iA Global Asset Management

Keys to the market

What happened this week

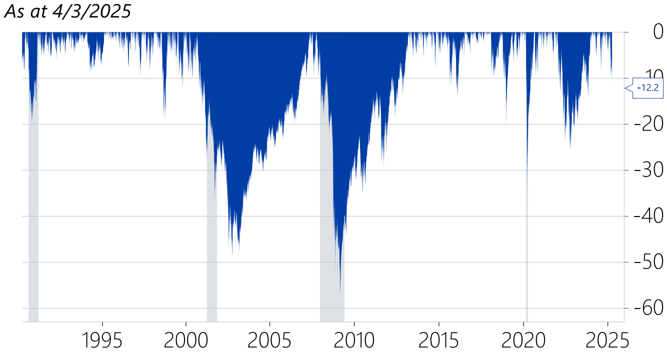
April 4, 2025

After the long-awaited announcement of new tariffs on the United States' trading partners, the Canadian markets initially showed resilience, owing to USMCA exemptions. Even so, at the time of writing, China's retaliation on Friday, April 4 had driven the S&P/TSX Composite Index down 3.51% on the day. Investors are disregarding all economic data releases, gripped instead by trade-war concerns, given Canada's export-driven economy. The market's initial stability has evaporated as fears of escalating trade disruptions signal more weakness ahead.

In the United States, the S&P 500 Index plummeted nearly 5% on April 3 after President Trump's tariff announcement, triggering a significant correction. China's 34% retaliatory tariff on all U.S. imports beginning April 10 intensified the sell-off, stoking global recession fears. Economic indicators have been sidelined as the market fixates on the worsening trade conflict. Investor pessimism is surging, with the VIX spiking to its highest level since 2020 amid widespread unease.

S&P 500 Index % Drawdown

As at 4/3/2025



Highlights

- In Canada, escalating trade uncertainties triggered concerns of deeper market weakness ahead.
- In the U.S., new tariff announcements and subsequent retaliatory measures sparked significant market unrest.

On our radar

- Canada: Building permits for February and Ivey PMI for March.
- United States: Inflation rate and PPI for March.

Bond market

It was a good week for bonds but sadly for all the wrong reasons. Yields plunged across the curve in Canada and the U.S., with 10-years up north declining by 15+ basis points to hover above 2.8%, while down south 10-year Treasuries sank by 25+ basis points to sit just above 3.9%. The decline in yields happened in response to the poorly reasoned and illogically calculated tariffs imposed on numerous nations by the United States and was exacerbated by the various countermeasures announced by its trading partners as we headed into the weekend. Even though declining yields are part of our overall investment thesis for bonds, given the expected backdrop of accommodative central banks in North America, we continue to think the path downward will not be straight, particularly because worsening inflation may become a factor in monetary-policy decisions. The futures market is pricing in more than four 25-basis-point cuts by the Fed by year-end and three similar-sized reductions by the BoC. These expectations may taper somewhat as the reality of the U.S. trade assault against its partners starts to sink in, although we think the flight to quality will remain in vogue for the foreseeable future, perhaps until bilateral agreements are struck and tariffs come down.

In credit, outperformance versus other risk assets is still expected, given investors' predilection for fixed income. Nonetheless, the movement toward quality is becoming evident, with U.S. HY surging 40+ basis points toward 390, while U.S. IG was up slightly more than 5 basis points to sit above 100.

Stock market

On Thursday, the U.S. markets experienced their sharpest declines since March 2020 owing to the announcement of a broad set of tariffs hitting virtually all U.S. trading partners. It was only the sixth time in the S&P 500's history that it had fallen more than 4%, along with the dollar, which was down by more than 1%. Some tech stocks were hit particularly hard, with the share prices of Apple and Meta dropping by 10%.

China was hit the hardest, with a total levy of 65%. So far, in retaliation China has introduced a 34% tariff on all U.S imports. In addition, Canada has introduced a 25% counter-tariff on auto imports. The only silver lining for now is the exemptions for specific key industries, including semiconductors and pharmaceuticals. Even so, Trump was quick to reiterate that sector-specific measures were in the works.

Investors view the situation as a worst-case scenario and are turning to defensive equities as their expectations of a U.S. recession this year increase significantly. This trend is expected to continue amid persistent uncertainty. Lastly, the S&P 500 is only 15% or so below its all-time highs, suggesting it probably has more room to fall.

Markets
(Total return, in CAD)

As of April 3, 2025	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	-4.88	-6.14	-10.08	9.06	11.79	18.46
S&P/TSX	-1.57	-2.29	-0.82	13.39	6.83	17.00
NASDAQ	-3.78	-4.49	-12.31	7.94	12.56	20.07
MSCI ACWI	-4.39	-4.97	-6.60	9.18	10.80	16.39
MSCI EAFE	-3.19	-1.91	4.90	10.49	10.61	12.87
MSCI EM	-3.17	-2.23	0.78	13.05	5.88	8.76
Commodities (USD)						
Gold	0.98	-0.26	18.70	35.45	17.39	13.96
CRB	0.42	0.28	2.26	1.64	-4.64	8.61
WTI	-3.47	-6.34	-6.65	-21.63	-12.30	18.76
Fixed income						
FTSE TMX Canada Universe	0.44	0.10	2.12	8.74	2.62	0.81
FTSE TMX Canada Long	0.51	-0.19	1.59	9.21	0.05	-1.42
FTSE TMX Canada Corporate Overall	0.22	-0.03	1.79	9.50	4.42	3.10
Currencies						
DXY	-1.90	-2.05	-5.91	-2.09	1.15	0.30
USDCAD	-1.51	-2.02	-2.00	4.21	4.03	-0.15
USDEUR	-2.02	-2.13	-6.33	-1.95	-0.01	-0.47
USDJPY	-2.52	-2.60	-7.09	-3.72	6.03	6.12
USDGBP	-1.22	-1.38	-4.46	-3.42	0.04	-1.30

	CA	U.S.
Bond yields		
2Y	2.40	3.68
5Y	2.55	3.73
10Y	2.93	4.03
30Y	3.24	4.47
Credit spreads		
IG corporate bonds	122	106
HY bonds	338	401

Source: iA Global Asset Management, Bloomberg

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour, and a disciplined, process-driven approach to asset allocation and security selection.

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