MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

First Quarter 2025

S&P/TSX Composite TR

Q1	YTD	1 year
⬆ 1.5%	⬆ 1.5%	⬆ 15.8%

S&P 500 TR (USD)

Q1	YTD	1 year
⬇ 4.2%	⬇ 4.2%	⬆ 8.3%

MSCI EAFE GR (C$)

Q1	YTD	1 year
⬆ 3.0%	⬆ 3.0%	⬆ 4.7%

ICE Bof AML Canada Brd Mkt TR

Q1	YTD	1 year
⬆ 2.0%	⬆ 2.0%	⬆ 7.6%

FIRST QUARTER HIGHLIGHTS

- S&P/TSX Composite hits a new all-time high of 25,875.60 on Jan 30th
- S&P 500 hits a new all-time high of 6,147.43 on Feb 19th
- Canadian dollar was volatile and range bound, ending quarter at $0.6989
- WTI Oil hits a six-month high of $78.71 USD on Jan 15th
- Bank of Canada lowered overnight rate by 0.50% to 2.75%

SUMMARY

In a quarter marked by significant political transitions and economic uncertainty, markets navigated through complex trade policy shifts and varying regional performance. The return of Donald Trump to the presidency and Canada's leadership change to Mark Carney set the stage for a period of market volatility, particularly driven by new US trade tariff announcements.

Market performance showed notable regional divergence, with European indices demonstrating remarkable strength while US markets, particularly technology stocks, faced downward pressure. The S&P 500's decline of 4.2% and Nasdaq's 10.3% drop contrasted sharply with European gains, with the EAFE up 3.0%. Canadian equities proved relatively resilient, with the S&P/TSX Composite Index posting a modest gain of 1.50%.

Bond markets reflected growing economic concerns as yields fell across North America. The ICE B of AML Canada Broad Index gained 2.0% for the quarter, indicating investors' shift toward safer assets amid increasing uncertainty. This movement in fixed income markets suggested a cautious outlook among investors regarding future economic conditions.

Economic indicators painted a mixed picture across major economies. In Canada, GDP grew by 0.4% in January, showing the strongest monthly growth in nearly a year, while the unemployment rate held steady at 6.6%. The US economy demonstrated resilience with revised Q4 2024 GDP growth of 2.4%, and March's employment gains of 228,000 jobs exceeded expectations of 140,000, with unemployment remaining stable at 4.2%. Sentiment however declined substantially across the globe on significant geopolitical uncertainty.

Central banks maintained their accommodative stance, with the Bank of Canada cutting its key rate to 2.75% in March, marking its seventh consecutive rate reduction since mid-2024. The Federal Reserve held rates steady at 4.25-4.50%, adopting a cautious approach amid increasing economic uncertainty. In Europe, the ECB reduced its key rate to 2.5%, while the Bank of England implemented a 0.25% cut, reflecting a coordinated global response to emerging economic challenges.

Looking ahead, we anticipate continued market volatility as global trade policies evolve and uncertainties persist. The implementation of new tariffs, particularly from the US, combined with shifting trade relationships and protectionist measures worldwide, will likely contribute to market fluctuations in the near term. Investors should expect this heightened volatility to remain a prominent feature of financial markets until there is greater clarity on international trade frameworks and their economic implications. During this period, maintaining a well-diversified portfolio and focusing on long-term investment objectives becomes particularly crucial.

STRATEGIC NOTES

A tariff is a tax or duty imposed by a government on imported goods or services. This economic tool has been used throughout history to protect domestic industries and generate revenue for governments. When implemented, tariffs increase the cost of imported products, making them more expensive for consumers while giving local producers a competitive advantage. This protection helps preserve jobs and maintain industrial capacity within a country, while also providing an important source of government funding, particularly, in a historical context, before income taxes became widespread.

Governments can implement different types of tariffs: ad valorem tariffs (calculated as a percentage of the imported good's value), specific tariffs (fixed amounts per unit), or compound tariffs (combining both methods). These tariffs are designed to raise the price of imported goods and services to discourage consumption and encourage citizens to buy local products instead. They have historically been justified to protect infant industries and allow import substitution industrialization.

The protectionist approach, however, often ignores the principle of comparative advantage, which suggests that countries should specialize in producing goods where they have a relative efficiency advantage. Even if one country can produce everything more efficiently than another, both countries can still benefit from trade by focusing on their areas of strongest relative advantage. This economic principle, first described by David Ricardo, demonstrates why protectionist policies like tariffs often reduce overall economic efficiency.

Tariffs can have complex economic consequences that warrant careful consideration. While they may increase consumer prices and reduce certain types of market competition, they can also protect strategic domestic industries and preserve important manufacturing capabilities. Some argue this protection allows domestic firms to develop economies of scale and maintain employment levels, particularly in sectors deemed vital to national security or economic independence. However, reduced international competition can impact innovation incentives, and trade disputes may arise between nations.

Economists continue to debate the relative merits of protectionist policies versus free trade. While free trade based on comparative advantage often leads to overall economic efficiency and lower consumer prices, targeted protectionism can help developing industries establish themselves and protect workers during economic transitions. The impacts of trade policy are often nuanced - while free trade generally increases total economic output, protective tariffs may help achieve other social or strategic objectives, such as maintaining domestic production capabilities or protecting specific industries from sudden market disruptions. The key lies in finding the right balance between protecting strategic interests and maintaining healthy international trade relationships.

At Eastport, we understand the challenges that shifting trade policies and tariff implementations present to our clients' investments. Our expertise lies in crafting well-diversified portfolios that can weather these economic uncertainties while maintaining focus on long-term growth. By strategically allocating investments across various asset classes, geographic regions, and sectors, we help our clients minimize exposure to any single market or policy change. Our seasoned investment professionals actively monitor global trade dynamics and adjust portfolio strategies accordingly, ensuring our clients' investments remain resilient in the face of changing market conditions. This balanced approach, combined with our commitment to personalized financial guidance, enables us to help our clients navigate complex trade environments while staying aligned with their financial objectives.

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