



ETERNA
FINANCIAL GROUP

MONTHLY

FINANCIAL LETTER

FEBRUARY 2025

Trade tensions defined the economic news in February, with Canada and Mexico granted a temporary reprieve from U.S. tariff threats. Against this backdrop, the U.S. equity indexes retreated, while Europe advanced and Canada showed resilience thanks to its gold sector. The following overview discusses the impact of these circumstances on global markets and the investment outlook for the coming months.

A FEBRUARY MARKED BY TRADE TENSIONS AND ECONOMIC UNCERTAINTY

On February 3, Canada and Mexico successfully negotiated a postponement of the 25% tariff that the Trump administration was threatening to impose. Even though the United States granted a one-month reprieve, March began in a climate of uncertainty. China, for its part, has not escaped the threats and has been hit with an additional 10% increase in customs duties.

It should be noted that tariffs were among the means President Trump's used to finance tax cuts in his first term. The tax cuts stimulated economic growth, but the tariffs ended up slowing that growth. This time, the opposite is happening: the priority is tariff threats rather than economic growth.

Equity markets: downturn in the United States and resilience in Canada

In these circumstances, the impact on equity markets shouldn't be overlooked, as weaker economic growth and a reacceleration of inflation are on the horizon, and U.S. stock markets are down from their all-time highs.

In February, the flagship S&P 500 Index fell 1.3% and the tech-heavy Nasdaq Index tumbled 4%. The Magnificent Seven were especially battered at the start of the year, with a weighted average decline of more than 11% since their peak in December 2024.

In Canada, the S&P TSX Index treaded water with a slight decline of 0.4%. The year-to-date resilience of the Canadian market was driven by a 12.1% increase in the materials sector, which benefited from a 19.2% advance by gold stocks since the end of 2024, because geopolitical uncertainty favours tangible assets, such as gold.

In Europe, the stock indexes rose on hopes of an end to the Russo-Ukraine war and on more reasonable stock market valuations than in the United States – a context that is leading to a redeployment of capital from the U.S. to Europe. The February return was 1.6% for the FTSE 100 Index (United Kingdom), 2% for the CAC 40 (France) and 3.8% for the DAX 30 (Germany).

Even China recorded a rare positive month when technology stocks rallied after DeepSeek's splashy debut. The Shanghai SE Index was up 2.2% in February.

Inflation and growth: contradictory signals

In terms of economic data, inflation remained a hot topic, with the figures indicating that inflation resumed an upward trend. In the United States, headline inflation rose to 3% in January, the upper end of the range favoured by central banks. Resurging inflation could explain why the Trump administration has repeatedly postponed the implementation of tariffs.

In Canada, inflation was 1.9%, which at first glance is very encouraging. It should be noted, however, that inflation calculations include taxes. Thus, the federal tax cut is putting downward pressure on prices in Canada. If this temporary measure were excluded, inflation would be about 2.5%. The U.S. Federal Reserve and the Bank of Canada are therefore expected to leave interest rates unchanged at their March meetings.



To end on a positive note, Canada's economic growth was particularly strong in the fourth quarter, with an annualized increase of 2.6% versus the consensus forecast of 1.7%.

In addition, third-quarter growth was revised upward from 1% to 2.2%. Canadian consumer spending was the strongest in more than two years, demonstrating that the cumulative interest rate cuts and the GST holiday boosted spending, an outcome that was both desirable and desired.



Bobby Bureau, MBA, CIM®

Senior Manager, Fixed Income
Portfolio Manager

KEY TAKEAWAYS

- The Trump administration reversed its economic strategy in February 2025, prioritizing tariff threats over growth, unlike during its first term.
- U.S. markets declined in February (S&P 500: -1.3%, Nasdaq: -4%) while Europe advanced and Canada showed resilience thanks to the gold sector (+19.2%).
- Inflation reached 3% in the United States and 1.9% in Canada (benefiting from the federal tax cut), suggesting interest rates will remain unchanged in March.
- The Canadian economy outperformed expectations with 2.6% growth in the fourth quarter, stimulated by interest rate cuts and the GST holiday.

ECONOMIC DATA AND CURRENCIES

STATISTICS AS OF FEBRUARY 28, 2025								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (January)	6.6%	↓	Unemployment (January)	4.0%	↓	USD / CAD	0.69	↓
IPC (January)	1.9%	↑	IPC (January)	3.0%	↑	USD / EUR	1.04	↓
3-month T-Bills	2.83%	↓	3-month T-Bills	4.29%	↑	JPY / USD	155.63	↑
5-year bonds	2.61%	↓	5-year bonds	4.02%	↓	The arrow indicates the trend since the publication of the last monthly data or end of the month.		
10-year bonds	2.90%	↓	10-year bonds	4.21%	↓			
S&P/TSX	25,393	↑	Dow Jones - Industrial	43,841	↓			
			S&P 500	5,955	↓			

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF FEBRUARY 28, 2025

	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	0.55%	0.89%	4.59%	3.98%	2.53%
BONDS					
FTSE Canada Universe Bond Index	2.31%	1.60%	8.48%	1.56%	0.53%
FTSE Canada Short Term Overall Bond Index	1.35%	1.73%	7.28%	2.96%	2.06%
Eterna Adapted Private Wealth Index ¹	1.89%	2.01%	8.16%	2.53%	1.70%
FTSE Canada Mid Term Overall Bond Index	2.71%	2.42%	9.45%	1.82%	1.10%
FTSE Canada Long Term Overall Bond Index	3.24%	0.47%	8.89%	-0.71%	-2.00%
NORTH AMERICA STOCK MARKETS					
Canada - S&P/TSX Composite	3.06%	-0.31%	22.45%	9.72%	12.73%
United States - Standard & Poor's 500	1.80%	2.14%	25.92%	17.51%	18.56%
United States - Dow Jones Industrial Average	3.68%	1.10%	21.67%	16.07%	15.44%
INTERNATIONAL STOCK MARKETS					
United Kingdom - FTSE-100	9.31%	9.13%	27.08%	12.29%	11.14%
France - CAC-40	10.80%	13.78%	4.76%	8.76%	9.19%
Germany - DAX	13.94%	16.61%	30.60%	18.09%	14.02%
Japan - Nikkei-225	-2.12%	-0.20%	0.63%	6.86%	6.33%
Hong Kong - Hang Seng	14.62%	21.87%	48.74%	4.92%	-1.11%
Australia - S&P/ASX 200	0.85%	-4.92%	7.88%	4.13%	5.46%
CURRENCIES					
USD versus CAD	0.54%	3.25%	6.50%	4.49%	1.53%

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

¹The 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.

Past returns do not necessarily predict future returns. This document is intended for personal use only. The information and opinions expressed herein are subject to change based on market conditions or other circumstances. The views expressed are provided for informational purposes only and should not be relied upon for making investment decisions. This document should not be considered or used for the purpose of offering to purchase fund units or any other securities offer, regardless of jurisdiction. Under no circumstances may this document be reproduced, in whole or in part, without prior written permission from Eterna Financial Group. Eterna Investment Management's mutual funds are intended only for "qualified investors" as defined in Canadian National Instrument 45-106 Prospectus and Registration Exemptions. Investments in mutual funds are not insured by the Canada Deposit Insurance Corporation or any other public insurer and are not guaranteed by Eterna Investment Management or any related company.