Monthly Market Insights

Data and opinions as of June 30, 2025

A tale of two quarters: from tariff turbulence to market recovery

The first half of 2025 has presented investors with a rapidly shifting landscape shaped by macroeconomic uncertainty and geopolitical developments. Equity markets began the year under pressure as concerns over renewed tariffs dampened investor sentiment, triggering broad-based declines in the first quarter. However, sentiment turned sharply in the second quarter after the U.S. administration announced a 90-day tariff pause on April 9. That day, the S&P 500 surged 9.5% – its best single-day performance since 2008. As confidence returned, equity markets broadly regained their footing and by the end of June major indices were trading near all-time highs, reflecting a combination of renewed optimism, resilient corporate earnings and a recalibration of risk expectations. Meanwhile, bond markets were more muted as rising yields weighed on bond prices. Gold emerged as a standout performer, benefiting from increased demand as a safe-haven asset amid rising uncertainty, a weaker U.S. dollar and strong central bank purchases.

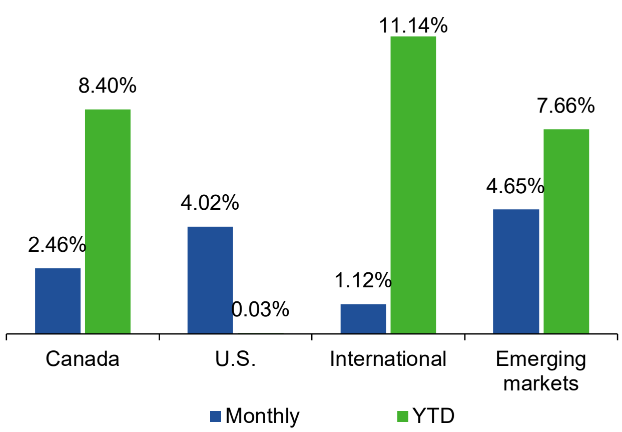
NEI perspectives: mid-year monitor

Market rebound underscores a key lesson – staying invested matters. The first half of 2025 demonstrated how quickly sentiment can shift, with equity markets recovering sharply after policy changes. **Bottom line:** Remaining invested through uncertainty positioned clients to benefit from the upside.

Bond and equity markets send mixed signals. Equities rebounded strongly in Q2, while bonds remained under pressure—revealing a disconnect in investor sentiment. **Bottom line:** This divergence reinforces the need for disciplined diversification not just between asset classes, but also within them.

Equity valuations and earnings growth present a nuanced opportunity – focus on selectivity. U.S. earnings remain robust, supporting higher valuations while international markets offer cheaper valuations with more modest growth. **Bottom line:** A selective, regionally diversified equity approach can balance risk and opportunity.

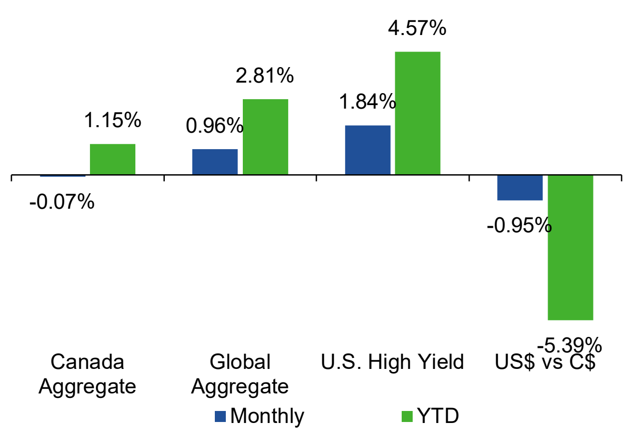
Equity returns (in C$)



Canada: MSCI Canada Index TR; **U.S.:** MSCI USA Index TR **International:** MSCI EAFE Index TR; **Emerging markets**: MSCI Emerging Markets Index TR.

Source: Morningstar Direct.

Fixed income and currency returns (in C$)



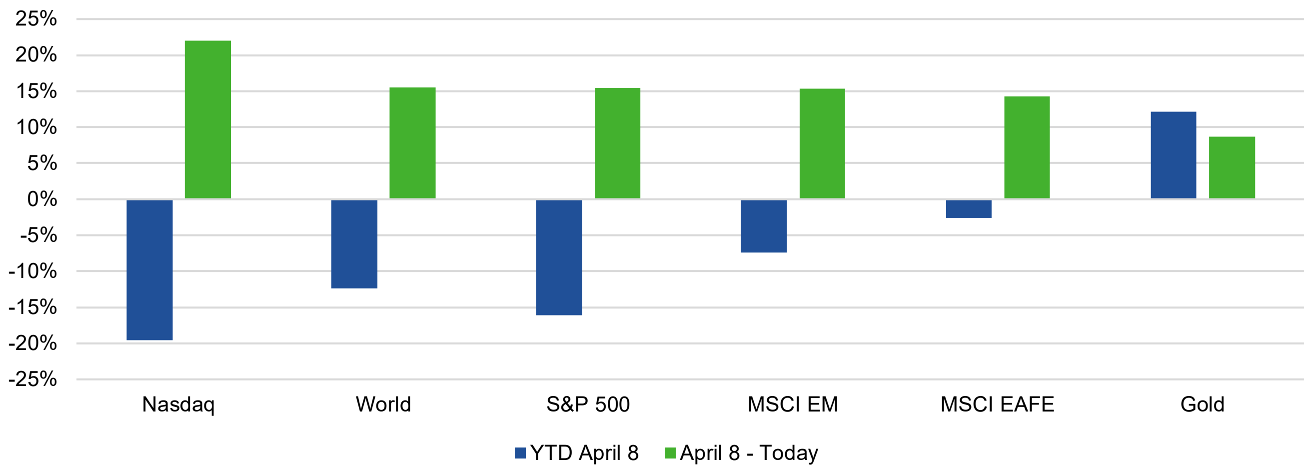
Canada Aggregate: Bloomberg Barclays Canada Aggregate Bond Index; **Global Aggregate:** Bloomberg Barclays Global Aggregate Bond Index; **U.S. High Yield:** Bloomberg Barclays U.S. High Yield Index.

Source: Morningstar Direct.

Stay on target, but diversify within asset classes

Market movements this year have reinforced two essential investment principles: the importance of diversification and the value of remaining fully invested through volatility. The dramatic turnaround in equities between the first and second quarters is a vivid reminder that markets can rebound swiftly, often on a single headline. The April 9 rally served as a perfect example – investors who had moved to the sidelines during the Q1 downturn would have missed a substantial portion of the year's gains.

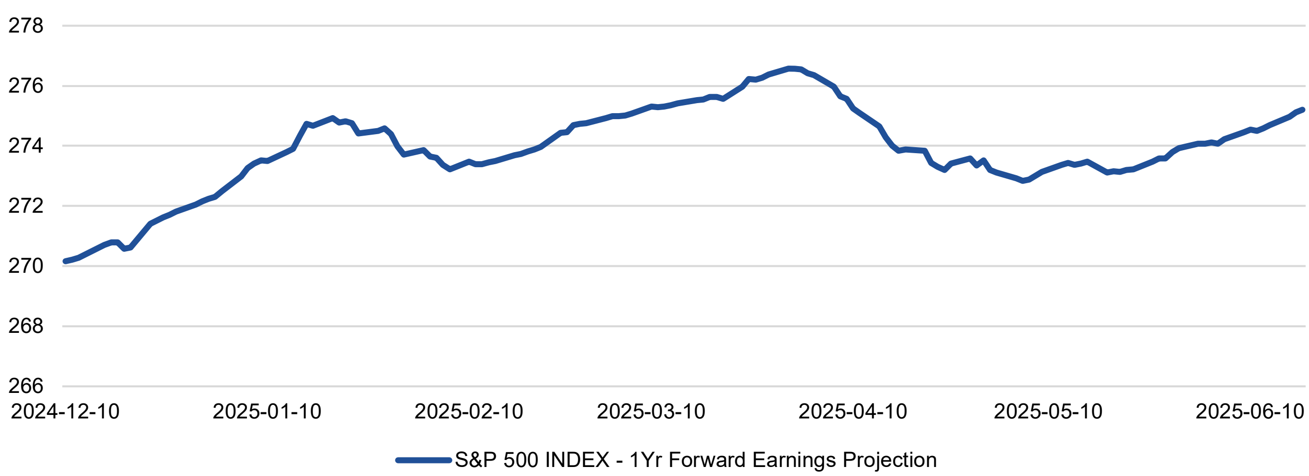
Chart 1: Drastic shift in sentiment



Source: Bloomberg.

The market has shown a significant recovery, particularly in the second quarter of 2025, driven by positive sentiment shifts and strong earnings reports. However, this recovery comes with a backdrop of considerable uncertainty. Factors such as ongoing tariff negotiations, inflation concerns and geopolitical tensions continue to pose risks. Additionally, the rapid rebound has led to high valuations, especially in the U.S. equity market, which may not fully account for potential downside risks.

Chart 2: S&P 500 earnings



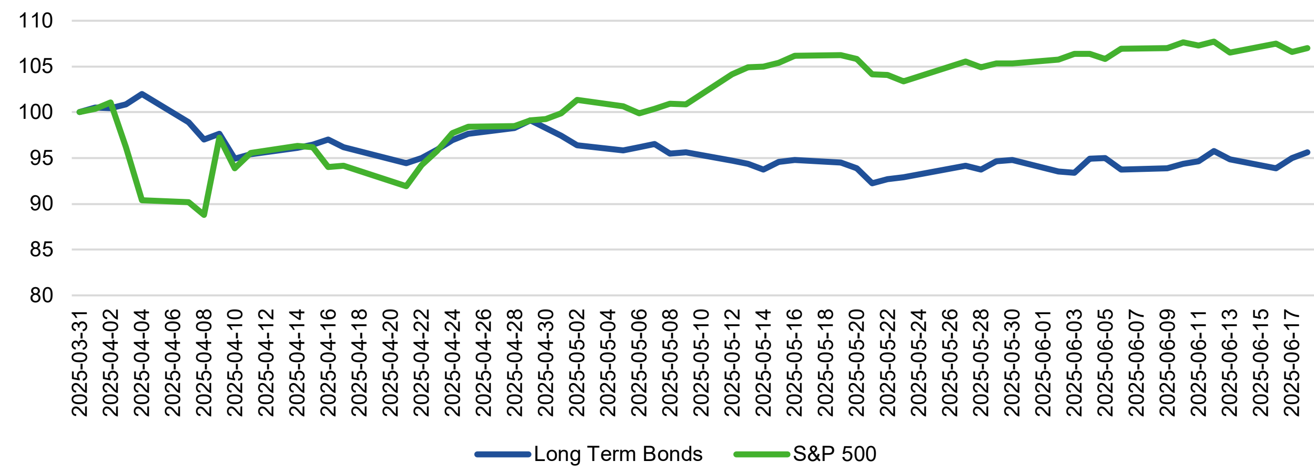
Source: Bloomberg.

Bottom line: Markets can pivot quickly in response to policy shifts, but staying invested in your target asset class mix is essential for long-term growth, but it's equally important to diversify within those asset classes to manage risk and enhance returns. By maintaining a balanced allocation across equities, fixed income and alternatives, you can navigate market volatility more effectively. Within each asset class, consider diversifying across regions, sectors and investment styles.

Diverging market signals call for caution

While equity markets have recovered much of their early-year losses, the bond market has continued to face headwinds. This disconnect is primarily driven by differing investor expectations and reactions to economic indicators. Equity markets have been buoyed by positive earnings reports and sentiment shifts, particularly following tariff pauses and better-than-expected inflation data. Conversely, bond markets have been influenced by rising interest rates and concerns over long-term inflation and debt sustainability, leading to higher yields and lower bond prices.

Chart 3: Long bond investors more pessimistic



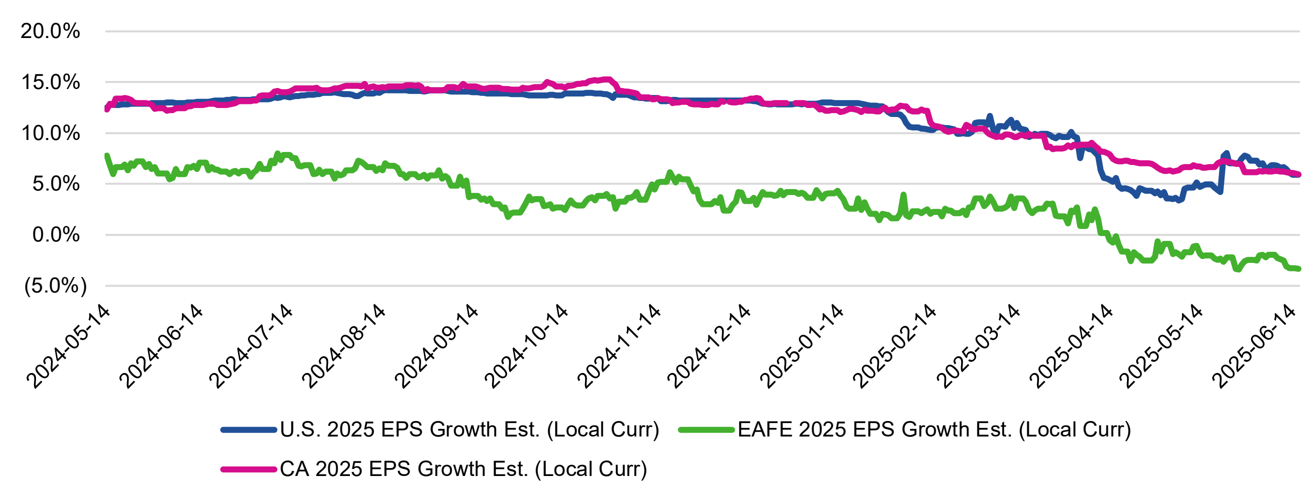
Source: Bloomberg.

Bottom line: With equities pricing in optimism and bonds reflecting caution, a balanced allocation is key. Short-duration bonds can reduce rate sensitivity while maintaining stability and income potential—and considering dynamic bond strategies can help portfolios adapt to shifting market rate environments and capitalize on global fixed income opportunities.

Evaluate regional equity opportunities with a focus on valuation

Corporate earnings across North America have shown resilience, with forward earnings growth expectations in the range of 6–7% over the next 12 months. This strong earnings base continues to support equity valuations, but with U.S. stock prices already elevated, downside risk has increased.

Chart 4: Earnings growth estimates for the U.S., Canada and EAFE



Source: Bloomberg.

In contrast, international markets—particularly in Europe and select emerging economies—offer more attractive valuation levels. While earnings growth expectations are more modest outside North America, these regions present a cushion against downside risk due to their lower entry prices. Recent economic data has also shown positive momentum in the European Union, with upside surprises in growth indicators. Meanwhile, the U.S. and Canadian economies are showing more subdued activity, reinforcing the value of geographic diversification.

Bottom line: As U.S. equity valuations stretch higher, consider increasing international exposure where valuations are more attractive, while remaining selective within North American equities where fundamentals remain strong but valuation risk is elevated. A regionally diversified equity approach offers better downside protection and positioning for global recovery trends.

As we enter the second half of 2025, market volatility remains a defining feature—but so do opportunities for disciplined investors. Advisors play a critical role in helping clients navigate uncertain conditions by focusing on long-term strategy over short-term noise. Diversification remains the cornerstone of portfolio resilience, as different regions and asset classes continue to react differently to economic and policy developments. Strong fundamentals in North America, attractive valuations abroad and selective bond opportunities offer a wide range of tools for building client portfolios that can weather volatility while remaining positioned for growth.

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