

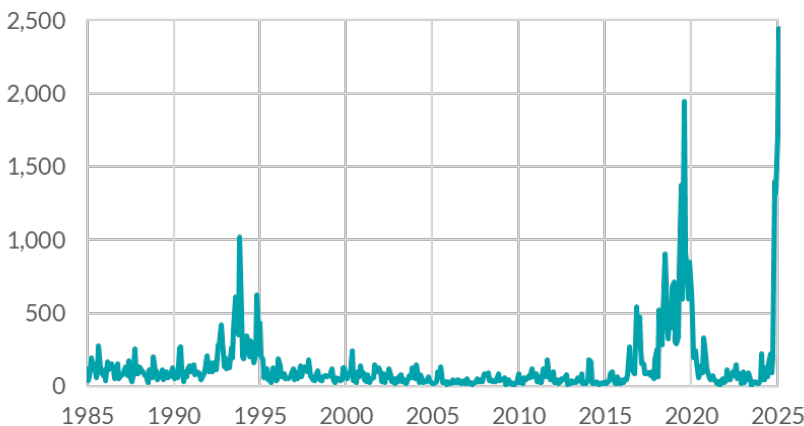
Key Takeaways for Q1

- Economic policy became more uncertain with fluctuating tariff announcements from the U.S. and its trading partners.
- Global stocks markets experienced heightened volatility year-to-date, reflecting the negative repercussions of tariffs for highly integrated global economies.
- Within U.S. markets, investors rotated out of growth stocks into value and defensive areas of the market.
- Bond markets performed well during the quarter as interest rates moved lower.
- Most central banks continued to ease monetary policy by reducing their target interest rates. The U.S. Federal Reserve was a notable exception, electing to wait for greater clarity before lowering rates further.

Economic and Market Update

Economic Summary: In the U.S., the latest GDP data confirmed solid economic growth in 2024. However, as President Trump pushes forward his economic agenda, uncertainty surrounding fiscal policy and global trade have dampened market sentiment. Inflation pressures persisted, with the rate of inflation remaining above the central bank’s 2% objective. The labour market in the U.S. remained resilient, with unemployment rate staying low compared to historical norms. The Federal Reserve shifted to a more cautious approach, holding the policy rate steady through Q1 at the range 4.25% - 4.5%. The central bank raised its inflation forecast, lowered growth projections, and warned that “uncertainty around the economic outlook has increased.” U.S. bond yields were lower for most maturity dates during the first quarter, as the market priced in more growth concerns and anticipated more rate cuts from the Federal Reserve.

Fig. 1: U.S. Economic Policy Uncertainty Index: Trade



source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com

In Canada, recent GDP data showed stronger-than-expected growth. The inflation rate remained close to the 2% target but rose more than expected in February, and the labour market showed signs of improvement. U.S. tariffs continued to be a significant concern, and it is prompting businesses and consumers to become more cautious and slow their spending. The Bank of Canada warned that the economic impact of the tariffs could be “severe” and expected weaker growth in the coming quarters. For those reasons the Bank of Canada continued its easing cycle, cutting rates by 25 basis points at each of the January and March meetings, bringing the policy rate to 2.75%. Bond yields in Canada were also lower, with short-term interest rates decreasing faster than long-term interest rates as the Bank of Canada’s rate cuts outpaced market expectations.

Bond Markets: During Q1 2025, the FTSE Canada Universe Bond Index returned 2.0% as interest rates declined across all tenors. Although interest rates fell, this was partially offset by higher credit spreads (i.e. the

	1st Quarter Change	YTD as of April 4th
U.S. 10 Year	-36 bps	-57 bps
Canada 10 Year	-26 bps	-35 bps
Canada Aggregate Bond*	1.8%	2.0%
U.S. Aggregate Bond*	2.7%	3.6%

*Returns are calculated using representative ETFs

extra yield on corporate bonds versus government bonds to compensate for their extra risk). Consequently, while corporate bonds still generated a positive return on the quarter, they underperformed government bonds. Widening credit spreads reflected the risk-off tone to the market, with on-off-on-off-on(?) tariffs contributing to the uncertainty. Lower-rated BBB bonds generally performed worse than higher-quality A-rated bonds. While credit spreads are higher than they were in December and January, they are still expensive compared to longer term averages. Corporate bond issuance remained robust up until the last week of March, as investor demand kept deals well supported. Overall, the market took in \$40 billion in new issuance, the second highest on record, spread over 82 bonds. While corporate bonds are more attractive than in January 2025, we believe the more likely path is towards higher credit spreads as U.S. tariffs impact global growth. We have maintained our conservative view with a bias towards shorter-dated credit but remain ready to invest in longer dated corporate bonds as valuations become more attractive.

Stock Markets – Overview:

Uncertainty surrounding the scope and severity of new tariffs led investors to reassess global economic growth prospects and weighed on risk sentiment. As a result, the S&P

	1st Quarter Change	YTD as of April 4th
S&P 500	-4.3%	-13.4%
S&P/TSX Composite	1.5%	-5.5%
EAFE	3.0%	-3.4%

Returns are in local currency terms

500 declined 4.3% over the quarter, underperforming Canadian and international markets. Within the U.S., investors rotated out of previously favoured growth stocks with loftier valuations – including members of the Magnificent 7 – into less volatile and value-cyclical

companies. Meanwhile, Canadian equities returned 1.5% in Q1 despite ongoing trade negotiations and uncertain economic growth forecasts. Surging commodity prices helped the materials and energy sectors outperform, offsetting weakness in the technology and industrials sectors. Elsewhere, major developed markets from Europe and Asia (EAFE) were supported over the quarter by the introduction of a new German fiscal stimulus package and signs of improving Chinese economic growth. Following the quarter end, President Trump announced global tariffs on April 2nd, prompting some trading partners to hit back with retaliatory tariffs. The S&P 500 lost a record \$5.2 trillion over two trading sessions and re-entered correction territory, with other global equity markets moving in tandem.

U.S. Equities: While the impact of tariffs has made investors more apprehensive, we have yet to witness a deterioration in financial performance. In fact, U.S. earnings continued to exceed forecasts last quarter, with approximately 70% of companies beating expectations. Furthermore, our bottom-up analysis shows that the skew of corporate earnings surprises continues to tilt positive. That said, we note that companies are providing more cautious guidance amid the increased economic uncertainty and that these earnings largely reflect conditions in 2024, not 2025. Notably, consumer stocks like Walmart have lowered growth forecasts for 2025, citing concerns surrounding consumer confidence and macroeconomic conditions. In addition to clouding the outlook, geopolitical shocks like sweeping tariffs may risk changing how companies choose to operate, including the structure of supply chains and sources of revenue. At this stage, it is still unclear how long these trade tensions will last, as that depends on how other countries choose to respond. If the tariffs are rolled back quickly, many companies may be able to absorb the temporary extra costs without serious damage to profits, and the broader economy could avoid lasting harm. But if the tariffs remain in place for a long time, the consequences could be much more serious; companies might have to change how they operate, restructure supply chains, and raise prices to deal with long-term pressure on profits.

Canadian Equities: Against the backdrop of worrisome trade developments, the Bank of Canada continued to ease monetary policy. While lower rates have helped Canadian companies report better-than-expected profit growth, consensus earnings expectations for 2025 have been revised 2% lower since the beginning of the year, reflecting the expectations for tariff headwinds. Falling bond yields made high quality, high dividend paying companies more attractive, helping this group outperform. Furthermore, the price of raw industrials – a basket of commodities – surged higher over the quarter and as a result, commodity-oriented companies benefitted. More specifically, the materials sector performed strongly with gold prices reaching new all-time highs throughout the quarter. However, if trade frictions continue to escalate and weaker growth projections materialize into a real economic slowdown, the Canadian market, given its cyclical nature and heavy reliance on commodity-driven businesses, remains particularly vulnerable to external

headwinds. Moreover, given Canada's weaker fundamental backdrop, we caution that the recent outperformance of Canadian equities relative to the U.S. may prove short-lived, particularly if trade tension persists.

Bottom line:

Heightened uncertainty surrounding global trade policies, coupled with deteriorating economic growth projections, continued to weigh on investor sentiment. Bond prices benefited from the flight to less-risky assets, with lower interest rates in anticipation of weaker economic conditions. In equity markets, the introduction of broad-based tariffs increased market volatility and drove major indices sharply lower year-to-date. Looking forward, we remain cautious of the recent outperformance of Canadian and international markets relative to the U.S. While tariffs began as a U.S. policy move, the ripple effects extend far beyond American borders, reflecting the systemic fragility that underpins global trade. If trade barriers persist, businesses may be forced to make structural shifts in their operations and review their current business models. Until markets achieve greater clarity on global trade policies, we continue to prioritize exposure to diversified large-cap stocks in the U.S., over defensive or growth-heavy positions. Within Canada, we continue to favour high quality, high dividend paying names with less sensitivity to downgrades in global growth.

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