



2025 FIRST QUARTER MARKET REVIEW

Finding opportunity amid trade war uncertainty

IG Investment Strategy Team



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Tariffs cast a shadow over consumer confidence

Investor sentiment turned cautious in the first quarter of 2025, as markets faced heightened uncertainty stemming from significant shifts in U.S. trade policy. These changes, driven by the return of President Trump, led to increased volatility in North American markets, testing investor resilience. While the S&P/TSX Composite Index posted modest gains, the S&P 500 underperformed. In contrast, developed European markets significantly outperformed, benefiting from a rotation away from U.S. equities toward Europe. This shift reflected investors' perception of stronger global growth potential and Europe's relatively attractive valuations compared to U.S. equities. Notably, the EuroStoxx 50 index advanced 11.88% (in Canadian dollar terms).

The return of President Trump and his abrupt shift in U.S. trade policy toward longstanding trade partners — most notably Canada, Mexico and China — had a considerable impact on equity and bond performance. The unpredictable nature of these tariffs, particularly those targeting Canada, created volatility in equity markets as investors grappled with “on-again, off-again” announcements and hastily introduced sector-specific carve-outs. This uncertainty, coupled with the risk of escalating reciprocal trade tariffs, weighed heavily on the S&P 500, potentially impacting earnings growth. An updated tariff policy from the U.S. administration is set to be released in early April.

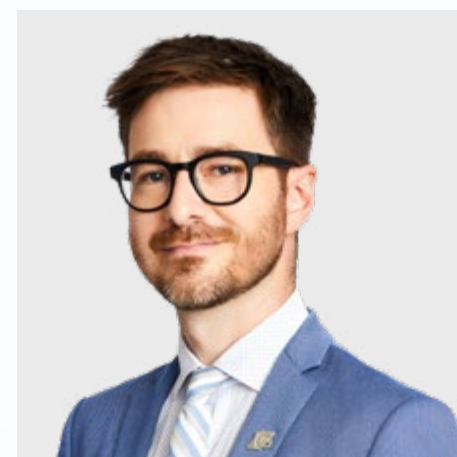
Despite these trade-related headwinds, global manufacturing activity demonstrated notable resilience, with improvements observed across several regions. This positive trend — considered a key leading indicator of earnings growth — provided a potential offset to the negative impact of tariffs. While market expectations for year-over-year earnings growth remained in the low- to mid-teens, the strength in manufacturing offers a source of cautious optimism, contingent upon the stabilization of trade developments. Additionally, initial deregulation efforts in the U.S. provided early market support, though they were quickly overshadowed by escalating trade rhetoric.

Central banks responded proactively to the evolving economic landscape during the quarter. The Bank of Canada lowered its overnight rate by a quarter percentage point, to 2.75%, in an effort to support growth and employment, amid trade uncertainty. Meanwhile, the U.S. Federal Reserve held its overnight rate steady at 4.5%, signaling expectations of a “transitory” inflationary impact from tariffs on U.S. consumers.

Earnings growth remains under pressure, as trade policy uncertainties and escalating tariffs weigh on corporate profitability and investor confidence.
– Philip Petursson



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Index returns

2025 equity price returns and fixed income total returns

Table 1 - 2025 equity price returns

	Currency	Q1	YTD	1-year
S&P/TSX Composite Index	CAD	0.8%	0.8%	12.4%
S&P 500 Index	USD	-4.6%	-4.6%	6.8%
	CAD	-4.7%	-4.7%	13.4%
MSCI EAFE Index	USD	6.1%	6.1%	2.2%
	CAD	6.0%	6.0%	8.5%
MSCI Europe Index	EUR	5.3%	5.3%	4.1%
	CAD	9.9%	9.9%	10.7%
MSCI Emerging Markets Index	USD	2.4%	2.4%	5.6%
	CAD	2.3%	2.3%	12.1%

Table 2 - 2025 fixed income total returns

	Currency	Q1	YTD	1-year
FTSE Canadian All Government Bond	CAD	2.1%	2.1%	7.2%
FTSE Canada Universe Bond	CAD	2.0%	2.0%	7.7%
ICE BofA US Corporate Bond	USD	2.4%	2.4%	5.3%
	CAD	2.4%	2.4%	12.0%
ICE BofA US High Yield Composite	USD	0.9%	0.9%	7.6%
	CAD	1.0%	1.0%	14.4%
Bloomberg Global Aggregate Bond	USD	2.6%	2.6%	3.0%

Source: IG Wealth Management; Bloomberg; 1-year, March 29, 2024 - March 31, 2025.
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to March 31, 2025.

Drivers of market performance

Canadian equities

The S&P/TSX Composite Index rose modestly by 0.8% during the quarter. The materials sector was the largest contributor, up 19.9%, benefiting from rising precious metals prices.

Specifically, gold prices surged 19% as escalating trade war uncertainty and mounting global economic concerns prompted investors to seek safety in haven assets.

At the same time, positive gains in the energy (+1.5%) and utilities (+3.7%) sectors provided additional support, enabling the index to better navigate broader market volatility linked to U.S. tariff policies and ongoing geopolitical tensions.

U.S. equities

The S&P 500 Index fell 4.6% this quarter, with heightened volatility. Equities rallied early in the quarter but reversed sharply as President Trump's import tariff announcements stoked fears of supply chain disruptions, inflation and weakening consumer confidence. By quarter-end, the S&P 500 had declined 8.7% from its February highs, reflecting investors' sensitivity to economic uncertainty.

Consumer discretionary, which is 10% of the index, fell 14% this quarter, while information technology (the largest sector at 30%) dropped 12.8%. Defensive sectors like health care, consumer staples and utilities gained as investors sought refuge from volatility, while energy rose on higher oil and natural gas prices.

International equities

The MSCI EAFE Index rose 8.4% in U.S. dollar terms (7.7% in Canadian dollars), reflecting a strong performance across developed markets. The MSCI Europe Index surged 6.9% in euros (11.1% in Canadian dollars).

Emerging markets were also up, with the MSCI Emerging Markets Index gaining 4.2% in U.S. dollars (3.6% in Canadian dollars).

As sentiment around U.S. equities soured due to tariff fears, investors turned to international markets, which showed relative strength this quarter. A significant valuation gap between U.S. and international equities further bolstered the appeal of non-U.S. opportunities.

Europe stands to gain from increased German fiscal spending, while China's ongoing stimulus supports European equities through strong trade connections.

Fixed income

Diverging central bank policies defined fixed income performance in the first quarter. Canada's accommodative stance supported the FTSE Canada Universe Bond Index, which gained 2% (in Canadian dollars) for the quarter and delivered an impressive 12-month return of 7.7%.

In contrast, U.S. markets showed caution, as widening high-yield spreads and fluctuating 10-year yields highlighted concerns over growth and recession risks amid uncertain trade policies.

High-yield bonds posted modest gains during the quarter, with the ICE BofA US High Yield Composite Index up 1% (in U.S. dollars), while U.S. corporate bonds performed slightly better, returning 2.1% (in U.S. dollars). Global bonds outperformed, rising 2.5% (in U.S. dollars) over the same period.

Canadian equities

Chart 1 - S&P/TSX Composite Index performance

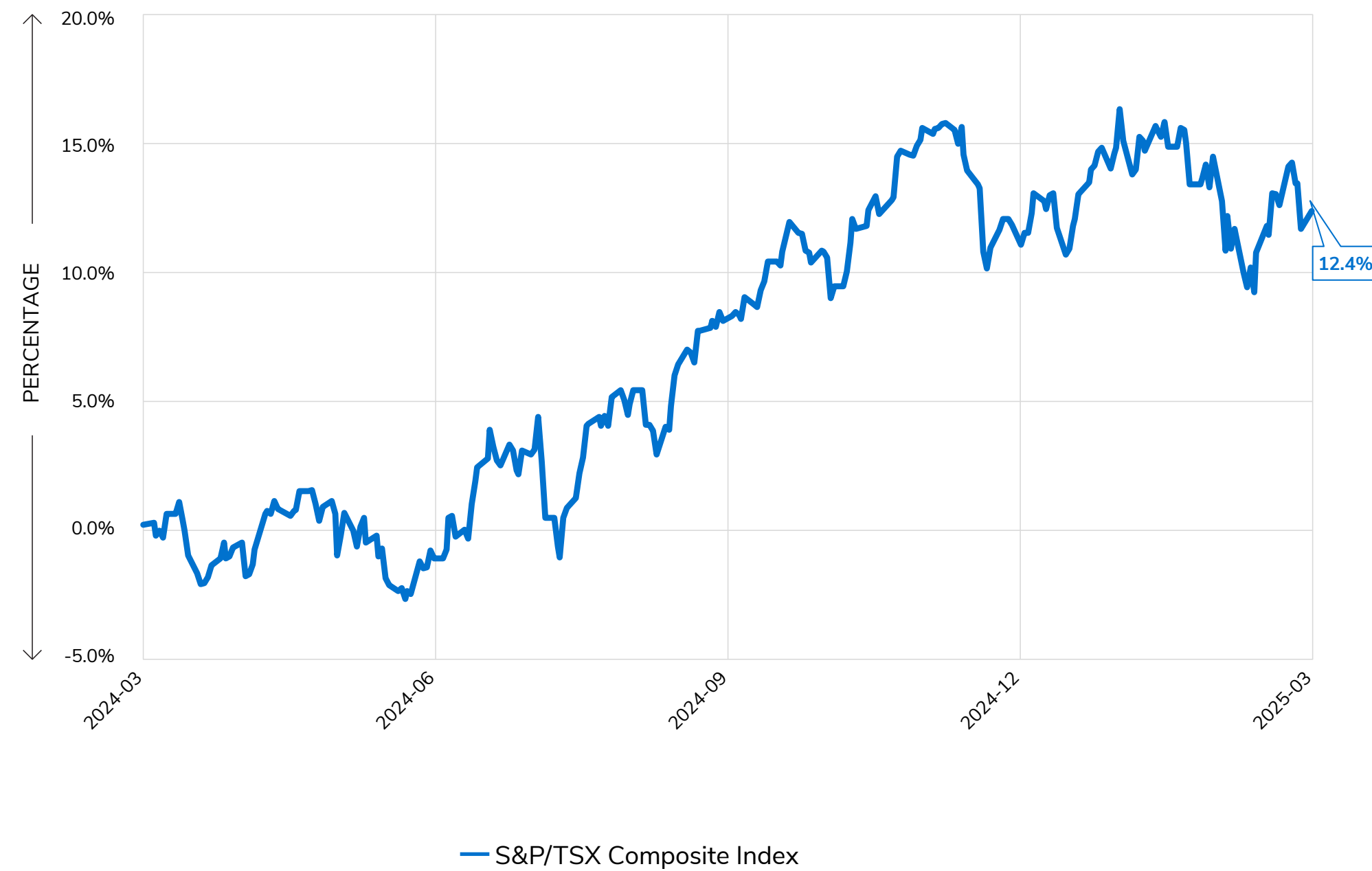
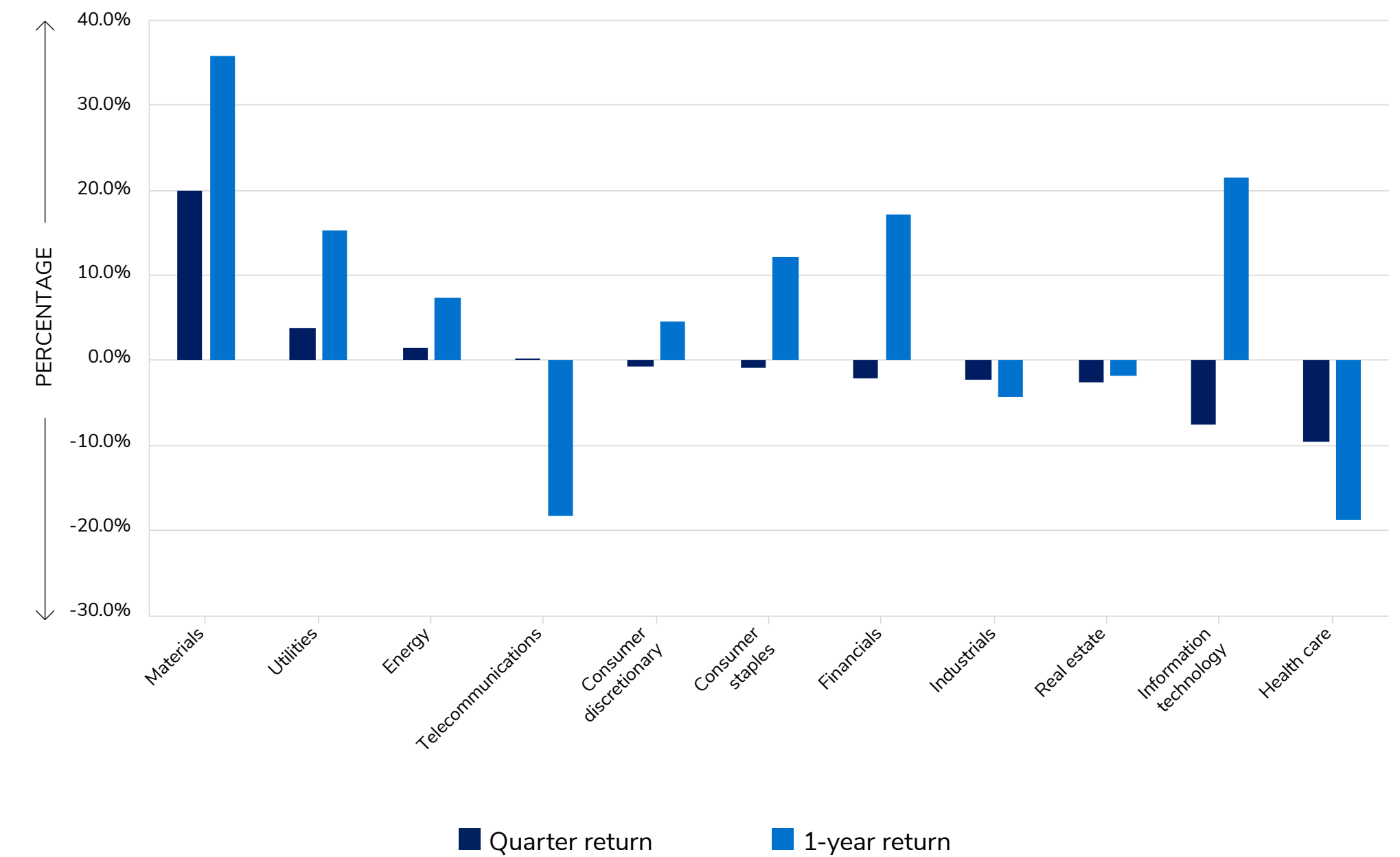


Chart 2 - S&P/TSX Composite sector level returns: quarter vs. 1-year



U.S. equities

Chart 3 - S&P 500 Index performance (USD)

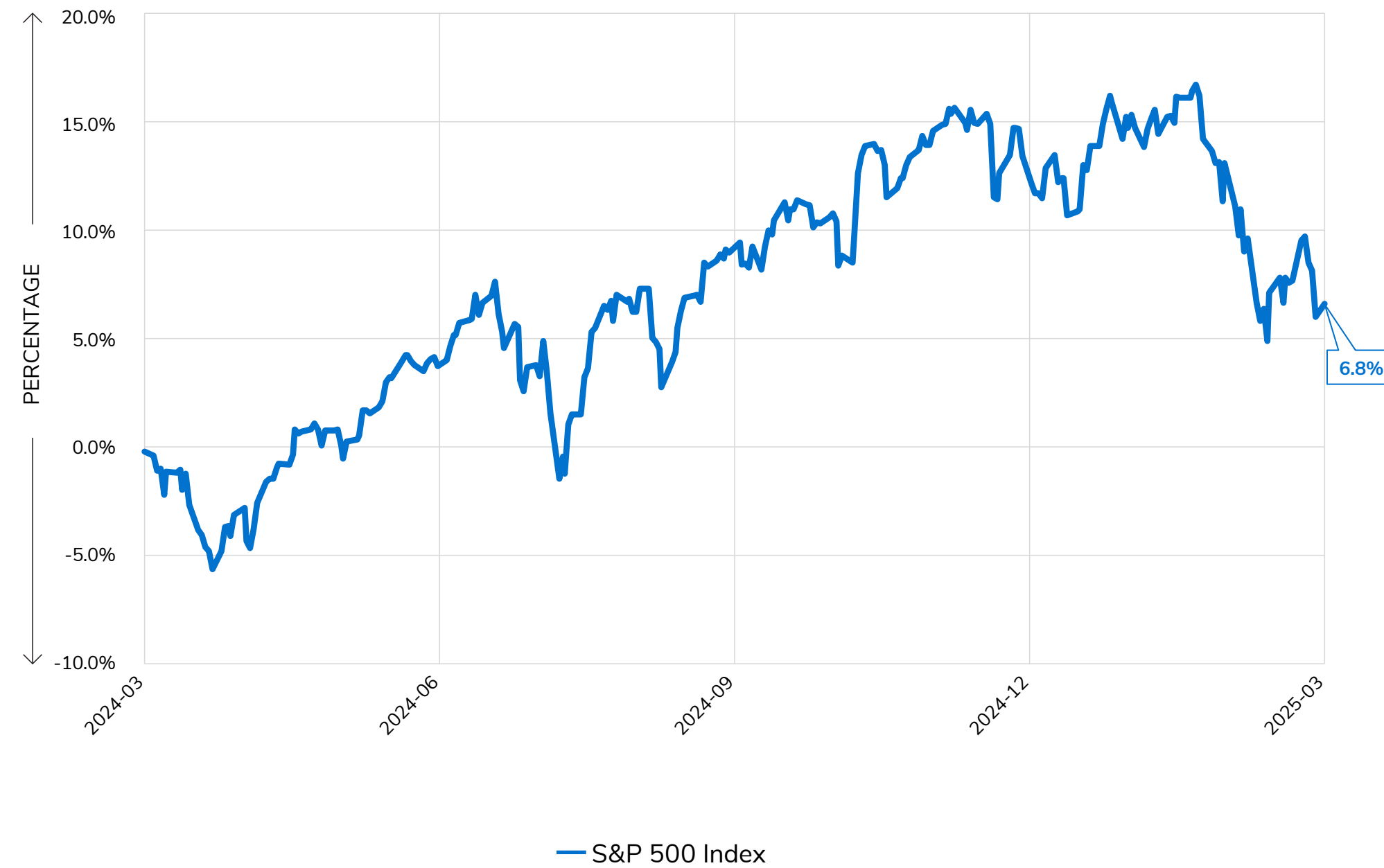
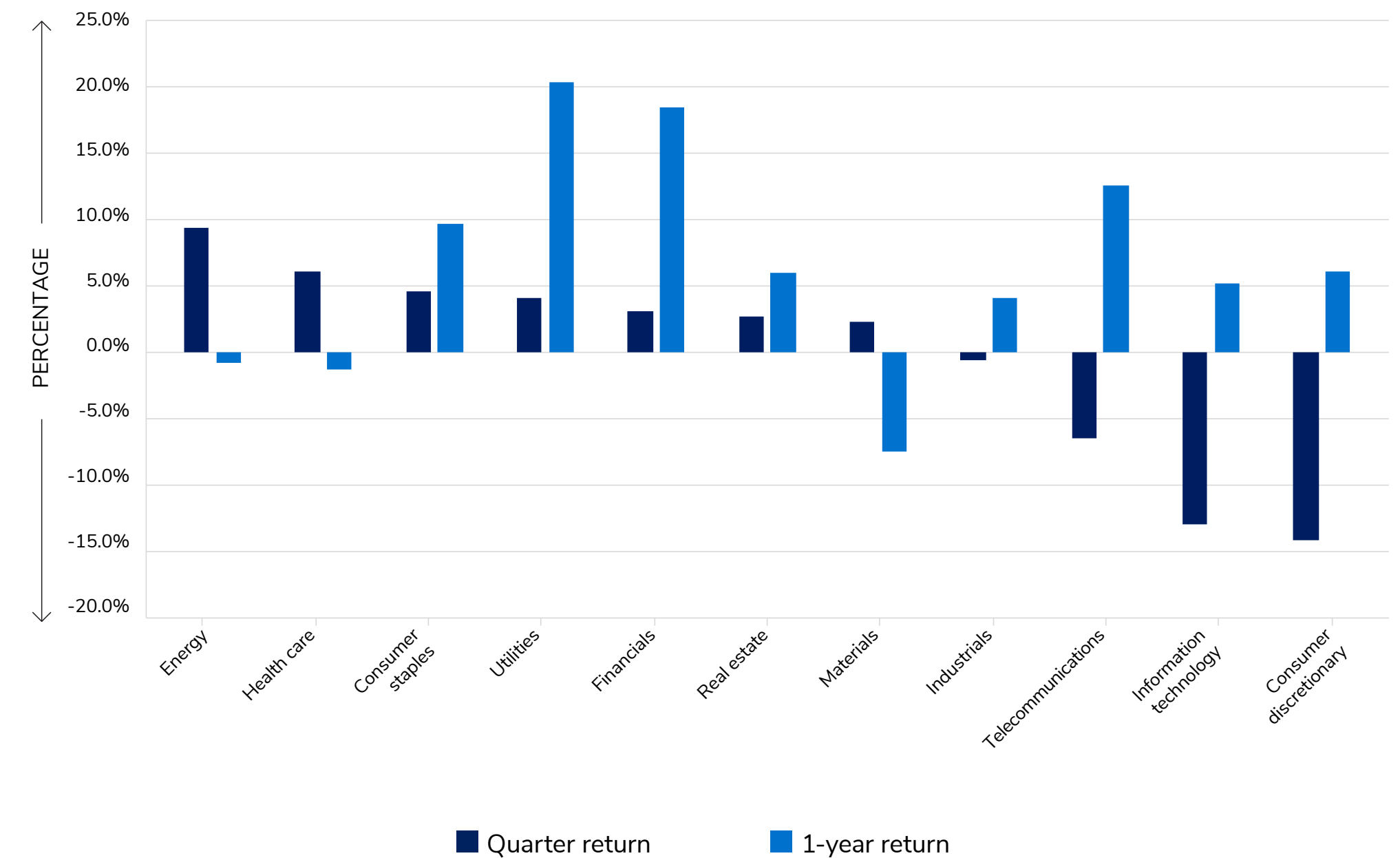


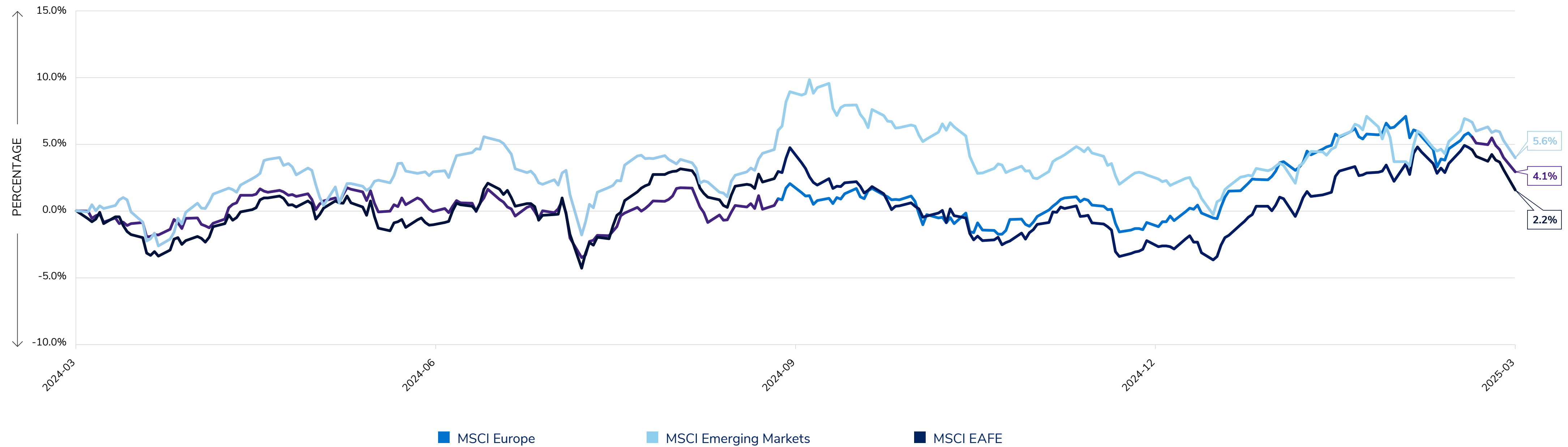
Chart 4 - S&P 500 Composite sector level returns: quarter vs. 1-year



Source: IG Wealth Management, Bloomberg, as of March 31, 2025.

International equities

Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg, as of March 31, 2025.

Fixed income

Chart 6 – Global central bank policy rates

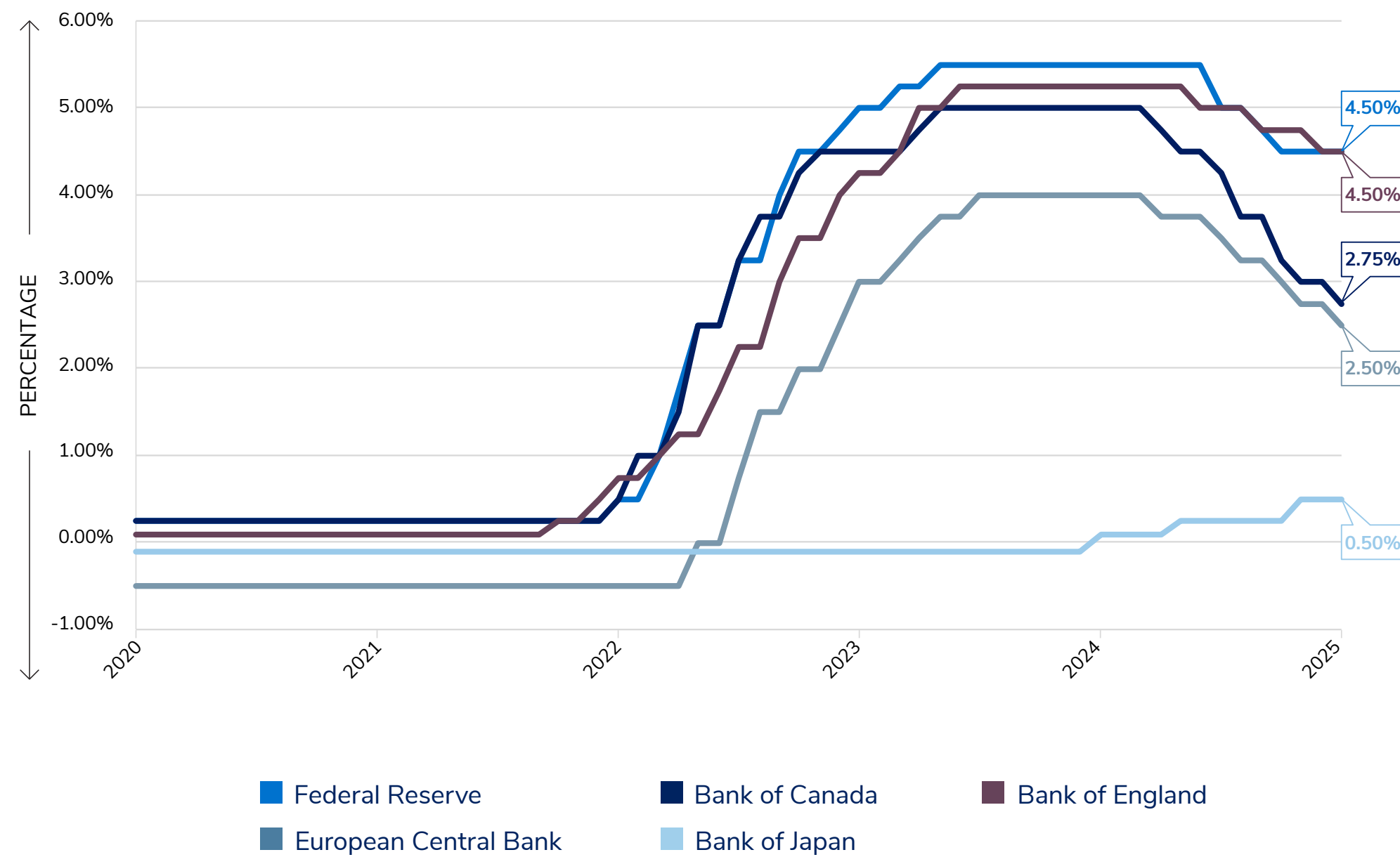
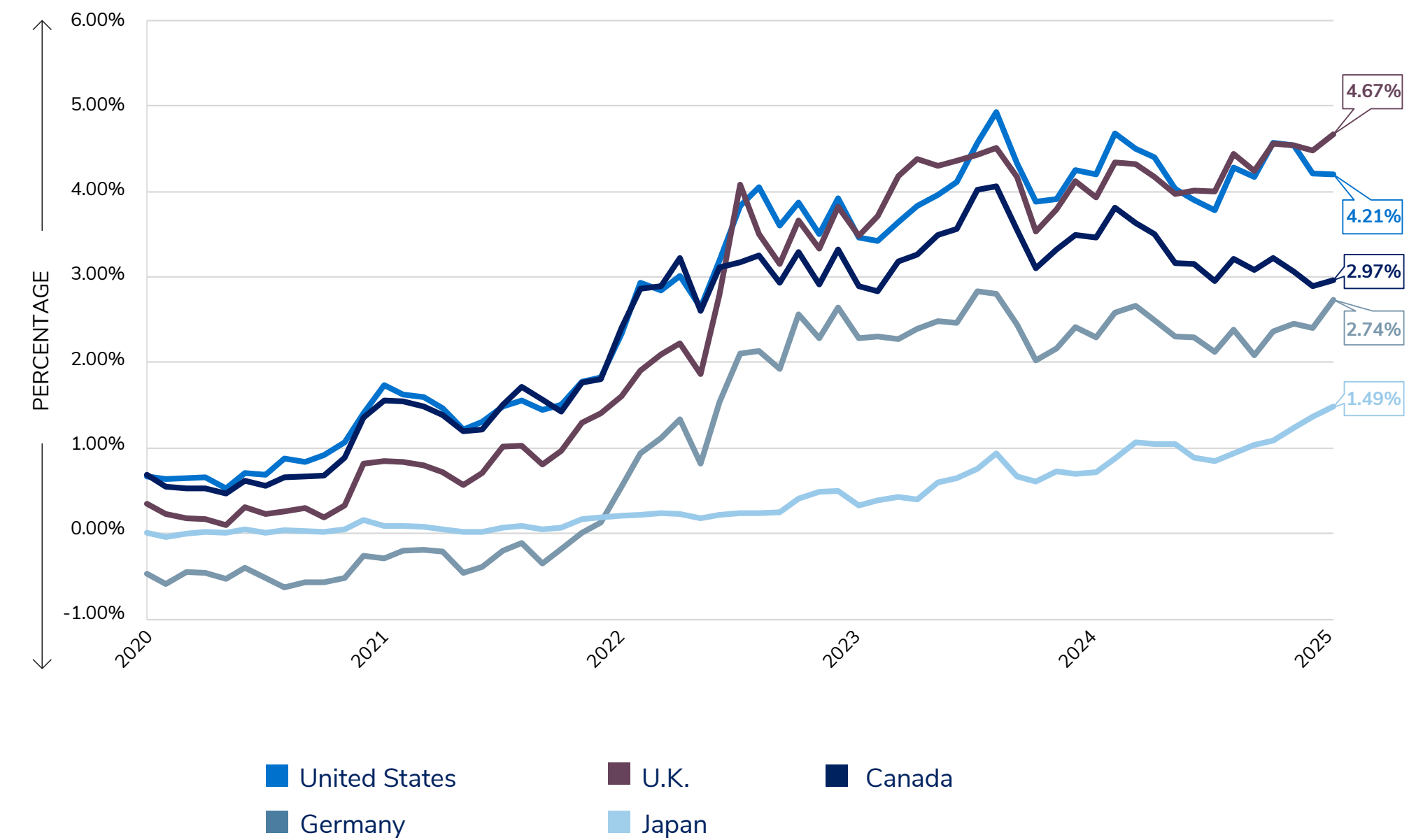


Chart 7 - Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg, as of March 31, 2025.

Key benchmark performance

Chart 8 - Canadian dollar/U.S. dollar cross

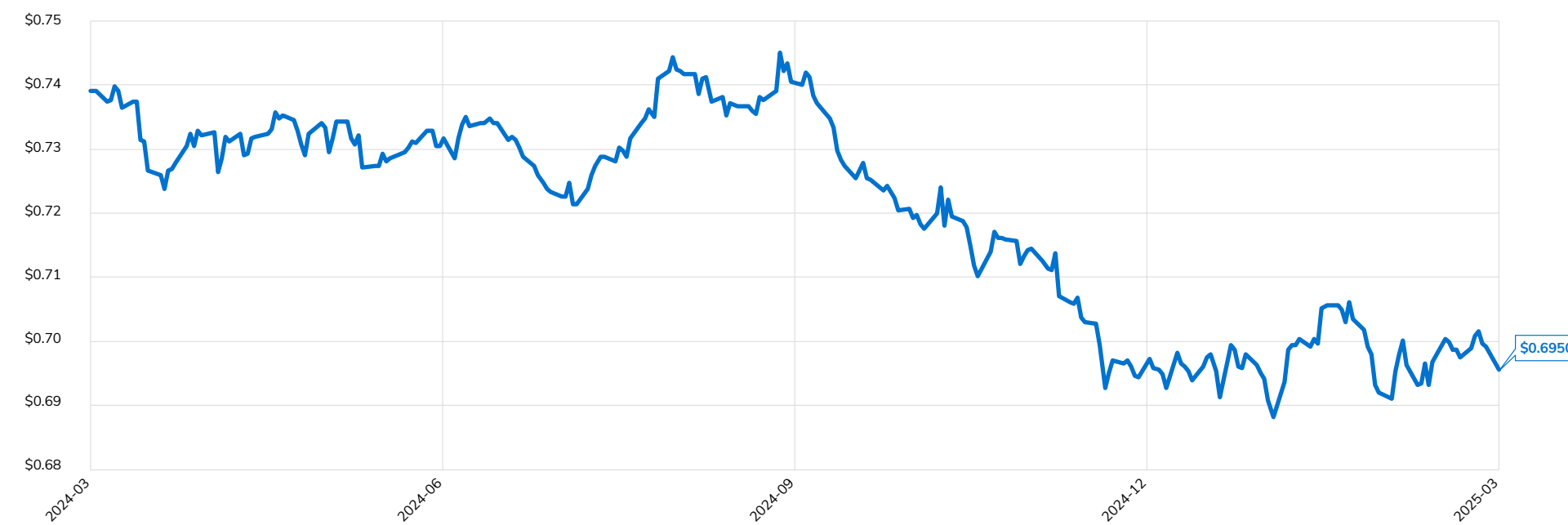


Chart 9 - Crude oil (WTI) US\$/bbl

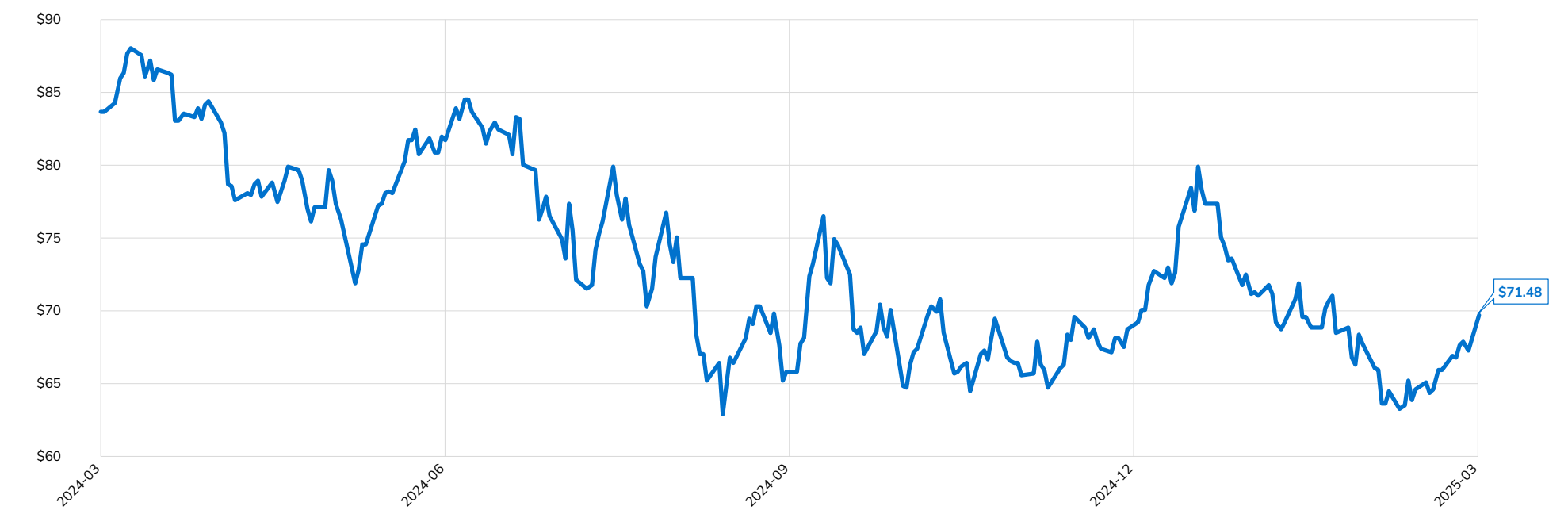


Chart 10 - Gold US\$/oz.



Chart 11 - Natural gas US\$/mmbtu



Source: IG Wealth Management, Bloomberg, as of March 31, 2025.



Market outlook

Looking ahead, we remain optimistic despite recent market volatility and lingering uncertainties. While U.S. equities have faced challenges, including a pullback from February highs and sensitivity to tariff concerns, other regions, such as Canada, Europe and emerging markets offer compelling opportunities. These regions have shown resilience, supported by stronger fundamentals and more attractive valuations compared to U.S. markets. As long as unemployment remains low, consumption is expected to continue at a steady pace, supporting economic growth.

Uncertainty can be difficult, but history shows that markets and economies recover over time. Ongoing volatility, driven by evolving and unpredictable U.S. trade policies, has created uncertainty in global markets. Diversification across sectors, asset classes and geographical regions remains critical. Despite short-term turbulence, global opportunities continue to emerge, and maintaining a long-term perspective is key to navigating current conditions and achieving growth.

IG Investment Strategy Team

Remaining diversified and focused on the long term will be key to weathering short-term turbulence.
– Philip Petursson

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