April 2025

Warning signals flash for U.S. economy

By Stéfane Marion & Matthieu Arseneau

Highlights

- After initially dismissing Washington's aggressive protectionist rhetoric and the looming threat of sweeping tariffs, global equity markets are now reacting. The import taxes already in place have driven the effective U.S. tariff rate to approximately 7%—the highest since the end of World War II. If Washington proceeds with a second wave of levies on foreign imports, as recently announced, the effective tariff rate could jump to 15%, a level not seen since the 1930s
- While Washington argues that the economy is well-positioned to weather a trade war—citing that exports make up only 11% of GDP—the stock market may tell a different story. Foreign sales account for a substantial 41% of total revenues among S&P 500 companies. Among all industries, the Information Technology sector is the most exposed to a potential tariff war and retaliatory measures from foreign trading partners, with nearly 60% of its sales generated overseas
- After initially withstanding the negative impact of U.S. tariff threats on the Canadian economy, the S&P/TSX has now relinquished nearly all of its 2025 gains. As of this writing, the Canadian benchmark is up just 0.1%, with only three sectors—Materials, Energy, and Utilities—remaining in positive territory.
- This month, we are further reinforcing our defensive asset allocation by increasing our cash holdings and reducing our U.S. equity exposure to 5 percentage points below benchmark. The stagflationary tilt of current U.S. economic policy—marked by aggressive protectionism, fiscal laxity, and restrictive immigration measures—poses meaningful risks to global supply chains and corporate profitability.

World: Under pressure

After initially dismissing Washington's aggressive protectionist rhetoric and the looming threat of sweeping tariffs, global equity markets are now reacting. The MSCI ACWI index dropped over 4% in March, with U.S. equities bearing the brunt of the decline (see table).

World: Equity markets grapple with trade uncertainty
MSCI composite index: Price Performance

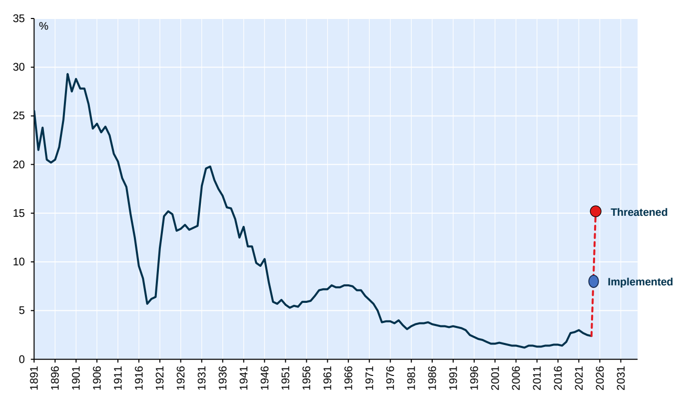
	Month to date	Quarter to date	Year to date
MSCI ACWI	-4.4	-2.2	-2.2
MSCI World	-5.1	-2.9	-2.9
MSCI USA	-6.4	-5.3	-5.3
MSCI Canada	-3.0	-0.1	-0.1
MSCI Europe	-2.6	7.1	7.1
MSCI Pacific ex Jp	-1.3	0.1	0.1
MSCI Japan	2.4	-1.7	-1.7
MSCI EM	1.7	3.9	3.9
MSCI EM EMEA	2.2	6.6	6.6
MSCI EM Latin America	4.0	7.4	7.4
MSCI EM Asia	1.5	3.2	3.2

3/28/2025

NBF Economics and Strategy (data via Refinitiv)

The underperformance of the U.S. stock market underscores the scale of the tariffs and their potential to weigh on corporate earnings. According to Bloomberg, the import taxes already in place have driven the effective U.S. tariff rate to approximately 7%—the highest since the end of World War II. If Washington proceeds with a second wave of levies on foreign imports, as recently announced, the effective tariff rate could jump to 15%, a level not seen since the 1930s (see chart).

US: Back to the 1930s?
Historical average effective US tariff rate: Implemented and threatened



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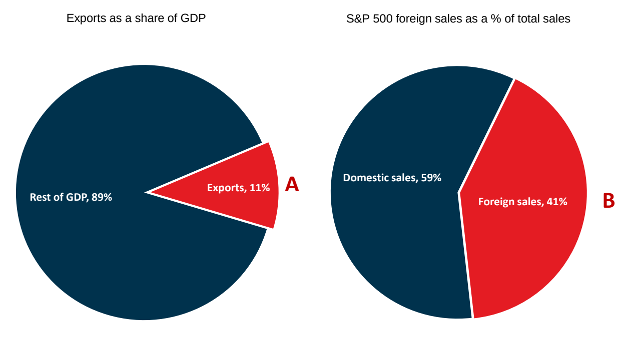
An import tax of this scale could have significant implications for U.S. companies. While Washington argues that the economy is well-positioned to weather a trade war—citing that exports make up only 11% of GDP—the stock market may tell a different story. Foreign sales account for a substantial 41% of total revenues among S&P 500 companies (see chart).

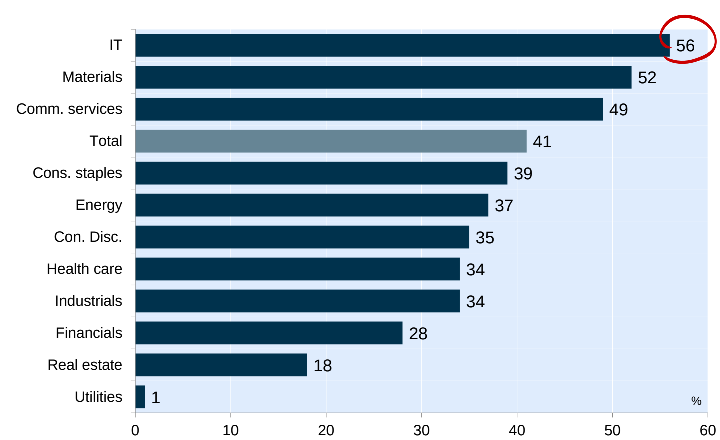
S&P 500: Equity market is highly exposed to a trade war



NBC Economics and Strategy (data via BEA and Factset)

Among all industries, the Information Technology sector is the most exposed to a potential tariff war and retaliatory measures from foreign trading partners, with nearly 60% of its sales generated overseas. Close behind are the Materials and Communication Services sectors (see chart).

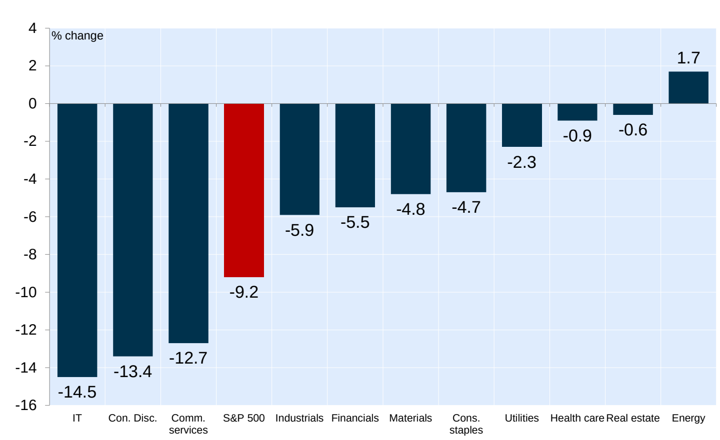
S&P 500: Tech sector is most vulnerable
Share of sales realized outside of the U.S.



NBC Economics and Strategy (data via BEA and Factset)

It's little surprise, then, that the IT sector—which represents a substantial 30% of the S&P 500—has been hit hard, falling 14.5% since the index's peak on February 19, 2025. Notably, IT isn't alone. The selloff has extended to other sectors, with Consumer Discretionary and Communication Services also down more than 10%. Energy stands out as the only sector to post a positive return since February 19 (see chart).

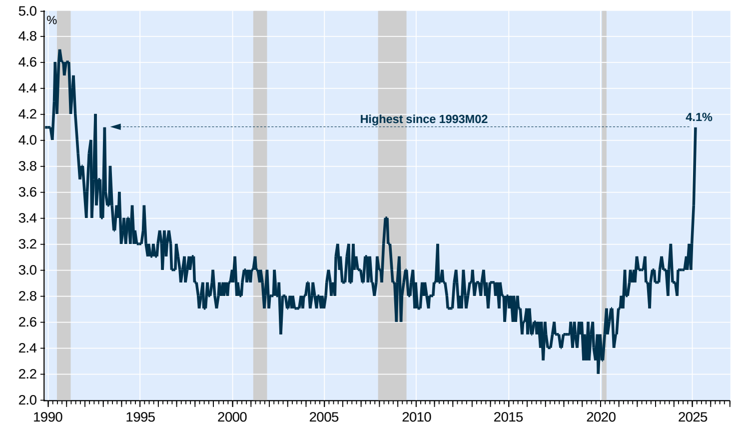
S&P 500: Drawdown exceeds 10% in three of the major industries
Returns since S&P 500 peak on Feb 19, 2025 (through March 28, 2025)



NBC Economics and Strategy (data via Refinitiv)

Tariff uncertainty is also beginning to weigh heavily on U.S. consumer sentiment, with households' medium-term inflation expectations surging to a 32-year high of 4.1% in March (see chart).

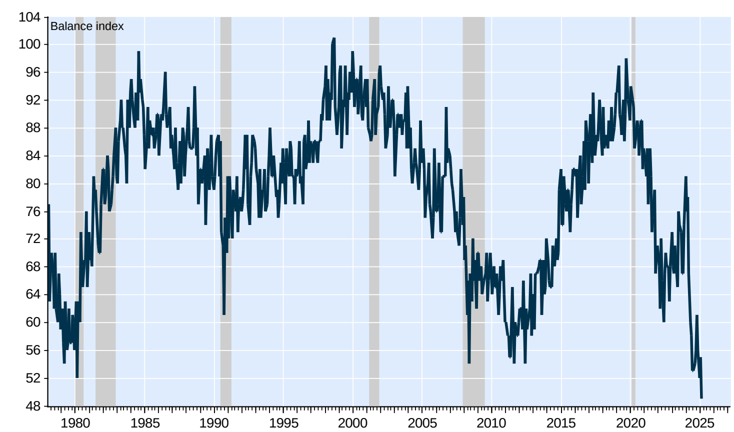
U.S.: Inflation expectations surge to a 32-year high
Consumer 5-10 year inflation expectations, University of Michigan Consumer Sentiment Survey



NBC Economics and Strategy (data via Bloomberg)

As a result, the March University of Michigan Sentiment Survey recorded the most negative balance of opinion on purchasing power improvement in its history—surpassing even the lows seen during the high-inflation era of the 1980s (chart).

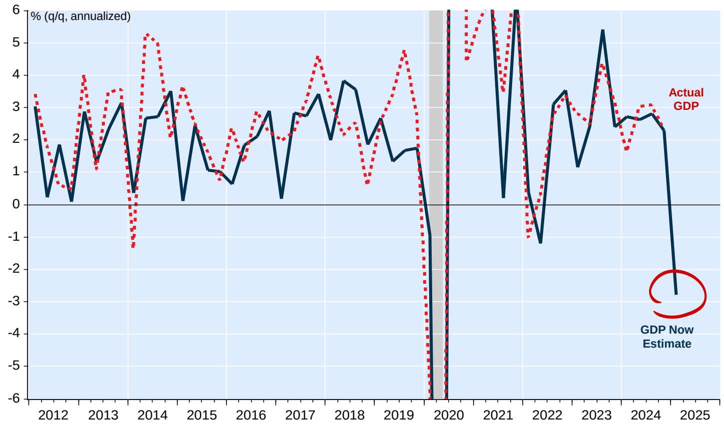
U.S.: Purchasing power expectations hit record low
Real household income expectations over the next 12-24 months*, Michigan Consumer Sentiment Survey



*Percentage of respondents who think it will increase - percentage who think it will decrease + 100
NBC Economics and Strategy (data via Bloomberg)

The combination of elevated inflation and declining purchasing power—hallmarks of stagflation—paints a troubling picture for the U.S. economy and future volume sales for American corporations. According to the Atlanta Fed's GDPNow estimate, as of March 28, the economy is on track for an annualized contraction of 2.8% in Q1 2025. With one month remaining before the first official GDP release—and potential upward revisions still possible—this marks the weakest growth estimate in GDPNow's history since its 2011 launch, excluding the COVID recession (see chart).

U.S.: Warning signal for the economy
Atlanta Fed GDP now estimate vs. actual GDP



NBC Economics and Strategy (data via Fred)

A clear economic slowdown—let alone an outright contraction—stands in stark contrast to the current consensus, which still anticipates 11% EPS growth in 2025. This forecast includes positive contributions from all major sectors except Real Estate and Energy. In our view, there remains considerable room for downward earnings revisions in the months ahead (see table).

S&P 500: Consensus still sees double-digit EPS growth in 2025
EPS: Realized and analysts' expectations

	Earnings per share					EPS % growth		
	2024	2025	2026	12m Trail.	12m Forw.	2025	2026	12m Forw.
S&P 500	238	265	304	247	277	11	14	12
ENERGY	46	46	54	46	48	0	19	5
MATERIALS	25	26	31	25	27	4	18	8
INDUSTRIALS	43	50	58	44	52	16	16	17
CONS. DISC.	59	63	73	60	65	7	16	9
CONS. STAP.	39	40	43	39	41	2	8	4
HEALTH CARE	81	95	105	84	98	18	10	16
FINANCIALS	46	49	55	47	51	6	13	8
IT	130	156	183	139	166	20	18	19
TELECOM	16	18	20	16	18	12	14	13
UTILITIES	21	22	24	21	23	5	8	6
REAL ESTATE	7	7	7	7	7	-4	13	1

3/28/2025 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: YTD gains erased

After initially withstanding the negative impact of U.S. tariff threats on the Canadian economy, the S&P/TSX has now relinquished nearly all of its 2025 gains. As of this writing, the Canadian benchmark is up just 0.1%, with only three sectors—Materials, Energy, and Utilities—remaining in positive territory (see table).

S&P/TSX: Slips back to flat for the year
S&P/TSX composite index: Price Performance

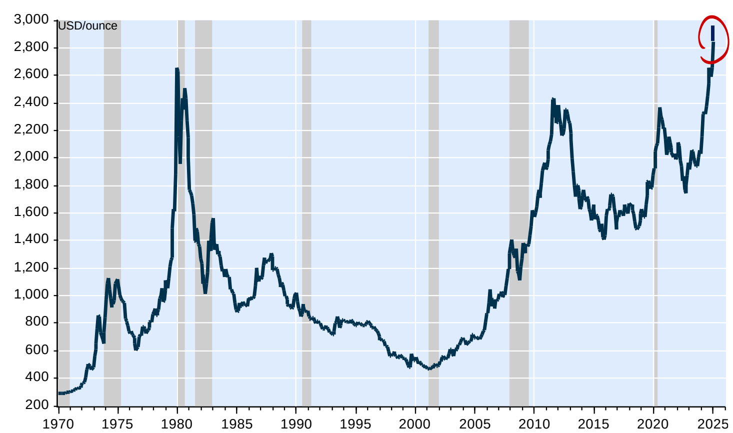
	Month to date	Quarter to date	Year to date
S&P TSX	-2.5	0.1	0.1
MATERIALS	6.4	19.3	19.3
ENERGY	2.9	1.0	1.0
UTILITIES	1.0	3.3	3.3
CONS. STAP.	0.4	-2.6	-2.6
REAL ESTATE	-2.0	-2.8	-2.8
TELECOM	-3.7	-0.2	-0.2
CONS. DISC.	-4.1	-2.2	-2.2
FINANCIALS	-4.7	-3.0	-3.0
BANKS	-5.0	-4.0	-4.0
HEALTH CARE	-5.1	-10.0	-10.0
INDUSTRIALS	-5.8	-3.3	-3.3
IT	-12.3	-7.0	-7.0

3/28/2025

NBF Economics and Strategy (data via Refinitiv)

The Materials sector continues to benefit from the parabolic rise in gold prices, fueled by an ongoing protectionist shift and heightened geopolitical uncertainty. In March, gold bullion exceeded $3,000 per ounce, setting new records in both nominal and inflation-adjusted terms (see chart).

World: Gold hits $3,000/ounce
Price of gold bullion in constant dollars (deflated by U.S. CPI – monthly data)



NBC Economics and Strategy (data via Refinitiv)

Will the uptrend in gold price continue? While the forward curve suggests a modest gain of around 3% over the next six to twelve months, the consensus among analysts points to a potential pullback in the range of 8–12% (see table).

Commodity prices expectations

	Copper	Gold	Crude Oil	Natural Gas
Current Price	9795	3085	69	4.07
Analyst assumptions				
Q+2	9600	2825	69	3.50
Q+4	9717	2720	68	3.75
Growth (Q_t/Q_0)				
Q+2	-2.0%	-8.4%	-0.5%	-13.9%
Q+4	-0.8%	-11.8%	-1.6%	-7.7%

Current Forward Prices

	Copper	Gold	Crude Oil	Natural Gas
Current Price	9795	3085	69	4.07
Forward prices				
Q+2	9845	3122	68	4.37
Q+4	9809	3187	66	4.37
Growth (Q_t/Q_0)				
Q+2	0.5%	1.2%	-2.3%	7.6%
Q+4	0.1%	3.3%	-5.1%	7.6%

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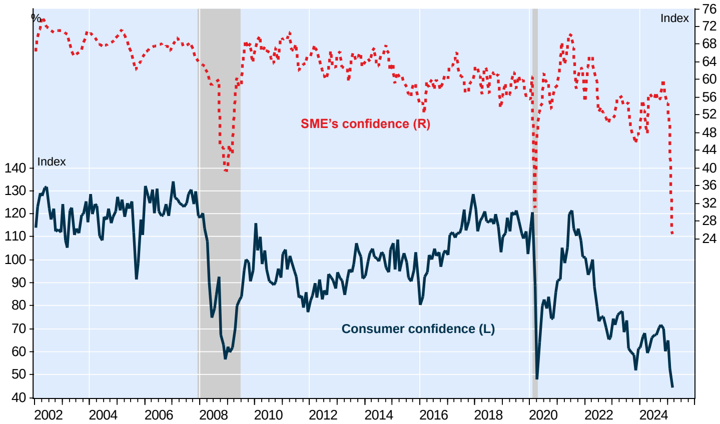
NBF Economics and Strategy (data via Refinitiv)

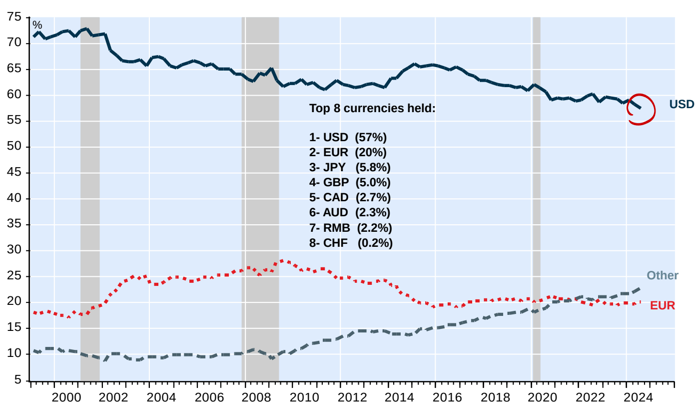
Canada: Confidence plunged amid tariffs uncertainty
Conference Board consumer confidence index and CFIB Business barometer (SME's confidence)



NBC Economics and Strategy (data via Conference Board of Canada and CFIB)

In our view, both estimates appear overly conservative for the commodity. As Washington signals a growing intent to scale back military protection for its allies, the U.S. dollar's status as the global reserve currency may come under pressure—a shift that would likely prove supportive for gold. According to the latest data, the U.S. dollar's share of global foreign exchange reserves has dropped to a new generational low of 55% (see chart).

World: Reserve status of the USD is eroding
Share of total allocated foreign exchange reserves



NBC Economics and Strategy (data via IMF)

The outlook for the broader Canadian economy remains uncertain. Although Canada is expected to post strong positive growth in Q1—contrasting with a likely contraction in the U.S.—there is little reason for complacency, as the factors driving recent momentum appear largely temporary. A surge in exports has supported several sectors, with U.S. companies accelerating purchases of Canadian goods ahead of anticipated tariffs. At the same time, households have benefited from government stimulus measures, including GST/HST and Ontario's pre-election fiscal stimulus payments to households. Looking ahead, the U.S. administration's plan to implement global reciprocal tariffs in early April poses a significant risk to Canada's economic outlook. The recent collapse in small business sentiment threatens labour market stability and future investment. Meanwhile, consumer confidence dropped to a record low in March, pointing to subdued household spending unless tensions with the U.S. ease considerably (see chart).

As a result, we expect a notable slowdown in the Canadian economy during the second half of 2025. This sets the stage for potential negative earnings surprises, especially as the consensus still projects an 11% increase in EPS for 2025 (see table).

S&P/TSX: Profit expectations appear ambitious
S&P/TSX composite index: EPS analysts expectations

	Earnings per share					EPS % growth		
	2024	2025	2026	12m Trail.	12m Forw.	2025	2026	12m Forw.
S&P TSX	1465	1630	1822	1509	1682	11	12	11
ENERGY	197	226	233	204	225	14	3	10
MATERIALS	177	224	278	189	238	27	24	26
INDUSTRIALS	233	261	302	239	271	12	16	13
CONS. DISC.	198	204	236	199	211	3	16	6
CONS. STAP.	471	529	591	480	536	12	12	12
HEALTH CARE	14	19	21	15	19	34	10	30
FINANCIALS	344	369	410	353	383	7	11	9
BANKS	373	402	443	385	419	8	10	9
IT	28	31	37	28	33	11	19	15
TELECOM	89	85	88	88	85	-5	5	-3
UTILITIES	109	123	138	112	126	13	12	13
REAL ESTATE	185	236	245	193	239	28	4	24

3/28/2025 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

Asset allocation

This month, we are further reinforcing our defensive asset allocation by increasing our cash holdings and reducing our U.S. equity exposure to 5 percentage points below benchmark. The stagflationary tilt of current U.S. economic policy—marked by aggressive protectionism, fiscal laxity, and restrictive immigration measures—poses meaningful risks to global supply chains and corporate profitability. These pressures also limit the capacity of central banks to deliver effective policy support. We plan to maintain this cautious positioning until the White House adopts measures aimed at safeguarding U.S. economic growth and restoring macroeconomic stability.

NBC Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	18	
U.S. Equities	20	15	-3
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
Fixed Income	45	53	
Cash	5	8	+3
Total	100	100	

NBC Economics and Strategy

Sector rotation

Our sector rotation is unchanged this month.

NBC Market Forecasts

NBC Market Forecast *Canada*			
		Actual	***Q4 2025***
Index Level		**Mar-28-25**	***Target***
S&P/TSX		24,759	23,900
Assumptions			Q4 2025
Level:	Earnings *	1509	1540
	Dividend	732	748
PE Trailing (implied)		16.4	15.5

** Before extraordinary items, source Thomson*

NBC Economics and Strategy (data via Refinitiv)

NBC Market Forecast *United States*			
		Actual	***Q4 2025***
Index Level		**Mar-28-25**	***Target***
S&P 500		5,581	5,300
Assumptions			Q4 2025
Level:	Earnings *	247	249
	Dividend	76	77
PE Trailing (implied)		22.6	21.3

** S&P operating earnings, bottom up.*

NBC Fundamental Sector Rotation – April 2025

Fundamental Sector Rotation - April 2025

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**17.2%**
Energy Equipment & Services	Market Weight	0.2%
Oil, Gas & Consumable Fuels	Market Weight	17.0%
Materials	**Market Weight**	**13.6%**
Chemicals	Underweight	1.1%
Containers & Packaging	Market Weight	0.4%
Metals & Mining *	Market Weight	11.9%
Gold	Overweight	9.2%
Paper & Forest Products	Market Weight	0.3%
Industrials	**Underweight**	**12.2%**
Capital Goods	Market Weight	3.0%
Commercial & Professional Services	Underweight	3.9%
Transportation	Underweight	5.3%
Consumer Discretionary	**Underweight**	**3.2%**
Automobiles & Components	Underweight	0.4%
Consumer Durables & Apparel	Underweight	0.3%
Consumer Services	Underweight	0.8%
Retailing	Market Weight	1.6%
Consumer Staples	**Overweight**	**3.8%**
Food & Staples Retailing	Overweight	3.5%
Food, Beverage & Tobacco	Overweight	0.3%
Health Care	**Market Weight**	**0.3%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.1%
Financials	**Market Weight**	**32.1%**
Banks	Market Weight	19.5%
Diversified Financials	Market Weight	4.6%
Insurance	Market Weight	7.9%
Information Technology	**Market Weight**	**9.4%**
Telecommunication Services	**Overweight**	**2.4%**
Utilities	**Overweight**	**3.9%**
Real Estate	**Underweight**	**1.9%**

** Metals & Mining excluding the Gold Sub-Industry for the recommendation.*

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