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# Financial Outlook March 2025

By Martin Delage, Canadian Chief Investment Officer

## The Tariff War Takes a Toll on Markets

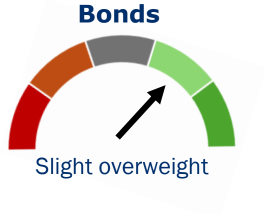
First quarter key highlights:

- The tariff war has begun, leading to a fall in global stock markets. The S&P 500 posted its worst quarterly performance since the third quarter 2022.
- Federal elections were called for April 28, 2025. Interim Prime Minister Mark Carney stated that the historic economic and security relationship between Canada and the United States has officially come to an end.
- Gold surged nearly 19%, breaking above $3,000 for the first time in history.
- The Bank of Canada cut its policy rate during the quarter in an effort to support the domestic economy amid mounting recession concerns.

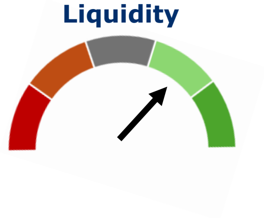
### Portfolio Asset Allocation

Equities

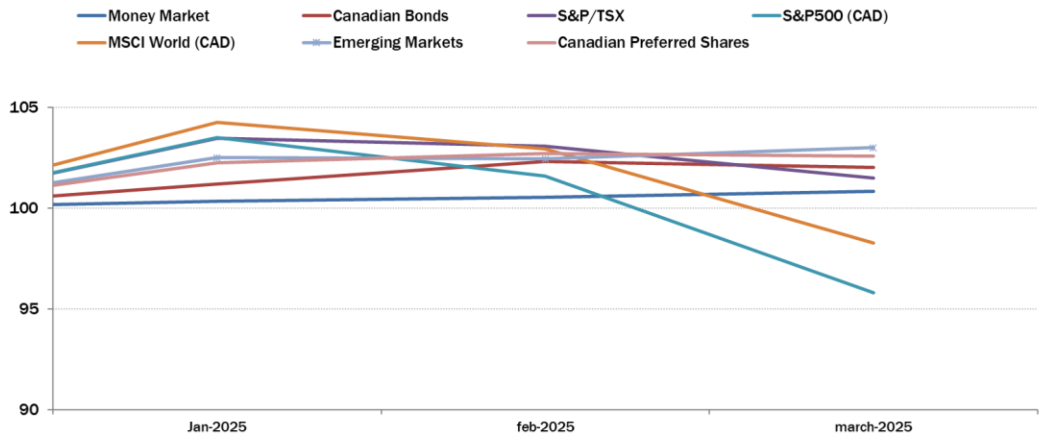

Bonds




Liquidity



### Monthly Financial Market Returns




Source: Bloomberg

**Monthly Economic Video**

Stay abreast of the economy and financial markets: Watch our videos by [clicking on this link](#) (*French only*).

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# Economy

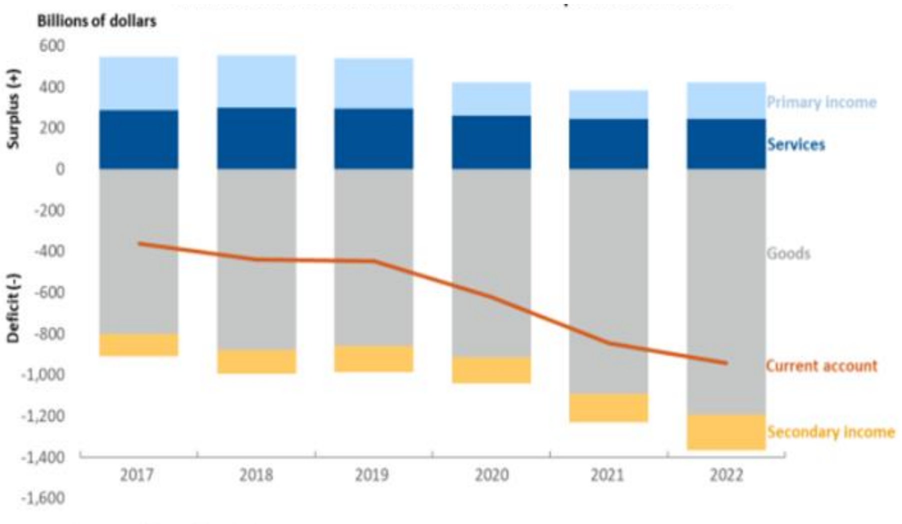
By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

Fueled by the narrative of "American exceptionalism," the first quarter 2025 opened on a strong note. U.S. Treasury Secretary Bessent's strategy, featuring tax cuts, an accommodative Federal Reserve, financial deregulation, a weaker U.S. dollar and tariff-generated revenues, pushed equity markets to record highs as of February 19. Given the United States' consistent current account deficits over the past four decades, a rebalancing of the global trade system seemed rational at first.

However, investors quickly realized the aggressive pace of the new Republican administration's policy rollout, which disrupted longstanding structural and diplomatic ties. As a result, interest rates fell (U.S. -0.33% to 4.21%, Canada -0.27% to 2.97%), the yield curve steepened and corporate credit spreads widened. Equity markets followed suit: the S&P/TSX gained just 2%, while the S&P 500 fell by 5% and the U.S. dollar declined (DXY -4%).

More broadly, the deliberate reshaping of the global trade order, combined with the legacy of the January 6 Capitol riot, growing influence over judicial institutions (including the FBI, U.S. Department of Justice and NSA) and increased control over both mainstream and social media, has raised serious concerns regarding the health of American democracy. Moreover, deep cuts to funding in the arts, education and sciences point to a broader shift in national priorities with potentially lasting societal impacts.

**Annual U.S. Current Account and Component Balances**




U.S. Bureau of Economic Analysis



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# Economy (cont’d)

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

## Donald Trump’s "Inauguration Day"

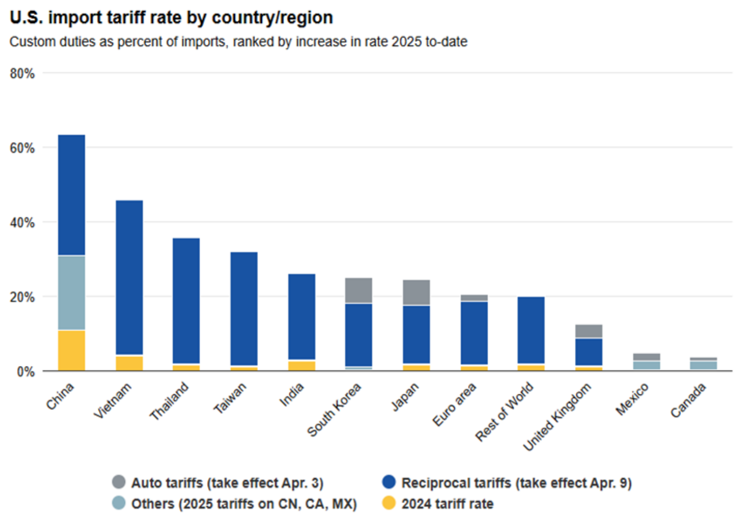
On April 2, 2025, President Donald Trump declared "Liberation Day," marking a radical shift in U.S. trade policy. At a White House Rose Garden event, he signed Executive Order 14257, imposing an unprecedented slate of tariffs on foreign imports, which he referred to as the United States’ "Declaration of Economic Independence”.

Donald Trump has introduced a universal 10% tariff on all imports, exempting only goods from Canada and Mexico. In addition, "reciprocal" tariffs target around 60 countries deemed guilty of unfair trade practices towards the United States. Certain countries are particularly targeted: 54% for China, 46% for Vietnam, 32% for Taiwan, 26% for India and 20% for the European Union. Moreover, the exemption from customs duties for small packages has been abolished, considerably increasing the cost of online purchases for American consumers.

Trump cited a $1.2 trillion trade deficit in 2024 as a "national emergency," claiming the tariffs would generate "billions" to fund tax cuts and debt reduction, while reviving domestic manufacturing.

Global markets reacted sharply. The S&P 500 and Nasdaq posted their steepest single-day declines since the 2020 pandemic. Many economists warned of heightened inflation risk and widespread supply chain disruptions.

## Import Tariff Rates by Country/Region (%) as of April 2, 2025




Source: U.S. Census Bureau, RBC Economics



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# Bond Market

By Hugues Sauvé, FVP, Fixed Income and
Executive Assistant to the Canadian Investment Officer

**Returns on FTSE Russell Indexes / First Quarter 2025 (%)**

| Maturity | Federal | Provincial | Municipal | Corporate | Total |
|---|---|---|---|---|---|
| **Short** | 0.36 | 0.44 | 0.43 | 0.27 | **0.34** |
| **Medium** | -0.07 | 0.00 | -0.04 | -0.11 | **-0.05** |
| **Long** | -1.53 | -1.65 | -1.33 | -0.69 | **-1.41** |
| **Universe** | -0.06 | -0.71 | -0.50 | -0.05 | **-0.28** |

Source: FTSE Russell

Bond markets experienced heightened volatility in the first quarter due to geopolitical tensions, central bank decisions and fluctuating inflation rates. Investors were particularly sensitive to President Trump's tariffs and a possible future recession.

Our Canadian fixed income strategies performed well this quarter. Portfolios benefited from a global carry and a long yield bias, while effectively managing the impact of the steepening curve. At this point, we took profits on duration exposure and reduced curve-specific positions, while continuing to seek value amid volatility. We also maintained a moderate long position in real return bonds, as we continue to see attractive value in this inflation option.

In credit, we started the quarter with a defensive position, favoring high-quality issuers and avoiding vulnerable sectors. As uncertainty increased without a commensurate widening of spreads, we shifted to a short corporate credit stance and further trimmed exposure to provincial and municipal debt. Although this incurred a modest performance drag, it enabled us to continue executing a profitable aggressive trading strategy. At the same time, although we have slightly reduced overall risk, preferred shares continue to stand out, offering attractive risk-adjusted returns supported by strong technical data, including ongoing redemption activity.

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# Equities

By Nicolas Poirier, Director, Equities

The first quarter delivered mixed results across major equity markets. U.S. stocks declined amid escalating tariff and geopolitical risks. The U.S. government's announcements concerning tariffs, particularly in the automotive, aluminum and steel sectors, weighed heavily on investor sentiment. In Europe, markets responded positively to Germany's debt reform aimed at stimulating economic growth and expanding military capabilities to reduce reliance on the U.S. Chinese equities ended the quarter higher, lifted by tech-sector gains despite slowing growth concerns.

**In Canada:**

- The S&P/TSX rose 1.51% during the quarter
- Best-performing sectors: materials, utilities and energy
- Worst-performing sectors: health care, technology and industrials
- Strong performance in materials was driven by a sharp rise in gold prices amid economic and geopolitical uncertainty

## Optimum Canadian Fossil Fuel Free Equity

During the first quarter, the strategy underperformed due to stock selection in industrials and a lack of exposure to the gold sector. However, it benefited from underweighting financials and strong picks in consumer staples. We remain cautious on mining companies due to long-term profitability and cyclicality concerns. In contrast, grocers are well represented in the portfolio and are benefiting from investor preference for stability and profitability. We expect this trend to intensify over the coming months, which will benefit the strategy given the resilience of the companies in the portfolio.

## Optimum Low Volatility Canadian Equity

The strategy outperformed due to strong stock selection in financials, overweight exposure to gold and overweight to the utilities and consumer staples sectors. Overweighting insurers (less exposed to tariffs) and underweighting banks added value. The strategy lagged in industrials and real estate. As expected, the strategy continues to outperform during this period of market uncertainty and should maintain this trend if uncertainty persists. Indeed, historically, the strategy tends to outperform during the worst stock market months and we expect this trend to continue in the future.

## Optimum Canadian Equity Multifactor

During the quarter, the strategy benefited from overweight allocations and strong selection in materials and utilities, and underweight exposure to financials. Underperformance came from selections in industrials and consumer discretionary. The strategy is underexposed to tariff-impacted sectors and overweight in defensive sectors, which should continue to be profitable over the coming months. The low volatility portion continues to shine in this uncertain environment and should continue to outperform if uncertainty persists. The equal-weight portion is also benefiting from the decline in large-cap stocks, which are mainly found in the more cyclical sectors of the Canadian index.

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# Equities (cont'd)

By Nicolas Poirier, Director, Equities

**In the United States:**

- The S&P 500 declined 4.20% in Canadian currency during the quarter
- Best-performing sectors: energy, health care and consumer staples
- Worst-performing sectors: consumer discretionary, technology and communication
- Tariffs imposed on major trading partners and increased layoffs in the federal government undermined investor confidence, which favored more defensive sectors.

**MSCI World Index:**

- The index fell 1.72% in Canadian currency during the quarter
- The U.S. market accounted for the majority of the global decline due to tariff policy uncertainty

## Optimum Global Fossil Fuel Free Equity

Global markets ended the quarter lower, primarily driven by weakness in the U.S. The European market rallied on the back of Germany's investment plan to reduce U.S. dependence. This resulted in a record short-term divergence between U.S. and European markets. We used this as an opportunity to increase U.S. exposure relative to Europe, given the better fundamental quality of U.S. companies. The strategy suffered from the absence of the banking sector, particularly in Europe, the underweighting of the consumer staples sector and the overweighting of the technology sector. However, the strategy benefited from stock selection in the industrial and communication sectors.

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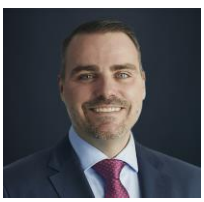
# Our Team

## Institutional Management

**Brigitte Gascon**, MBA, B.Sc.
Telephone: 514 288-7545, ext. 594
bgascon@optimumgam.ca



**Patrick Beaudoin**, CFA, Adm.A.
Telephone: 514 288-7545, ext. 683
pbeaudoin@optimumgam.ca

## Private Wealth Management

**Sylvain B. Tremblay,** F.Pl., B.A.A.,
Telephone: 514 288-7545, ext. 614
sbtremblay@optimumgam.ca

**Julie Paquin,** F.Pl., MBA, B.A.A.
Telephone: 514 288-7545, ext. 599
jpaquin@optimumgam.ca

**Matthieu Leclaire**, F.Pl., B.Comm.,
CIM®, FCSI®, CIWM®
Telephone: 514 288-7545, ext. 486
mleclaire@optimumgam.ca

**Robert Wong**, F.Pl., M.Sc., RIS
Telephone: 514 288-7545, ext. 630
rwong@optimumgam.ca

## Who are we?

The three asset management firms are subsidiaries of Optimum Financial Group, a diversified, global and privately owned group whose mission since 1969 has been to ensure its clients' financial security.

With a track record of 40 years in asset management, we have brought together a team of highly qualified professionals from various areas of the financial and technology sectors.

The firms stand out with their client proximity and excellence. Optimum Asset Management Inc. in Canada combines its talents with those of its sister companies, Optimum Gestion Financière S.A. in France and Optimum Quantvest Corporation in the United States. With teams in three countries, we have privileged access to various markets. The subsidiaries had a combined CA$8.7 billion in assets under management for institutional and private clients as at March 31, 2025.

**OPTIMUM ASSET MANAGEMENT INC.**

425 de Maisonneuve Blvd. West, Suite 1620
Montréal, Québec, H3A 3G5, CANADA

+1 514 288-7545
+1 888 678-4686

80 Bloor Street West, Suite 1500
Toronto, Ontario, M5S 2V1, CANADA

+1 416 922-5000

info@optimumgam.ca

optimumgam.ca

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The performance is shown in Canadian dollars, before management fees and is annualized for all periods over one year.

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The indexes used in the present document are indexes which are widely recognized benchmarks used to measure investment performance for their respective asset classes and were chosen based on their degree of comparability and similarity with the investment strategies presented.

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