ETERNA FINANCIAL GROUP

MONTHLY

FINANCIAL LETTER

APRIL 2025

The global economic landscape faces new challenges as President Trump's tariff policies create ripple effects across financial markets worldwide. This month's letter examines the market reactions to these trade tensions and analyzes their potential long-term impact on investment strategies.

THE "TRUMP SHOCK" DISRUPTS MARKET STABILITY

After only 100 days in office, President Trump's approval rating is declining, while his political decisions are increasing the level of uncertainty worldwide. Examples include the implementation of tariffs, the expulsion of immigrants, and controversies triggered by the Department of Government Efficiency (DOGE) initiatives.

At the beginning of his term, the new administration's tariff threats primarily targeted three of the United States' most important trading partners: Canada, Mexico, and China. Designated as "Liberation Day", April 2nd marked a more formal approach with the unveiling of reciprocal customs duties. Three days later, a base tariff of 10% came into effect on products imported into the United States, supplemented by a surcharge targeting countries regarded as more hostile in terms of trade exchanges. Given the negative reactions in financial markets, this second measure was postponed by 90 days, giving countries time to negotiate bilateral agreements with the United States. China was the only nation not granted this reprieve, as the country stood up to the White House by strengthening its own counter-tariff measures.

While financial markets expected a strong tariff response, the widespread imposition and magnitude of these tariffs were strongly disliked. Due to concerns about a stagflationary scenario (which refers to a decline in economic growth combined with rising inflation), the flagship S&P 500 index lost more than 12% in just four sessions, while the 10-year U.S. Treasury yield increased. Even the U.S. dollar, considered a safe haven in times of uncertainty, declined.

In short, the unpredictability of President Trump's economic policies has led to high volatility in financial markets and a sense of uncertainty among the population and businesses. Throughout our monthly publications, we have pointed out multiple times the expensive nature of the U.S. stock market and the budgetary problems facing the country. Investors seem to have become aware of these phenomena and are turning to new markets. It will be interesting to follow the evolution of this trend: could there be a long-term change in attitude toward the United States?

Declining Markets Almost Everywhere

Against this backdrop, the S&P 500 fell 0.7% in local currency during April, while the Dow Jones Industrial Average recorded a decline of 3.2%. In Canada, the S&P TSX index ended the month near the break-even point with a slight decline of 0.1%, despite the good performance of the consumer staples sector and the gold industry. In Europe, only the German market ended on a positive note, continuing its strong performance since the beginning of the year. The FTSE 100 (United Kingdom) fell by 1.0%, the CAC 40 (France) by 2.5%, and the DAX 30 (Germany) by 1.5%. In China, the Shanghai SE index again recorded a negative month at -1.7%.

As for the bond market, we observed a general rise in interest rates during the month, resulting in a 0.65% decline in the FTSE Canada Universal Bond Index.

Bank of Canada in Wait-and-See Mode

Given the recent economic data, the Bank of Canada opted to maintain the status quo at its last meeting after seven consecutive cuts to the policy rate.

The current uncertainty is too significant to commit to an economic scenario. The Bank of Canada is juggling two scenarios: a cancellation of tariffs following negotiations or a prolonged trade war. To make an informed decision, the Bank will need more information, though it is unlikely these answers will be obtained before the next meeting in June. At present, the consensus leans slightly in favor of a cut in June, followed by another by the end of 2025.

Regarding inflation, data for March showed an unexpected slowdown in both Canada and the United States. South of the border, inflation reached its lowest level in four years. Additionally, U.S. economic growth experienced a decline in the first quarter of 2025, the first since 2022. The sharp increase in imports to avoid tariffs and the decrease in government spending have partly contributed to this weakness in the U.S. economy.

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KEY TAKEAWAYS

- Trump's tariff policies triggered market volatility with the S&P 500 dropping 12% over four trading sessions amid widespread stagflation concerns.
- A base 10% import tariff was announced with additional surcharges for "hostile" trading nations, though implementation was delayed for 90 days for all countries except China.
- The Bank of Canada maintained its policy rate after seven consecutive cuts, awaiting clarity on the evolving trade situation before making further decisions.
- U.S. economic growth contracted in Q1 2025 for the first time since 2022, partly due to pre-tariff import surges and reduced government spending.

ECONOMIC DATA AND CURRENCIES

STATISTICS AS OF APRIL 30, 2025								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (March)	6.7%	↑	Unemployment (March)	4.2%	↑	USD / CAD	0.72	↓
IPC (March)	2.3%	↓	IPC (March)	2.4%	↓	USD / EUR	1.13	↓
3-month T-Bills	2.66%	↑	3-month T-Bills	4.29%	↓	JPY / USD	143.07	↑
5-year bonds	2.68%	↑	5-year bonds	3.73%	↓			
10-year bonds	3.09%	↑	10-year bonds	4.16%	↓			
S&P/TSX	24,842	↓	Dow Jones - Industrial	40,669	↓			
			S&P 500	5,569	↓			

The arrow indicates the trend since the publication of the last monthly data or end of the month.

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF APRIL 30, 2025					
	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	1.04%	0.70%	4.23%	4.14%	2.55%
BONDS					
FTSE Canada Universe Bond Index	1.36%	0.16%	9.13%	3.50%	0.00%
FTSE Canada Short Term Overall Bond Index	1.81%	0.93%	7.70%	4.10%	1.85%
Eterna Adapted Private Wealth Index[1]	2.04%	0.93%	8.83%	4.13%	1.32%
FTSE Canada Mid Term Overall Bond Index	2.38%	0.92%	10.53%	4.11%	0.47%
FTSE Canada Long Term Overall Bond Index	-0.41%	-1.75%	9.59%	1.84%	-2.93%
NORTH AMERICAN STOCK MARKETS					
Canada - S&P/TSX Composite	1.41%	-2.00%	17.85%	9.57%	14.37%
United States - Standard & Poor's 500	-8.75%	-11.29%	12.54%	15.00%	15.41%
United States - Dow Jones Industrial Average	-7.79%	-12.07%	9.92%	12.17%	12.85%
INTERNATIONAL STOCK MARKETS					
United Kingdom - FTSE-100	7.85%	2.01%	15.94%	12.95%	12.71%
France - CAC-40	8.35%	-0.17%	1.54%	10.47%	11.32%
Germany - DAX	18.74%	8.19%	33.94%	22.78%	16.35%
Japan – Nikkei-225	-4.29%	-5.26%	3.99%	9.95%	5.81%
Hong Kong – Hang Seng	5.98%	5.35%	26.08%	4.57%	-2.32%
Australia - S&P/ASX 200	-1.17%	-6.64%	4.94%	2.06%	7.42%
CURRENCIES					
USD versus CAD	-4.07%	-5.10%	0.15%	2.41%	-0.21%

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

[1] The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.