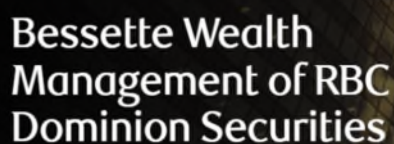

If Market Stress Could Age Investors, Q2 Would Add a Few Greys

The second quarter of 2025 packed a remarkable amount of volatility and recovery into just three months. What began as a period of acute stress quickly gave way to a powerful market rally, leaving investors feeling as though more time had passed than the calendar suggested. President Trump's "Liberation Day" press conference at the beginning of April triggered the fifth-largest two-day sell-off since 1945. However, sentiment reversed dramatically following announcements of paused tariff implementations, sparking a swift resurgence in equity markets.

After reaching year-to-date lows on April 8—down 15% for the S&P 500 and 21% for the NASDAQ—markets rebounded sharply. By quarter's end, the S&P 500 had risen 10.6%, the MSCI World Index had climbed 11.0%, and the S&P/TSX Composite had gained 7.8%. As of June 30, global stock markets were sitting at or near record highs, with year-to-date gains of 5.5% for the S&P 500, 8.8% for the MSCI World, and 8.6% for the TSX, the latter buoyed by strong performance in the gold sector.

Bond markets also participated in the rebound. U.S. bonds delivered a total return of 1.2% in Q2 and 4.0% year-to-date, while global bonds advanced 4.5% in the quarter and 7.3% for the year. Canadian bonds, however, lagged due to inflation concerns tied to tariffs, slipping 0.5% in the quarter but remaining up 1.5% year-to-date after substantial rate cuts earlier in the cycle.

Tariff Uncertainty: A Drag on Economic Momentum

While actual tariffs have yet to be broadly implemented, the mere threat of them is having a measurable impact on global business sentiment and economic activity. A recent anecdote from one of our U.K.-based institutional partners highlights the mood: after visiting companies in Sweden, they observed that many executives were hesitant to make long-term investments or strategic supply chain changes. Instead, firms are making marginal adjustments and passing increased costs on to consumers. We believe this cautious approach is indicative of a broader trend across corporate boardrooms globally.

U.S. and international manufacturing activity remains weak, with several indicators pointing to continued contraction. Labor markets and inflation are holding steady, but global GDP growth expectations are softening. Developed markets are now broadly expected to grow at sub-2% levels in 2025. In Canada, the data continues to disappoint, with stagnant employment growth, modest retail sales, and ongoing inflationary pressures.

Though many forecasters have dialed back their near-term recession calls, risk remains elevated. With the average U.S. tariff rate now nearing 15%, up from low single digits just a year ago, any meaningful escalation in trade policy by President Trump could quickly undermine global economic momentum.

When Bad News is Good News (Again)

We appear to have returned to a market environment where weak economic data is viewed positively by investors, as it increases the likelihood of policy intervention. European equity markets have been notably strong in 2025, outperforming U.S. markets for the first time in over a decade. This rally comes despite the European Union revising its GDP growth forecast for 2025 downward from 1.3% to 0.9%. Market optimism has been fueled by a combination of a weaker U.S. dollar, improving sentiment around trade

negotiations, continued interest rate cuts by the European Central Bank, and counter-cyclical investment in infrastructure and defense.

Germany and China have emerged as two of the top-performing domestic markets this year, each supported by significant government-led investment initiatives. Canada may follow suit. Prime Minister Mark Carney's upcoming fall budget is expected to include growth-oriented measures, particularly if it succeeds in reducing or eliminating interprovincial trade barriers or advancing a west-to-east oil or gas pipeline. Such reforms could provide a meaningful boost to the Canadian market.

Even in the United States, fiscal policy remains expansionary. Trump's latest legislative package—nicknamed the "One Big Beautiful Bill Act"—extended key tax cuts and has been interpreted as broadly growth-positive, despite the fiscal and balance sheet concerns we raised in our previous letter. Once again, central banks and governments appear ready to support markets in the face of economic headwinds.

Reaching New Highs – With Caution

Global equities are now back at all-time highs. Notably, technology stocks—especially those linked to AI—have led the charge, reversing sharp declines earlier in the year. Investor enthusiasm has returned, and much of it rests on the belief that Trump's more aggressive tariff rhetoric will ultimately not materialize into severe or lasting policy changes.

While the current optimism may not be misplaced, the opportunity set is less attractive than it was in April when we last wrote to you. At that time, we shared our excitement about long-term opportunities being created by market volatility. In response, we made portfolio adjustments to take advantage of those price dislocations.

Looking ahead, the landscape is more complex. On one hand, slowing global growth and the ongoing threat of tariff-driven inflation could derail the recovery. On the other hand, labor markets remain strong, and fiscal stimulus continues to flow—not just in the U.S., but in Europe and parts of Asia as well. Technological innovation is also creating momentum that transcends near-term macroeconomic noise.

Given this backdrop, we remain optimistic but measured. The rally has been significant, valuations have rebounded sharply, and investor sentiment has shifted from fear to near euphoria. Economic uncertainty and geopolitical risks remain elevated, making the path forward difficult to predict. As always, our portfolio positioning reflects a careful assessment of where we see risks and opportunities emerging. We continue to approach markets with a disciplined mindset, balancing caution with conviction.

Bessette Wealth Management

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