada and 2.4% in the U.S. Although both readings showed underlying strength in the economy, particularly in the consumer sector, the fear is that there will be an economic downturn resulting from the implementation of Trump's tariff plans. Weak-ness was evident in the manufacturing and

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Key Metrics

Indicator	Value	Chg Q1	Chg 1Y
S&P/TSX Composite	24,917.50	1.5%	15.8%
S&P 500 (USD)	5,611.85	-4.3%	8.2%
iShares MSCI EAFE ETF (USD)	81.73	8.1%	5.6%
USD/CAD	$ 0.70	0.0%	-5.9%
WTI Crude ($/bl))	$ 71.48	-0.3%	-14.1%
GoC 10Y Bond	2.97%	-26 bps	-50 bps
GoC Deposit Rate	2.75%	-50 bps	-225 bps
Cdn CPI YoY	2.6%	0.8%	-0.3%
US 10Y Treasury	4.21%	-37 bps	1 bps
Fed Funds Rate	4.50%	0 bps	-100 bps
USD CPI YoY	2.8%	-0.1%	-0.7%

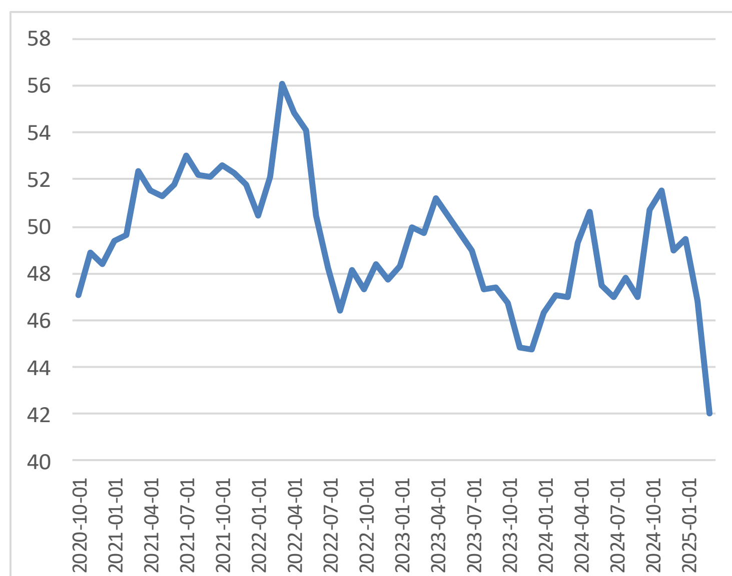
Top Themes

On-going Trump tariff threats rattle global financial markets

Bank of Canada continues to lower rates, while U.S. Fed pauses

Inflation trends higher, with fears of further pressure developing

Top Chart: S&P Global Canada PMI Composite Survey



Source: Bloomberg, Lincluden

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service sectors as data ended the quarter on a weaker note.

Equity Markets Volatile While Bond Yields Trend Lower

After starting the year off in positive territory, equity markets sold off during the latter part of the quarter as President Trump outlined plans to implement tariffs on goods entering the United States. There was, however, a great deal of uncertainty with regard to the timing and extent of what tariffs would be applied to the various markets as Trump whip-sawed back and forth on the implementation plan. Financial markets do not like uncertainty and subsequently sold off. The Canadian equity market was basically flat on the quarter while U.S. indices experienced negative returns. Following Trump's April 2 announcement of reciprocal tariffs, global equity markets sold off dramatically to start the second quarter. Bond yields moved lower during the quarter, particularly in the U.S. market. Despite pausing during the quarter, the U.S. Federal Reserve did indicate that they could lower rates by 50 bp through the balance of the year. The yield on the benchmark 10 year U.S. Treasury bond decreased by 36 bp, ending the quarter at 4.21%, after peaking at 4.79% in mid-January. There was a flight-to quality in fixed income markets as uncertain economic conditions contributed to lower yields in the government bond market .