

Johnstone Wealth Management Market Commentary

June 30, 2025



Economic Overview

The economic landscape is beginning to reflect the tangible effects of the U.S. tariff policy. Since April, tariff collections have surged to nearly triple previous levels, though they still fall short of the 17% average rate initially announced. This evolving policy environment continues to introduce uncertainty, especially as trade agreements remain in flux.

Domestically, the consumer-led expansion is showing signs of fatigue. Slower job and wage growth are dampening consumer spending. Meanwhile, geopolitical tensions—particularly the U.S. airstrike on Iran—briefly rattled oil markets, pushing Brent Crude to \$80 before stabilizing. The U.S. administration's assurance that the strike was a one-off helped calm markets.

On the fiscal front, President Trump's new tax bill—featuring extended tax cuts and a significant increase in defense spending—passed a vote in early July. While it's expected to nudge the federal deficit from 6% to nearly 7% of GDP, bond markets remained largely unmoved, with the 10-year Treasury yield steady at 4.2%. However, the U.S. dollar has weakened notably, down 12% from its January peak.

Fixed Income Markets

Canadian bonds declined 0.6% over the quarter. The yield curve steepened modestly as the Bank of Canada held its overnight rate at 2.75%, while longer-term yields rose on improved growth expectations. A stronger risk appetite helped narrow credit spreads, partially offsetting losses from rising yields.

In the U.S., bond markets mirrored this trend. The Federal Reserve kept rates unchanged, and long-term Treasury yields rose by 20 basis points. Credit spreads narrowed, contributing to a 1.2% gain in the aggregate bond index. A notable spike in 30-year yields in May—reaching 3% in Japan and over 5% in the U.S.—highlighted the market's sensitivity to shifts in sentiment.

Equity Markets

Despite early-quarter volatility driven by tariffs, global equities rebounded strongly, closing near record highs. Canadian equities performed well amid easing trade tensions. European markets were lifted by gains in infrastructure, defense, and financials, while a strong yen supported Japanese equities.

U.S. markets also recovered, though they lagged global peers due to a weakening dollar. Emerging markets, particularly in Asia, posted strong gains. Sector-wise, Information Technology led the charge, driven by accelerating AI investment. Communication

Services and Industrials—especially defense and aerospace—also outperformed. In contrast, defensive sectors like Health Care and Consumer Staples lagged, and Energy continued to underperform.

Outlook

Looking ahead, the economic impact of U.S. policy changes from early 2025 is expected to become more pronounced in the second half of the year. Labour markets may soften further as companies respond to margin pressures from tariffs. The U.S. housing market is also showing early signs of strain, with affordability declining amid higher rates. Nonetheless, corporate earnings remain robust, particularly in AI-driven sectors. While strong earnings have historically supported equities and credit, today's elevated

valuations and tight credit spreads leave little room for error.

Portfolio Positioning

Our fixed income strategy remains conservative, with minimal yield curve exposure and a cautious stance on corporate credit. We favor shorter-duration bonds, given the tight spreads and limited issuance. Should yields fall, we anticipate a wave of new issuance that could widen spreads and pressure returns.

In equities, we are capitalizing on volatility to invest in companies with durable competitive advantages and resilient earnings potential. Our focus remains on long-term, risk-adjusted returns, and we continue to reposition portfolios to navigate uncertainty and seize emerging opportunities.

Contact our team of experts today!

Jeffrey Johnstone

Senior Wealth Advisor

416-507-9137

jeffrey.johnstone@nbc.ca

[Jeffrey Johnstone](#)

Kimberly Wood, CFP®, CIM®

Wealth Advisor

416-869-8210

kimberly.wood@nbc.ca

[Kimberly Wood](#)

Hayleigh Blaikie

Senior Wealth Associate

416-869-7686

hayleigh.blaikie@nbc.ca

[Hayleigh Blaikie](#)

Kevin Diep

Wealth Associate

416-869-8092

kevin.diep@nbc.ca

[Kevin Diep](#)



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