Spring 2025

Info SIGMA

Market review

Where there is Trump, there is *Trumpry.*

At the start of 2025, investors were optimistic about President Donald Trump's policies, believing that they would boost U.S. stocks and the dollar to outperform their global counterparts. However, this assumption is increasingly being questioned. The tariff war launched by the Trump administration and its level of incompetence has sown uncertainty, raising concerns among consumers and businesses about the economy and threatening the narrative of American exceptionalism.

Since the November election, optimism has waned given growing concerns about U.S. policies. Moreover, the stock market's performance during the first hundred days of Trump's second term has nothing to do with his 2017 term. However, everything seemed to bode well a few months ago and the forecasts were generally positive despite the sharp rise in the indices from November 2023 to the end of 2024. It seems that a Trump presidency without the safeguards that made it possible to limit the damage during his first term is not viewed favourably by the financial markets. Could this be the end of American exceptionalism? The two asset classes with the worst performance to date in 2025 are the U.S. S&P 500 index and the U.S. dollar. Despite initial expectations of outperformance for U.S. equities and the dollar, the S&P 500 is down 4.25%[1] (in CAD terms) this year year-to-date, compared to about a 7%[2] gain for the international equity index, and a smaller gain for the Canadian stock market. The U.S. dollar also fell about 3%[3] from its January peak against a basket of its main rivals, and unchanged against the Canadian dollar.

[1] [2] [3] Thompson NBF 2025

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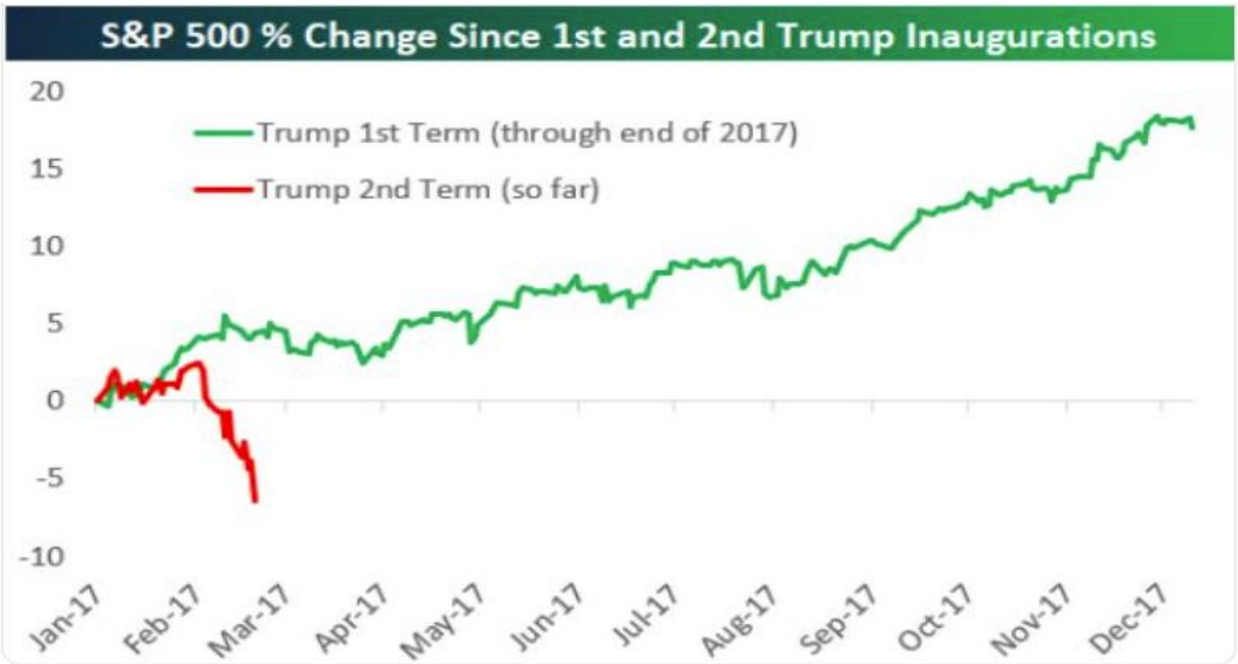


Source : @bespokeinvest Mars 2025

This political uncertainty is pushing investors, business leaders and consumers to become more cautious. This is in addition to the fact that the U.S. economy was already on a cooling path. Big U.S. technology and growth companies, which had been responsible for much of the market's gains in recent years, are struggling due to valuation concerns and competition from China's low-cost AI model. One ETF tracking the big seven tech companies has fallen more than 10%[1] from its peak in mid-December.

Part of this divergent performance is due to surprising economic data in Europe and the emergence of China's Deepseek AI model, which has impacted the US tech sector. This explains the positive spread of the US dividend stock index, which climbed 7.52%[2] compared to the S&P500, an index that is heavier in technology and growth stocks. Moreover, the presence of stock market segments that have been shunned by investors in recent years opens the door to a significant rotation towards these stocks that have become cheap. Experience has taught us that such reallocation opportunities can help limit negative pressure on the stock market, as the investor who exits the overvalued segments are just as likely to reinvest their money in other (cheap) stock market

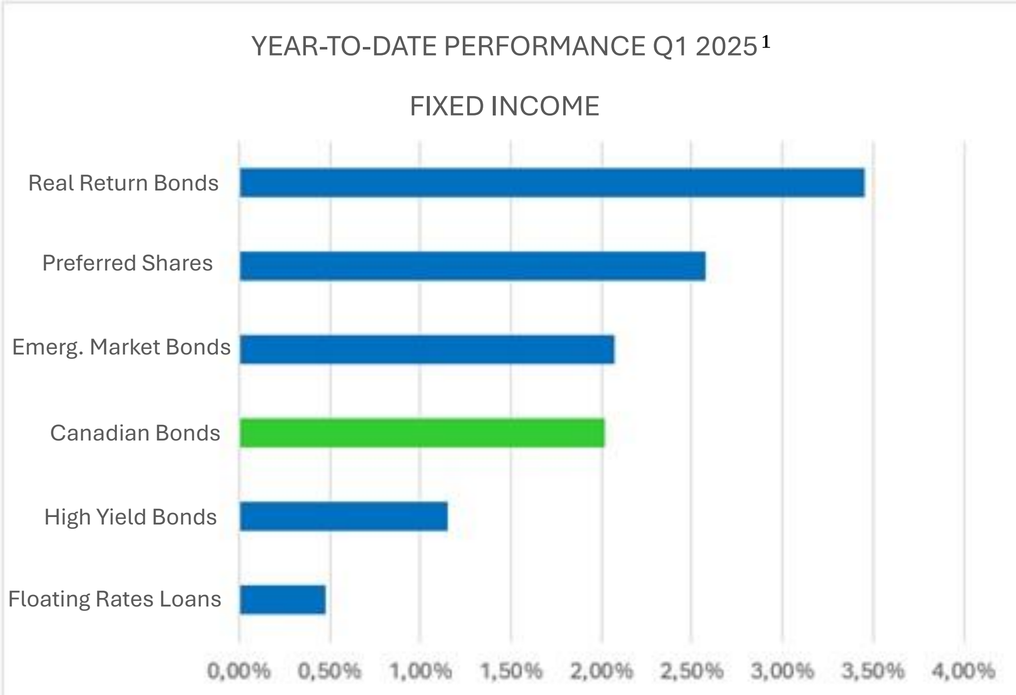
[1] [2] FBN Thompson 2025

segments as they are to take refuge in cash, offering support to certain segments of the market. We are currently seeing this dynamic with the dividend index and U.S. real estate companies.

Concerns about domestic growth have risen after disappointing consumer and business indicators, as well as announcements about trade and federal staff cuts by the Trump administration. These factors have exacerbated concerns about the impact of inflation on the Federal Reserve's interest rate path. Recent economic reports suggest catch-up potential for international assets, which have become increasingly cheap relative to their US counterparts.

Gold is clearly the star of the year so far, with a return of almost 20% [2]. Gold is recognized as a safe haven in times of international turbulence. Especially in circumstances where the dollar and US Treasuries lose their luster, the yellow metal shines all the brighter.

[1] [2] FBN Thompson 2025



We might have thought that the stock market's concerns would have been more favourable to bonds. Despite their generally positive returns, investors remain somewhat hungry, having often heard that when the stock market falls, bonds rise. However, commercial tariffs are inflationary in nature and create upward pressure on interest rates at the same time as downward pressure on stock market indices. Trump may be frustrated with the Federal Reserve's unwillingness to cut its key interest rate for the time being, but the environment he has created makes their job much more difficult. This inflationary pressure explains the good performance of Real Return Bonds in the quarter. As their coupon and final value are indexed to the inflation rate, they are a good alternative under the circumstances. The current situation reminds us that traditional bonds alone are not enough to protect a portfolio.

[1] FBN Thompson 2025

Rebalancing

We rebalanced two positions upwards in the first quarter of 2025: the S&P 500 U.S. Equity Index and the U.S. Large Cap Growth Index. The funds for these purchases came from downward rebalancing of our positions in gold, the international equity index, and floating rate back-to-back loans.

Asset class rotation

There were not many rotations during the 1st quarter of 2025. The baskets remained invested mainly in equities and gold. We can note that the S&P 500 has been absent from the portfolio since February 28, after 24 months of continuous presence. We can also note the absence of bond indices in the portfolio. In fact, we have to go back to October 2020 for the last presence of Canadian bonds in the portfolio.