

Market review

Relative trends continue

As of the last Info Sigma, the stock markets were struggling with corrections. The first quarter ended with a note of concern and a decline in the main indices. Downward pressure continued in the first weeks of the second quarter, propelled by Donald Trump's announcement of new tariffs on April 2nd, which he named Liberation Day.

Following a period of panic and unbridled declines, the stock markets regained their equilibrium a few days later. The bottom was reached at a level 16%¹ lower than at the beginning of the year for the S&P500, while the TSX reached the same bottom after a decline of 9%².

Since then, the stock markets have made an impressive rally. While we can't say that the political environment has really improved, most stock market indices are up 10% to 15%³ for the first six months of the year.

Only the US markets remain negative for the year to date. That weakness was most felt in the US currency. For now, it is the US financial markets that are paying for most of Trump's tariff onslaught.

^{1 2 3} Source : Thompson FBN 2025



Source : Thompson et Croesus FBN 2025

The Trump administration is congratulating itself on the revenues generated by its tariffs and pointing to the good stock market performance and the robustness of economic indicators to say that, despite the warnings from economists. Is it possible that the markets are right, that everything is fine and that Trump's measures are proving to be a great success? Could be. But another, perhaps more realistic, explanation is that the data collected do not yet reflect the real impact of its policies. Several higher frequency indicators point to a deterioration in several sectors for some time. Even more dramatic are the very disappointing figures on job creation that were published by the Bureau of Labor Statistics (BLS) a few days ago. Preliminary job creation figures for June were much weaker than expected. But even worse, the revisions for the months of April and May were disastrous. Could this be the needle that begins to penetrate the balloon of optimism?

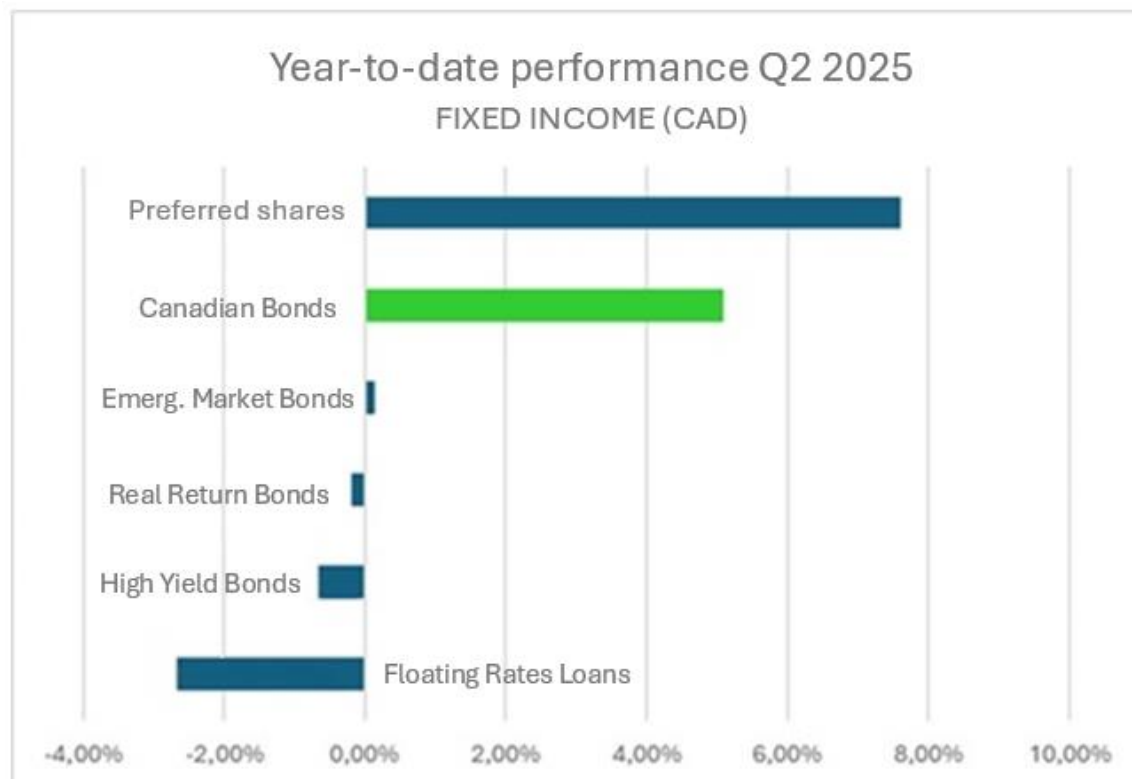


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I have written this report to the best of my judgement and professional experience to provide you with my views on various investment solutions and considerations. The views expressed herein, which represent my informed opinion and not a research analysis, do not necessarily reflect those of NBF.

The conflict between the president and the Federal Reserve was highlighted in a rather crude way during a press conference following their visit to the major renovation site of the U.S. Central Bank building. Mr. Trump, as any good real estate developer, continually comes back with his desire for the Fed to cut key rates...by a LOT! He and his president of the *Federal Home Loan Association*, William J. Pulte, son of the Florida real estate magnate and founder of the housing giant *Pulte Homes*, are relentlessly pressing this point with the virulence that we know well from Mr. Trump. Their unprecedented attempt to fire Lisa Cook, one of the Fed's governors, demonstrates the extremes they are willing to go to in order to earn their point.

Ironically, if it weren't for the trade war with its tariffs, the assault on the Fed's independence, or the passage of the *Big Beautiful Bill* and its astronomical deficits, all of which are initiatives of Mr. Trump, the Fed would not be so reluctant to cut rates. It is precisely Mr. Trump's actions that are creating the real possibility of higher inflation and that are worrying markets about future levels of federal debt. It is for this reason that US long-term interest rates are slowly but persistently rising towards 5% for 30-year maturities. Ironically, Mr Trump is, in good part, responsible for the higher rates he despises so much.



Source : Thompson et Croesus FBN 2025

On the fixed income side, the Canadian market stood out. Preferred shares showed an almost 8%¹ return and government bonds showed a 5%² return.

What catches our attention on the U.S. side is the small gap between corporate and federal rates. We have to go back to 1998 to see such a small gap. Normally, corporate debt offers a higher interest rate to reflect higher credit risk than the federal government. But under the current circumstances, the general view seems to be that corporate debt could be safer than the debt of a federal government led by Mr. Trump and a Republican Party that caves in to its every whim. Some economists are even talking about the possibility that federal rates will become higher than investment grade corporate rates for the first time in history! But then again, we seem to be in an era full of Firsts.

Rebalancing

The market bottom came in early April, shortly after the much-anticipated announcement of tariffs imposed by Trump and his entourage. During this period, our rebalancing consisted of buying U.S. stock indexes and taking profits in gold, real estate, Canadian bonds and the Canadian stock market. Three months later, following a major market rally inspired by one of Trump's about-faces, our rebalancing was the mirror image of the beginning of the quarter. Profit-taking was made on U.S. stock indices, and upward rebalancing on gold, bonds and Canadian indices.

Our rebalancing discipline is ideal for this type of market that goes down quickly and then recovers just as quickly, allowing us to take profits in part of the portfolio and add to our other cheap positions.

Rotations

There has been quite a bit of activity in the rotation portfolios, as a result of the continuity of relative performance since the beginning of the year. The first to fall was the S&P500 on April 1st, replaced by Canadian dividend stocks. On May 1st, dividend stocks and U.S. real estate companies were replaced by the Canadian Preferred Share Index and the TSX.



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The actions of Mr. Trump and his entourage will continue to have a significant impact on the various markets. We are already seeing in the first six months of the year a weakening of the American exceptionalism of recent years. The decline in the U.S. dollar, the underperformance of the U.S. stock market, the resilience of the gold price, the rise in inflation, and the steepening of the interest rate curve all reflect the heaviness of the impulsiveness and incompetence of Mr. Trump and his team. As long as this is the case, we could see current trends continue.