Economic Commentary

Second Quarter 2025

Tensions Amplify With Israel/Iran Conflict

Geo-political tensions escalated at the end of the second quarter as the on-going conflict between Israel and Iran worsened. Concerns over Iran's nuclear program prompted Israel to launch a series of strikes against Iran's nuclear, military and other strategic assets. This prompted retaliation on the part of Iran as it proceeded to attack Israeli citizens with long-range missiles and explosive drones. The U.S. subsequently got involved and bombed three nuclear sites in Iran. A temporary ceasefire was agreed to in late June. In addition to the re-emergence of this conflict, the Russia/Ukraine war continues, adding further uncertainty to the global geo-political environment.

On-going Tariff Talks Contribute to Volatility

U.S. President Trump followed through with his proposed global tariff announcement on April 2, which he deemed as Liberation Day. Massive tariffs were announced across the board on goods imported into the U.S. from countries around the world. This caused major disruption in global financial markets, given the potential negative impact that these tariffs would have on both economic activity and inflationary pressures moving forward. Despite warning financial markets that there would be a little short-term pain as a result of these tariffs, Trump re-iterated the need for the U.S. to move forward with his plan.

Global financial markets gave a resounding thumbs down to the tariff announcement. Generally, in times of crisis there is a flight-to-quality, with global investors gravitating to the safety of the U.S. dollar and U.S. Treasury bonds. Immediately following the tariff announcement, there was a dramatic sell-off in the U.S. dollar, U.S. Treasury bonds as well as global equity markets. The U.S. dollar had already deteriorated significantly against global currencies this year, casting doubt on its ability to be a safe haven in times of crisis. This severe market reaction prompted immediate action by Trump as global financial markets were in a freefall. As a result, Trump decided to pause the tariff plan for 90 days in the hope that individual deals could be negotiated separately with countries around the world. This pause led to a dramatic rebound in equity markets, which continued through the balance of the quarter. As at quarter end, the United Kingdom was the only country which had negotiated a trade deal with the U.S. as the July 9 deadline soon approaches.

Canada and U.S. Central Banks Hold Rates

Both the Bank of Canada and the U.S. Federal Reserve left interest rates unchanged during the quarter. The central banks are trying to gauge the negative impact that the tariffs will have on economic growth while at the same time trying to limit inflationary pressures that could result from the higher tariffs. Both central banks would like to see how the proposed tariffs will impact these key economic drivers before implementing any further rate moves. As a result, they remained in wait-and-see mode during the quarter and will assess further data as it is released over the summer. Inflation continues to be remain fairly well-contained, with the latest figures showing Canadian CPI at 1.7% and the U.S. at 2.4%. Economic growth remains modest, however, data is starting to reflect a slower growth trajectory going forward. Canada started the second

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Key Metrics

Indicator	Value	Chg Q2	Chg 1Y
S&P/TSX Composite	26,857.12	8.5%	26.4%
S&P 500 (USD)	6,204.95	10.9%	15.1%
iShares MSCI EAFE ETF (USD)	89.39	11.3%	17.7%
USD/CAD	$ 0.73	5.7%	0.5%
WTI Crude ($/bl))	$ 65.11	-8.9%	-20.1%
GoC 10Y Bond	3.27%	31 bps	-23 bps
GoC Deposit Rate	2.75%	0	-200 bps
Cdn CPI YoY	1.7%	-0.6%	-1.0%
US 10Y Treasury	4.23%	2 bps	-17 bps
Fed Funds Rate	4.50%	0	-100 bps
USD CPI YoY	2.4%	0.0%	-0.6%

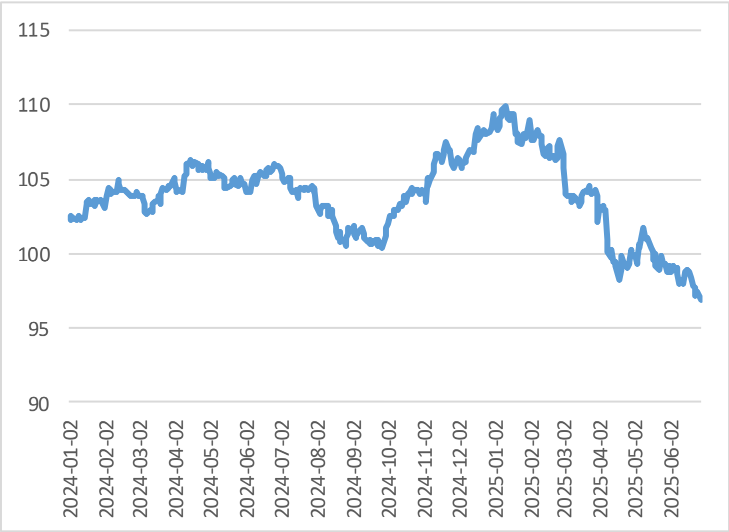
Top Themes

Geo-political tensions are high as the conflict in the Middle East escalates

Trump tariff talks continue, contributing to market volatility

U.S. dollar deteriorates against global currencies

Top Chart: U.S. Dollar Index



Source: Bloomberg, Lincluden

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quarter on a down note with April GDP declining by 0.1%, bringing the annual rate down to 1.3%. U.S. GDP declined by an annualized pace of (0.5%) during the first quarter, the slowest pace since the pandemic. Labour markets remain resilient, however, with the latest U.S. job data showing an average of 150,000 new jobs per month over the past three months.

Equity Markets Recover While Bond Yields Move Higher

Equity markets suffered dramatic losses to begin the second quarter as Trump outlined onerous reciprocal tariffs that would be applied to countries around the world. Stock markets experienced double-digit declines over a period of a couple of days as concerns regarding economic certainty and the threat of higher inflation escalated and spooked global financial markets. It wasn't until Trump paused the tariffs shortly thereafter did equity markets begin to settle down and recover. A 90-day pause helped calm the markets and provided the basis for a strong rebound through the balance of the quarter. Bond yields rallied initially to start the quarter given the uncertainty that prevailed in financial markets. However, bond yields started to move dramatically higher following the Liberation Day tariff announcement as the traditional flight-to-quality that normally occurs in times of crisis did not materialize. Despite the volatile conditions during the quarter, the yield on the benchmark 10 year U.S. Treasury bond increased by only 2 bp, ending the quarter at 4.23%.