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BMO Nesbitt Burns

March 2025 Newsletter

Market Update – Trump Dump?

So much for Trumps initial “All Hat No Cattle” approach to global trade. He’s pulled the trigger on broad-based tariffs with major trading partners, in an attempt to re-shore American production. His Cabinet, or should we say “Elon Musk”, is pushing through with operation DOGE by slashing government spending through mass government layoffs. If not met with meaningful tax cuts and monetary policy easing, the combined economic impact may push the US into a “stagflationary” market environment (high unemployment and inflation + low growth) or possibly a recession. While it’s still early days in the Trump administration and economic health is intact, we remain somewhat cautiously opportunistic on the market. But if the volatility is persistent and economic health is materially impacting the economy, we’ll look to further adjust our course and our portfolio exposure. Let’s review the major changes since our last update in early February:

All Eye’s on Tariffs.

This Tit-for-tat trade war continues to head up. Here is a recap of the latest key events:

Feb 1st:

The Trump administration imposes 25% tariffs on most goods from Canada and Mexico as well as increase to tariffs on China by 10%.

Feb 4th:

China retaliated by imposing 15% tariffs on coal and NGL products as well as a 10% tariff on crude oil. Canada announced a simuls plan to combat the tariffs.

March 4th:

US tariffs on Canada and Mexico came into effect. Canada retaliated by imposing 25% tariffs on 30 billion worth of US goods effective immediately. China retaliated by imposing additional tariffs on US agricultural products.

March 6th:

Trump signed an executive order partly delaying the Canadian tariffs. U.S. Commerce Secretary Howard Lutnick said those tariffs will be revisited next month.

March 10th:

Ontario’s Premier Doug Ford purposed a retaliatory 25% surcharge on US electricity exports. Mark Carney a former central banker, won by a significant majority to lead Canada’s liberal party and is set to become the next prime minister. Carney supports dollar-for-dollar tariffs with the United States which may intensify things further.

March 11th :

The Trump administration announced an increase on Canadian Steel and Aluminum imports from 25% to 50% in retaliation to Doug Fords proposal.

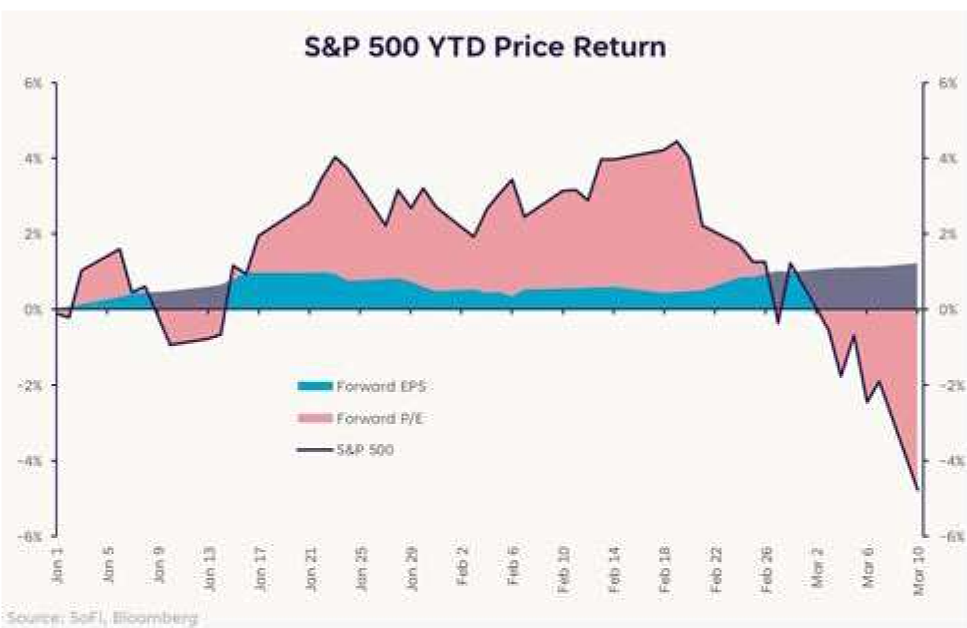
Ford announced Ontario will suspend a 25 percent electricity surcharge on three American states after a "productive" call with Howard Lutnick. Ford will meet in Washington on Thursday to discuss things further.

The Economy is Giving Mixed Signals

The economic impact on Canada with the tariffs is expected to raise prices on US imports and lower sales volumes, while exporters to the US will be faced with lower profit margins and sales volumes. The tariffs impact alone is highly likely to lower Canadian GDP over the coming years which the Bank of Canada has openly recognized. However, if the fiscal stimulus plan is successful along with further monetary policy easing the long-term implication for the economy may be muted.

Typical Market Pull Back…?

Equity markets in both the U.S. and Canada are being rattled by a combination of tariffs and, at least in the case of the U.S., convergent factors including DOGE cuts and softening economic data. As of March 11, the S&P 500 has fallen over ~9% from its February 20 peak, and Canada's TSX has fallen more than ~5% over that same time. On a year-to-date basis, however, both indices are down by only about half of those amounts. This pull-back has now brought the S&P 500 forward Price-to-Earning valuation multiple more inline with it's 5-year average ~20x, which is a relief from the 'over-valued' market at the beginning of the year. Meanwhile overseas we continue to see relatively strong out-performance in Europe and China on hopes that the Ukraine-Russia cease-fire and Chinese economic stimulus getting injected into the economy.



MAG 7 or SAG 7?

Some of the hardest hit sector's YTD are consumer discretionary and technology (Especially the MAG7), while the top sectors are utilities and consumer staples.

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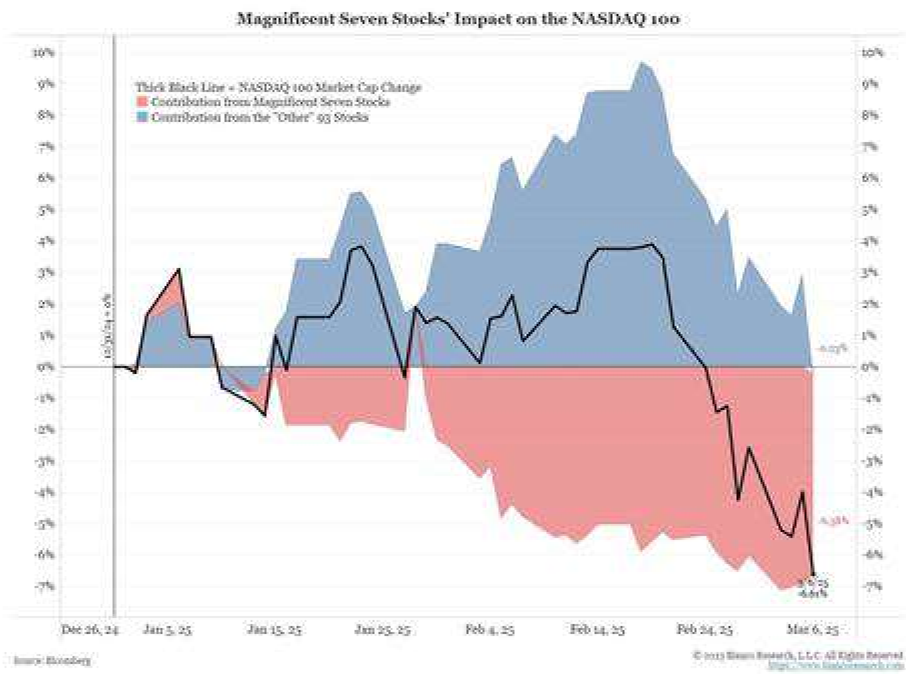
Performance YTD is signaling an overall shift into lower volatility value stocks. Is this a short-term trend or the start of something bigger? Historically speaking, value/growth rotations typically happen in higher US interest rate environment, when the market is experiencing a sell off, whereby, the high-flying growth stocks tend get hit harder than value stocks. Overall, this short-term shift from growth-to-value and US centric-to-international, is a healthy signal that market performance is broadening out to areas that were late to join the latest bull market rally – this is something that we welcome.



Currency Tailwind or Headwind?

Last year USD exposure was a major tailwind for Canadians with exposure to US Dollar denominated assets, contributing +8% over the course of 2024. In addition, when markets sold off and volatility rose, the USD had tended to rally, reducing losses in Canadian dollars. Now that were trading at elevated USD/CAD levels, what was once an FX tailwind may eventually be turning into a headwind. However, even at these levels there may still be support for US dollars to keep appropriating given there meaningfully higher interest rates (carry trade effects) and resilient economy that will likely be impacted less by the trade disputes.

Weekly line chart of USD/CAD

Source: Trading View

Is Fixed Income Back?

It's been a long-time in the making but we're finally seeing bonds do their job as a recessionary hedge in times of panic (Fed Put Effect). Considering the recent market volatility, long duration US 10-year bonds have rallied ~5% since from it's lows in mid January, helping reduce losses for balanced investors. The takeaway here is that the market seems to be more concerned about the economic damage the tariffs will have on the US economy, as apposed to their long-term inflationary impact.

Daily Line Chart of iShares 7-10 year Bond ETF (IEF) Total Return

Source: Trading View

Where do we go from here?

While tariff risk is elevated, the current market correction is undistinguishable from typical intra-year declines of ~10%. Some parts of the market are working (Bonds, Gold Utilities, Staples, Europe, China) and other parts of the market that have already seem extraordinary price appreciation are pulling back (Mag7, Crypto, Technology, Small caps, and other high beta sectors). What we know it's that:

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves." - Peter Lynch

In our portfolios we have cash sitting on the sidelines waiting to be deployed for this exact type of scenario. While valuations are normalizing, we remain cautions about jumping back into the market as volatility continues to trend upwards and there have been no signs of trade tension cooling. However, if this trend is to continue for a prolonged period it may warrant a continued shift in exposure to capitalize on the recent Growth/Value rotation that may just be getting started.

Tax Slips:

Now that tax season is underway, your tax slips are now gradually becoming available on our Gateway platform. All slips will be available by the end of March. Please kindly reach out to your advisor if you have any questions or need assistance locating the tax documents on Gateway.

Please reach out to any of our team members if you have any questions.

All the best from our team.

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