ETERNA FINANCIAL GROUP

MONTHLY

FINANCIAL LETTER

MAY 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.

TARIFF TENSIONS CONTINUE TO WEIGH ON MARKETS

In May, financial markets continued to react primarily to evolving U.S. trade policy. Fortunately, investors focused mainly on the easing of geopolitical tensions between China and the United States. The agreement announced on May 12 reduced customs tariffs for 90 days, with the tax on Chinese products falling from 145% to 30%. Investors welcomed the news, taking the stock markets slightly higher than where they had been before the "Liberation Day" tariffs were announced on April 2.

Even so, a high level of uncertainty is still weighing on financial markets. Late in May, an appellate court overturned the U.S. Court of International Trade ruling that reciprocal tariffs were illegal. The lower court ruled that the Trump administration had exceeded its authority by invoking an emergency law to impose the tariffs. Its decision blocked the 10% base tariff imposed on most imports and the surtaxes on China, Canada and Mexico. That being said, the Court of International Trade ruling did not affect the tariffs applied to specific sectors, such as steel, aluminum, and automobiles.

The next few months will be marked by the Trump administration's battle to prove the legality of its trade-policy decisions.

The U.S. government could also resort to increased threats against individual companies. We note the example of Apple's iPhone, produced outside the U.S., and requests that Walmart and Amazon not increase their prices.

Mixed performance: equities up, bonds under pressure

Against this backdrop, the S&P 500 surged 6.3% in local currency, while the Dow Jones Industrial Average was up 3.9%. In Canada, the S&P TSX Index climbed 5.6%, driven by sectors such as industrials, technology and consumer discretionary.

Europe's equity markets continued the solid momentum they have enjoyed since the start of the year: The FTSE 100 (U.K.) rose 3.3%, the CAC 40 (France) was up 2.1%, and the DAX 30 (Germany) surged 6.7%. In China, the Shanghai SE Index recorded a rare increase, advancing 2.1%.

In the bond market, we saw a broad-based rise in yields during the month and a narrowing of credit spreads, which explains the negligible return of 0.02% for the FTSE Canada Universe Bond Index. As the stock market began a new upturn, yields rose, putting negative pressure on bond returns. In Canada and the United States alike, fiscal policies are creating large deficits that will require new debt issuance and could raise borrowing costs.

Fed adopts a cautious stance, pending data

At its most recent meeting, the U.S. Federal Reserve opted for the status quo, cautiously leaving its key rate unchanged at 4.50%. Fed Chair Jerome Powell noted the high level of uncertainty surrounding trade policy. In the absence of new data showing the impact on inflation and employment, the Fed cannot decide with certainty whether to raise or lower its key rate.

Moreover, the latest inflation data show that the effect of tariffs is slow to be reflected in prices. In the United States, headline inflation fell to 2.3% year over year in April.

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It will take a few months before we see a real impact on prices. In Canada, headline inflation fell from an annual rate of 2.3% to 1.7%, but this sharp drop was due to the elimination of the federal carbon tax.

Finally, Canadian data showed 2.2% annualized economic growth in the first quarter of 2025, as exports and inventories rose significantly before tariffs took effect.

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KEY TAKEAWAYS

- Investors are focused on the easing of tensions between China and the United States, with the two countries announcing an agreement on May 12 to reduce tariffs for 90 days.
- The markets turned in a mixed performance: Equities posted gains while the bond market came under some negative pressure.
- The Fed left its key rate unchanged owing to the uncertainty caused by trade policy and will wait for more data before making a decision.
- The Canadian economy expanded by a solid 2.2% in the first quarter owing to higher exports and inventory building in anticipation of tariffs.

ECONOMIC DATA AND CURRENCIES

STATISTICS AS OF MAY 31, 2025								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (April)	6.9 %	↑	Unemployment (April)	4.2%	-	USD / CAD	0.73	↓
IPC (April)	1.7 %	↓	IPC (April)	2.3%	↓	USD / EUR	1.13	↓
3-month T-Bills	2.66 %	↑	3-month T-Bills	4.33 %	↑	JPY / USD	144.02	↓
5-year bonds	2.81 %	↑	5-year bonds	3.96 %	↑			
10-year bonds	3.20 %	↑	10-year bonds	4.40 %	↑			
S&P/TSX	26,175	↑	Dow Jones - Industrial	42,270	↑			
			S&P 500	5,912	↑			

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 MAY 31, 2025					
	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	1.26%	0.70%	3.98%	4.16%	2.58%
BONDS					
FTSE Canada Universe Bond Index	1.38%	-0.91%	7.26%	3.53%	-0.05%
FTSE Canada Short Term Overall Bond Index	1.91%	0.55%	6.84%	4.05%	1.81%
Eterna Adapted Private Wealth Index[1]	1.98%	0.08%	7.48%	4.05%	1.24%
FTSE Canada Mid Term Overall Bond Index	2.07%	-0.62%	8.41%	4.00%	0.33%
FTSE Canada Long Term Overall Bond Index	-0.16%	-3.29%	6.42%	2.12%	-2.94%
NORTH AMERICAN STOCK MARKETS					
Canada - S&P/TSX Composite	7.05%	3.87%	21.05%	11.55%	14.92%
United States - Standard & Poor's 500	-3.38%	-5.09%	14.47%	17.71%	15.86%
United States - Dow Jones Industrial Average	-4.33%	-7.72%	12.09%	13.98%	12.86%
INTERNATIONAL STOCK MARKETS					
United Kingdom - FTSE-100	12.50%	2.92%	17.36%	14.54%	13.60%
France - CAC-40	10.12%	-0.61%	2.33%	11.34%	10.96%
Germany - DAX	26.10%	10.67%	36.88%	24.31%	16.11%
Japan – Nikkei-225	-0.43%	1.72%	8.65%	10.63%	5.31%
Hong Kong – Hang Seng	9.96%	-4.07%	29.56%	5.83%	-0.02%
Australia - S&P/ASX 200	2.66%	1.80%	6.84%	4.42%	7.15%
CURRENCIES					
USD versus CAD	-4.48%	-4.99%	0.81%	2.80%	-0.06%

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.