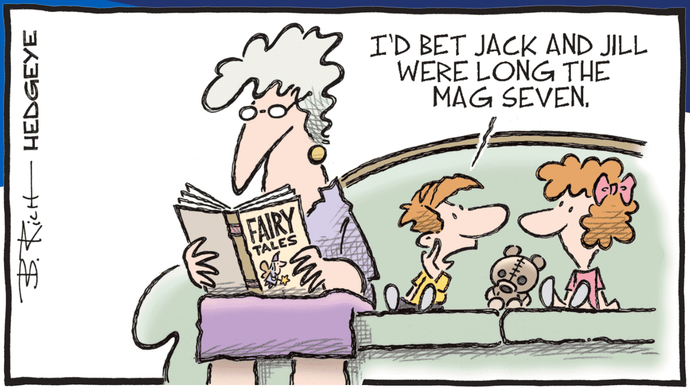
3-Month Market Review

(as at March 31, 2025)



A New World Unfolds: Markets Recalibrate

Latest Developments

- **A turbulent start:** Global markets have experienced extraordinary volatility in 2025. The catalyst was President Trump's tariff announcement on April 2nd, dubbed "Liberation Day." He declared a blanket 10% tariff on all trading partners and additional "reciprocal" tariffs for countries with trade deficits with the United States. This announcement was more severe than the markets had anticipated, sending shockwaves through the global economy. It triggered significant market volatility due to the uncertainty surrounding these tariffs and their potential impact on the global supply chain, inflation, and economic growth. Markets have calmed slightly since Trump's announcement on April 9th, which put most global tariffs, except those on Canada and Mexico, on pause for 90 days.
- **Global markets diverged:** US stock markets fell sharply since the start of the year. As of April 15th, the S&P 500 Index was down 8.2% year-to-date, while the Nasdaq Index had fallen 12.9%, dragged lower by a steep sell-off in technology stocks. European shares held up better, buoyed by Germany's large stimulus program. In contrast, the Euro Stoxx 50 Index rose 2.1%.
- **US economic signals mixed:** While growth is slowing, the labor market continues to show resilience. Consumer confidence, however, has declined for four consecutive months. Inflation continues to trend lower but remains above the US Federal Reserve's target at 2.4%, and the Fed is currently on hold. Meanwhile, recession fears are growing, and the term "stagflation" – a combination of slowing growth and rising prices – has re-emerged in market conversations.

What this Means

- **Markets are rebalancing:** After years of strong gains in the technology sector, investors are adjusting their portfolios in response to changing conditions. Concerns about higher costs, delayed AI payoffs, and renewed inflation risk have prompted a broader rotation toward more defensive and value-based areas of the market.
- **Volatility has returned:** After a relatively calm 2024, sharp market swings have returned, driven largely by policy unpredictability – especially on trade.
- **Slower US growth expected:** Most forecasts now point to sub-2% growth in the US for 2025. New tariffs, budget constraints, and weak consumer confidence are all expected to weigh on spending and investment. Investors are concerned that if tariffs raise the cost of imported goods, inflation may prove harder to bring down.
- **Central banks are cautious:** The US Federal Reserve has opted to keep interest rates unchanged, awaiting greater clarity. Meanwhile, the ECB and Bank of England have each made modest rate cuts to support growth. Further easing is likely only if inflation comes down in tandem with slowing activity.

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