Johnstone Wealth Management

Market Commentary

March 31, 2025

Economic Review

The positive momentum from the Trump administration's growth-focused policies in the latter half of 2024 has shifted to significant challenges for certain markets in the first quarter of 2025. Throughout the quarter, market volatility increased, and share prices faced difficulties as global trade tensions intensified. The decline in prices was more closely tied to a general sense of uncertainty rather than any substantial or noticeable drop in earnings performance.

The U.S. administration's focus on protectionist policies and fiscal austerity has raised concerns about a potential negative impact on both U.S. trading partners and the U.S. economy itself. Recent economic data suggests that the U.S. economic outlook is slowing down. In contrast, Canada has responded with more aggressive monetary policies to counter these risks but remains vulnerable to the unpredictable nature of U.S. protectionist measures.

Bond Markets

In the first quarter, bond market performance varied significantly based on geographical exposure and asset type. Canadian fixed income markets performed exceptionally well, returning 2.0% for the quarter, which was the highest among G7 countries over the past 6 to 12 months. This strong performance was driven by declining yields, as expectations for continued policy easing and elevated risks to the economy influenced the market. The Bank of Canada supported this trend by lowering the overnight lending rate by 50 basis points.

U.S. fixed income markets also delivered positive returns for the quarter. Yields moved lower due to market consensus shifting towards the negative consequences of fiscal policy activities by the U.S. administration and expectations for weaker U.S. and global growth due to ongoing trade tensions. However, the challenges faced by risk markets impacted corporate bond returns, as corporate spreads widened quarter over quarter, bouncing off multi-decade tight levels.

Equity Markets

In the first quarter, global equity markets showed mixed results with significant differences across key regions. After an exceptional performance in 2024, the U.S. market started the year on a weaker note, declining by 4.2% due to concerns over tariff policies and weakness in the technology sector. On the other hand, international markets performed strongly, led by a broad-based rally in European equities. This rebound was driven by a significant spending program announced in Germany, targeting both defense and infrastructure. As a result, defense stocks rose considerably, and European financials also performed well due to rising interest rates fueled by expectations of larger deficits from increased government spending. Emerging markets also delivered better performance during the quarter, with China being a key contributor. Government measures aimed at boosting the economy provided some optimism. Meanwhile, the Canadian market remained relatively stable, with a modest gain of 1.5%. However, ongoing uncertainty over tariffs and the upcoming election led to uneven performance. Gold equities were the strongest performers, benefiting from a flight to safety amid continued concerns over tariff discussions.

The technology sector, which had an exceptional performance in 2024, was the primary laggard in most markets during the first quarter. While the sector's fundamentals remain strong, elevated valuations at the start of the year and concerns about overall spending levels on artificial intelligence (AI) development began to emerge. Weakness was also seen in the Discretionary and Communications Services sectors as consumer confidence stalled and global uncertainties around trade relationships increased. Defensive sectors, such as Consumer Staples and Health Care, posted solid returns in most key markets. Energy performed well in most markets due to low valuations and a value-oriented tilt within the sector. Financials were strong in some markets, particularly in the European Union, while delivering less robust returns in others, like Canada.

Investment Outlook

As we entered 2025, we anticipated that economic, political, and policy differences between major economies would continue and likely become more pronounced. These differences have created financial imbalances and increased volatility in both risk assets and interest rates.

The developments in the first quarter, along with ongoing tariff announcements and retaliations globally, suggest that the economic environment, both domestically and internationally, will continue to present a wide range of potential outcomes and risks. Much of the focus remains on President Trump's approach to tariffs. While economic momentum has been relatively strong so far, confidence has waned due to the unpredictable nature of the administration's announcements. Any clarity in the U.S. administration's economic and trade policies would be welcome, but if it remains uncertain, it could continue to create further uncertainty.

Our fixed income portfolios are designed to take advantage of opportunities arising from higher interest rate and credit volatility. For equity markets, current market volatility offers opportunities to invest in businesses with strong competitive advantages. Our high-quality, long-term approach positions our portfolios well to navigate ongoing uncertainty.

Contact our team of experts today!

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