



# ETERNA FINANCIAL GROUP

# QUARTERLY

## REVIEW

MARCH 2025

MARKET SUMMARY AND ASSET ALLOCATION

## U.S. PROTECTIONISM DISRUPTS THE GLOBAL FINANCIAL LANDSCAPE

President Donald Trump is severing long-standing relationships with the United States' trading partners with aggressive tariff threats and territorial claims.

The post-election optimism has rapidly evaporated; business, consumer, and financial market confidence has sharply deteriorated owing to the President's inflammatory rhetoric. Although Trump's statements and behaviour largely mirror patterns from his first term, his apparent comfort with declining financial markets and the negative short-term economic consequences of his policies is particularly noteworthy.

Just four months into his presidency, analysts are already downgrading their forecasts for stock market performance and economic growth alike. The key takeaway: Trump appears willing to accept short-term market and economic setbacks in his determination to dismantle what he views as a globalization framework that has disadvantaged the United States for too long.

### U.S. stocks retreat while European equities rebound

Despite promises of tax cuts and deregulation, North American stock indexes delivered disappointing results in the first quarter of 2025. In particular, U.S. markets were dragged down by the Magnificent Seven stocks, with the tech-heavy NASDAQ falling 10.4% and the S&P 500 Index declining 4.3% over the three-month period.

In Canada, the S&P/TSX Index was virtually flat, posting a modest 1.5% gain. Meanwhile, European markets gained momentum, driven by prospects of a Russia-Ukraine conflict resolution and attractive valuations relative to U.S. equities. This dynamic triggered a capital rotation from U.S. to European markets, resulting in impressive quarterly gains across the major European indexes: The UK's FTSE 100 advanced 5%, France's CAC 40 rose 5.6%, and Germany's DAX 30 surged 11.3%.

In China, the Shanghai SE Index showed consistent performance during the quarter, despite a surge in tech stocks, driven by DeepSeek's innovations.

For its part, the Canadian bond market returned 2% in the first quarter, propelled by lower yields across the entire curve.

### Sector allocation: caution in the face of uncertainty

We continue to maintain a relatively conservative allocation, with a modest overweight position in alternative assets and fixed income, relative to our target benchmarks.

Tariff-related uncertainties are clouding the economic outlook, potentially leading to outcomes that diverge from our base scenario of temporary, selective tariff implementation.

Key questions remain: Which countries will face tariff measures? What will be the magnitude of the tariffs? What duration should we expect for these trade barriers? We require greater clarity on these critical issues before we make substantial adjustments to our asset allocation framework.



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Income, Portfolio Manager

**ECONOMY AND FIXED INCOME**

# TRADE WAR AND ECONOMIC OUTLOOK: THE ART OF NAVIGATING TROUBLED WATERS

In our last review of 2024, we noted that growth expectations for 2025 were being revised upward, thanks notably to President Trump's electoral commitments. The implementation of tariff barriers was expected to stimulate the economy while potentially producing adverse effects in 2026.

That being said, the outlook has rapidly deteriorated. Concerns are intensifying about the likelihood of widespread tariff barriers and substantial retaliatory measures from targeted nations. This scenario could precipitate a more immediate recession, driven by accelerating inflation, diminished economic activity, and rising unemployment. This context presents a considerable challenge for central banks, which must balance the imperative to reduce interest rates to stimulate growth against the need to raise rates to contain inflation. In financial jargon, this means stagflation—stagnant economic growth coupled with inflationary pressures.

In Canada, the central bank will most likely favour reducing rates to foster growth. This strategy influenced its March decision to reduce the policy rate for the seventh consecutive time.

In the United States, inflation remains above target while economic growth exceeds potential. Under these conditions, there is no compelling urgency to lower rates.

A trade war would inevitably result in substantial job losses across Canada. As for our neighbours to the south, the Department of Government Efficiency (DOGE), under Elon Musk's leadership, is generating workforce concerns. The cost-reduction initiatives being implemented throughout the U.S. government could translate into significant employment losses.

If there is one truth emerging from this political turbulence, it is that the resulting uncertainty is proving to be profoundly detrimental. We are already witnessing the consequences. As consumption potentially decelerates amid employment losses and renewed inflationary pressures, corporations face inevitable challenges and may be compelled to curtail capital expenditures.

## **Vigilance on duration and credit spreads**

We continue to favour Canadian bonds with maturities under five years. As already stated, the additional rate reductions expected in Canada would generate positive yields on short-term maturities.

Given the potential resurgence of inflation, which would necessitate rate increases, we are maintaining a prudent approach regarding our exposure to medium- and long-term securities. Furthermore, substantial fiscal deficits are compelling governments to increase their borrowing, putting additional upward pressure on interest rates.

Finally, the fixed income market has begun to exhibit cautionary signals regarding corporate risk premiums. We are seeing initial widening of credit spreads, despite their current historically compressed levels.

We will continue to monitor spread dynamics in the coming months, should conditions deteriorate further.

## **KEY TAKEAWAYS**

- The enthusiasm that followed the U.S. election has rapidly dissipated. Economic-growth and equity-market forecasts are being revised downward, as Trump's statements cause uncertainty and fuel financial market volatility.
- The Trump administration appears willing to tolerate financial-market declines and economic deceleration as it pursues a restructuring of global trade relationships.
- Central banks find themselves in a tight spot, having to choose between the need to cut interest rates to spur economic growth and the need to raise them to control inflationary pressures.
- Significant uncertainty persists regarding the scope, magnitude, and duration of protectionist measures—variables that are critical for effective asset allocation strategy.



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Senior Manager, Fixed Income,  
Portfolio Manager





CANADIAN, U.S. AND INTERNATIONAL EQUITIES

## STRATEGIC POSITIONING IN A TRANSFORMING MARKET LANDSCAPE

### Canadian equities: Gold and resources bolster the market amid uncertainty

The S&P/TSX Index's positive performance in the first quarter of 2025 was due to the materials sector's substantial weighting, particularly the gold subsector. With gold prices reaching US\$3,150 in late March and posting a 19% year-to-date appreciation, gold equities alone account for the Canadian index's positive returns.

Combined with the U.S. dollar's diminishing strength owing to the controversial policies implemented by the Trump administration, geopolitical and economic uncertainty has reinforced gold's historical standing as a global safe-haven asset.

Across most of our portfolios, our principal position in this sector is Agnico Eagle Mines, which operates in stable jurisdictions, notably the prolific Abitibi region. With operations predominantly in Canada, a significant portion of the company's operational expenditures are denominated in Canadian dollars, providing additional profitability leverage. Our Canadian equity strategies also include a position in Franco-Nevada, which maintains diverse royalty and streaming interests across mining projects, primarily focused on gold and silver assets.

The energy sector, with particular emphasis on pipeline companies, has also benefited from Trump's revised energy strategy and investors' pursuit of current yield and capital preservation. Our preferred holding in this sector, Pembina Pipeline, turned in a robust performance during the quarter. The company has compelling growth prospects complemented by a strong balance sheet.

In the financial sector, banks reported mixed results for the first quarter of fiscal 2025. Amid macroeconomic uncertainty, several Canadian financial institutions, including Royal Bank and National Bank, have prudently increased their loss provisions to mitigate potential impacts from tariffs that might be imposed on Canadian enterprises. Meanwhile, Intact Financial, a holding across several of our investment strategies, continues to capitalize on favourable conditions in the property and casualty insurance market, both domestically and through its specialized divisions in Europe and the United States.

Within the Quebec equity universe, tariff-related uncertainties have negatively affected industrial and consumer sector securities, which represent the predominant segments of this investment landscape. Despite maintaining robust financial foundations with no tangible effects yet materialized, industrial securities experienced more pronounced declines during the first quarter.

Small caps outside the commodity and energy sectors have been particularly vulnerable to prevailing market uncertainties, as investor sentiment has shifted decisively toward large caps during this period of heightened volatility.

### U.S. equities: sharp decline and technology under pressure

The first quarter of 2025 was marked by considerable volatility in the U.S. stock market. After peaking in mid-February, the S&P 500 Index declined, ending the quarter in negative territory.

Economic uncertainty and the Trump administration's controversial decisions were the primary drivers of this market shift, pushing the U.S. stock market into official correction territory by mid-March with a decline exceeding 10% from its peak.

The consumer discretionary sector experienced the most significant decline, largely attributed to a drop in U.S. consumer confidence and Tesla's disappointing results, with rising concerns that Elon Musk's political activities could reduce demand for vehicles.

Information technology ranked second-to-last in performance, with the sector's high valuations experiencing sharp declines, especially among artificial intelligence companies. The release of Chinese firm DeepSeek's highly cost-effective model sparked concerns about Chinese AI's ability to compete with U.S. technologies at lower costs.

Despite difficulties faced by certain sectors, seven out of 11 sectors posted positive returns early in the year. Energy emerged as the top performer, benefiting from the recent U.S. energy policy and inflationary concerns, with investors recognizing the sector's ability to thrive in such conditions. The health care, utilities, and consumer staples sectors delivered strong quarterly performances, attracting defensive investors seeking safe havens amid uncertainty.



#### CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONT'D)

##### **International equities: Capital rotation toward Europe**

The first quarter of 2025 witnessed contrasting economic dynamics yet presented compelling opportunities for our international equity strategy.

In our previous quarterly review, we expected a possible shift in market dynamics, which materialized during the first quarter, when the Magnificent Seven stocks saw a decline of 16%, while European equities increased by 6%.

In the Asia-Pacific region, Japan benefitted from growing optimism toward its economic reforms, which have enhanced corporate growth and shareholder value. Even so, the yen's appreciation during the quarter may affect future results, particularly for export-oriented companies. This concern was reflected in the Japanese index's decline late in the quarter.

We are maintaining a positive outlook on opportunities in the coming year, while adopting a measured approach toward tariff-related uncertainties.

In Japan, we are closely monitoring monetary policy, as decisions made by the Bank of Japan could significantly influence corporate valuations.

Our management team continues its disciplined active management approach, blending rigorous fundamental analysis with strategic geographic and sector diversification.

We recently strengthened our positions in industrial and financial securities, while reducing our exposure to more cyclical sectors. This strategic reallocation aims to optimize the risk-return profile of our portfolios amid an evolving economic landscape.



**Philippe Côté**

Vice President, Senior Portfolio Manager, Equities



**Maxime Bertrand Gilbert**

Portfolio Manager, Equities



**Philippe Tardif**

Vice President, Eterna Financial Group

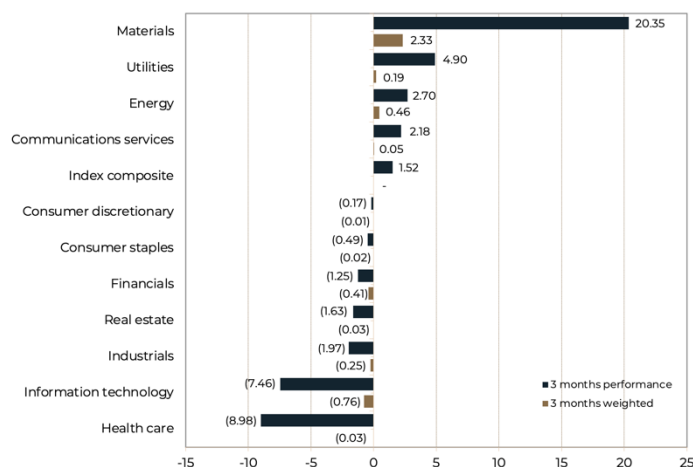
##### **KEY TAKEAWAYS**

- The Canadian market received considerable support from the gold sector, with the gold price surging to US\$3,150, as banks took careful steps to increase their loss reserves amid tariff uncertainties.
- U.S. equities entered correction territory, with the technology and consumer discretionary sectors facing the largest declines, in contrast to defensive sectors, such as energy, health care, and utilities, which achieved positive returns.
- Our prediction regarding the rebalancing of the worldwide equity market has materialized, as shown by the 16% drop in the Magnificent Seven stocks alongside a 6% rise in European equities.
- We continue to emphasize active management with strategic geographic and sector diversification, having recently pivoted toward industrial and financial securities while reducing exposure to cyclical sectors vulnerable to current uncertainties.

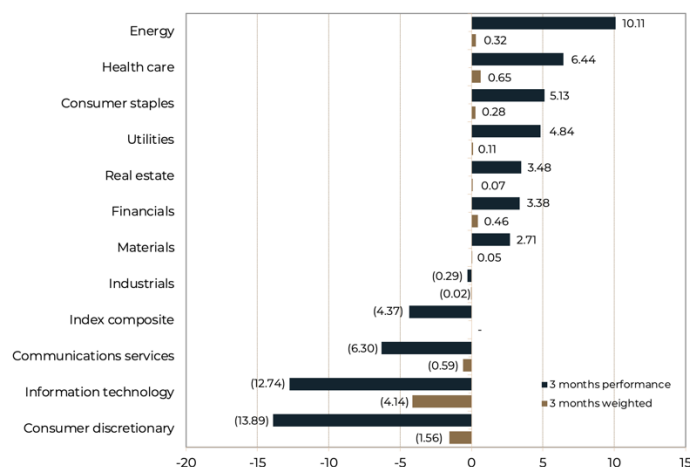


## SECTOR PERFORMANCE

Canadian Equities (S&P/TSX)



U.S. Equities (S&P 500)



SOURCE: Bloomberg. Returns in Canadian dollars, including dividends as at March 31, 2025.

## ECONOMIC DATA AND CURRENCIES

STATISTICS AS AT MARCH 31, 2025								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (February)	6.6%	-	Unemployment (February)	4.1%	↑	USD / CAD	0.70	↓
IPC (January)	2.6%	↑	IPC (January)	2.8%	↓	USD / EUR	1.08	↓
3-month T-Bills	2.64%	↓	3-month T-Bills	4.29%	↓	JPY / USD	149.96	↑
5-year bonds	2.61%	↑	5-year bonds	3.95%	↓	The arrow indicates the trend since the publication of the last monthly data or end of the month.		
10-year bonds	2.97%	↑	10-year bonds	4.21%	↓			
S&P/TSX	24,918	↓	Dow Jones - Industrial	42,002	↓			
			S&P 500	5,612	↓			

SOURCE: Bloomberg.



## MARKET RETURNS

### TOTAL RETURNS IN CANADIAN DOLLARS AS AT MARCH 31, 2025

	3 months	1 year	3 years	5 years
FTSE Canada 91 Day T-Bill Index	0.83%	4.49%	4.04%	2.51%
FTSE Canada Universe Bond Index	2.02%	7.65%	2.50%	0.88%
FTSE Canada Short Term Overall Bond Index	1.69%	7.14%	3.74%	2.10%
Eterna Adapted Private Wealth Index <sup>1</sup>	2.08%	7.75%	3.53%	1.75%
FTSE Canada Mid Term Overall Bond Index	2.65%	8.64%	3.16%	1.18%
FTSE Canada Long Term Overall Bond Index	1.79%	7.02%	0.05%	-1.17%
Canada - S&P/TSX Composite	1.51%	15.81%	7.77%	16.76%
United States - Standard & Poor's 500	-4.37%	14.96%	14.32%	18.91%
United States - Dow Jones Industrial Average	-0.96%	14.06%	14.00%	16.51%
INTERNATIONAL STOCK MARKETS				
United Kingdom - FTSE-100	9.29%	21.49%	13.08%	13.80%
France - CAC-40	10.17%	0.98%	9.54%	12.10%
Germany - DAX	15.94%	27.47%	19.99%	17.37%
Japan - Nikkei-225	-6.29%	-5.45%	6.14%	6.53%
Hong Kong - Hang Seng	14.95%	49.31%	6.81%	-0.22%
Australia - S&P/ASX 200	-3.09%	1.00%	0.10%	9.87%
USD versus CAD	0.02%	6.26%	4.78%	0.46%

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

<sup>1</sup> 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.

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