OPTIMUM Global Asset Management

40 years of building sustainable assets

Financial Outlook June 2025

By Martin Delage, Canadian Chief Investment Officer

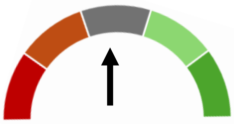
Is the Market Becoming Immune to Trump's Tariffs?

Second quarter key highlights:

- The tariff war continues, yet investors appear increasingly indifferent to announcements from the U.S. administration.
- Equity markets posted gains, while fixed income experienced a modest decline.
- The U.S. dollar weakened significantly, with the DXY index falling 7% during the quarter and 11% year-to-date — fueling broad-based asset price reflation.

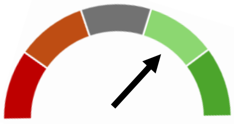
Portfolio Asset Allocation

Equities



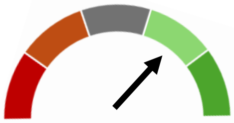
Slight overweight

Bonds



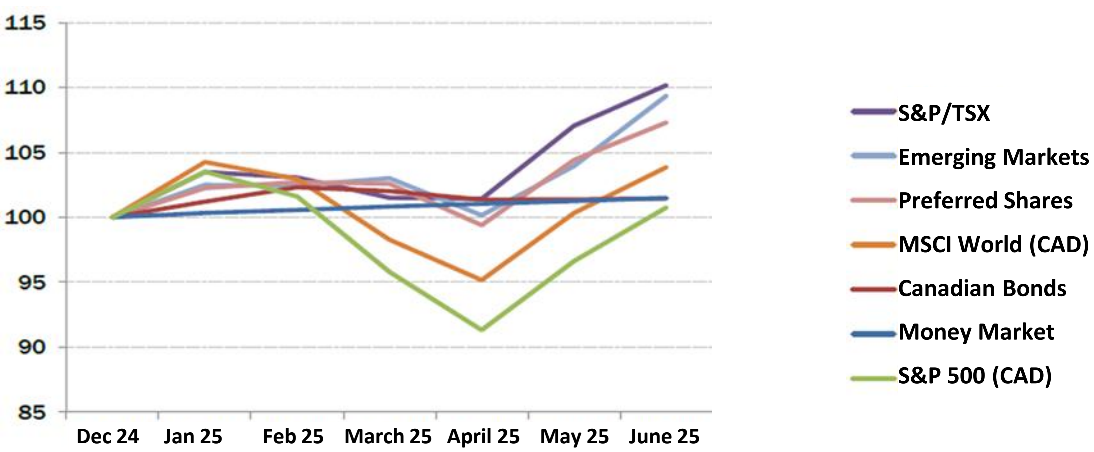
Slight underweight

Liquidity



Slight overweight

Monthly Financial Market Returns



Source: Bloomberg as of June 30, 2025.

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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PRI Principles for Responsible Investment

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Economy

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

Global Uncertainty and Canadian Resilience: An Economic Outlook – Mid-2025

The second quarter of 2025 began amid heightened volatility in the United States, triggered by a series of executive orders impacting key sectors — ranging from the economy to education, justice and corporate regulation. These actions, culminating in the controversial "Liberation Day," sparked significant political and social backlash and a wave of protest against institutions and markets.

From an economic perspective, the U.S. is showing signs of weakness. Real GDP contracted by 0.5% in the first quarter and labor market momentum is slowing. The country is undergoing a "K-shaped" recovery, where consumer spending remains relatively strong, but credit pressures are mounting and the commercial real estate sector is deteriorating. The political discourse is dominated by the proposed "One Big Beautiful Bill", an unfunded tax cut package that risks deepening the fiscal deficit, widening social inequality and undermining social safety nets.

Geopolitical tensions are also rising, including a proposal to raise defense spending to 5% of GDP, seen by many as a shift toward militarization at the expense of investments in education and infrastructure. The sharp rise in interest rates has evoked memories of past crises, prompting political retrenchment and heightened market anxiety.

In contrast, Canada is emerging as a relatively stable and attractive alternative. Despite global economic headwinds, Canadian GDP grew by 2.2% in the first quarter. However, domestic demand remains muted (up just 0.2%), as households face increased mortgage renewal costs and a 7% unemployment rate.

Despite aggressive rhetoric from the U.S. — including tariff threats and diplomatic provocations — the bilateral economic relationship remains anchored in the Canada–U.S.–Mexico Agreement (CUSMA). Canada continues to import critical materials from the U.S., underscoring the deep interdependence of cross-border supply chains.

Domestically, Bill C-5 aims to accelerate infrastructure development and improve interprovincial trade, initiatives that could stimulate growth. Additionally, high levels of immigration, while straining short-term resources, are expected to help mitigate labor shortages, especially in construction.

In the long term, we believe Canada offers an attractive combination for investors: a diversified economy, abundant natural resources, strong institutions and one of the few remaining AAA credit ratings. Canadian equity markets include high-performing companies across financials, industrials and technology. With equity valuations below those of the U.S. and a relatively undervalued Canadian dollar, Canada presents a compelling diversification and value opportunity in a world undergoing significant transformation.

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Bond Market

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

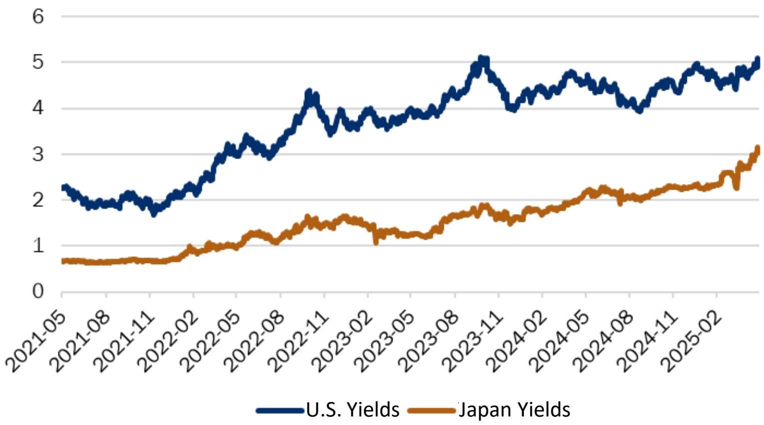
Returns on FTSE Russell Indexes / Second Quarter 2025 (%)

Maturity	Federal	Provincial	Municipal	Corporate	Total
Short	0.25	0.35	0.38	0.89	**0.49**
Medium	-0.77	-0.11	-0.15	0.59	**-0.35**
Long	-4.56	-2.14	-1.66	-0.66	**-1.41**
Universe	-0.06	-0.71	-0.50	-0.05	**-2.32**

Source: FTSE Russell

Global bond markets are experiencing significant turbulence, driven by a sharp rise in long-term yields, particularly in Japan and the United States. In Japan, record-high yields on 30- and 40-year bonds suggest a retreat from government debt, potentially prompting the government to liquidate U.S. Treasuries to support the yen or address domestic funding needs. In the U.S., tensions are similar: Treasury auctions continue to disappoint, credit ratings have been downgraded and persistent fiscal deficits are eroding investor confidence. Despite this, political appetite for fiscal discipline remains low, with some policymakers openly viewing inflation as a means of reducing the debt burden.

U.S. Yields vs Japan Yields



Source: Bloomberg as of May 27, 2025.

Against this backdrop, volatility is likely to remain elevated. Investors must adapt. Defensive assets such as preferred shares and high-quality dividend stocks offer a compelling balance of yield and stability. Our Canadian fixed income strategies have performed well, thanks to rigorous credit selection and attractive carry, despite elevated duration sensitivity.

The steepening yield curve presents attractive opportunities: investors can now earn yields above 5% on 10-year maturities without assuming excessive duration risk. These levels also provide downside protection in the event of market stress. While central banks are signaling a more dovish stance, caution remains warranted. Risk premiums seem low given the ongoing combination of economic stagnation, geopolitical tensions and global conflicts.

Equities

By Nicolas Poirier, Director, Equities

The second quarter was marked by elevated volatility across global equity markets. The announcement of new global tariffs by the U.S. government triggered a 12% drop in the U.S. equity market over the span of a week. In response, the U.S. administration delayed the implementation of these tariffs by 90 days and announced the framework of a new agreement with China. Meanwhile, geopolitical tensions between Iran and Israel caused market jitters but had limited lasting impact. With the worst-case scenarios largely avoided and economic data remaining stable, global equity indices posted positive quarterly returns. We capitalized on April’s market pullback to increase equity exposure using the cash raised in December 2024.

In Canada :

- The S&P/TSX Index advanced 8.53% during the quarter
- Best-performing sectors: technology, consumer discretionary and financials
- Worst-performing sectors: energy, communication and health care

Optimum Canadian Fossil Fuel Free Equity

During the second quarter, the strategy benefited from its lack of exposure to the energy sector and strong stock selection in consumer discretionary. Dollarama (+25% for the quarter) continued to post strong earnings amid challenging economic conditions that are weighing on consumer budgets. However, the strategy suffered from stock selection in the technology, industrials and real estate sectors. Canadian banks outperformed the Canadian equity index, led by TD Bank (+18% for the quarter), following progress made by the government on U.S. tariff negotiations.

Optimum Low Volatility Canadian Equity

The strategy benefited from stock selection in the industrials, materials and consumer staples sectors, as well as from its underweight in energy. Leading Canadian engineering firms reported solid earnings and continue to grow despite macroeconomic uncertainty. However, the strategy suffered from stock selection in the financials, technology and utilities sectors. Canadian insurers underperformed the Canadian index following a period of strong relative performance in 2024. Notably, the strategy outperformed the Canadian index during the initial U.S. tariff announcements, confirming its defensive characteristics. We expect continued outperformance should geopolitical uncertainty persist.

Optimum Canadian Equity Multifactor

During the quarter, the strategy benefited from strong stock selection in the industrials and materials sectors and from an underweight in energy. However, the strategy suffered from stock selection in the financials sector and by overweight positions in utilities and real estate. Underweighting tariff-exempt sectors and overweighting defensive sectors proved effective. The momentum component benefited from the strong market rebound, driven by its stock selection in the industrials and technology sectors. The low volatility component stood out for its capital preservation during the quarter and maintained its lead during the late-quarter rebound. We expect the strategy to perform well if market uncertainty persists, given its overweight in defensive sectors.

Equities (cont'd)

By Nicolas Poirier, Director, Equities

In the United States:

- The S&P 500 gained 5.18% in CAD during the quarter
- Best-performing sectors: technology, communication and industrials
- Worst-performing sectors: energy, health care and real estate

MSCI World Index:

- The index rose 5.68% in CAD during the quarter
- The U.S. equity market delivered the weakest performance during the quarter due to tariff-related uncertainty

Optimum Global Fossil Fuel Free Equity

Despite pronounced volatility stemming from tariff headlines and the Iran–Israel conflict, global equity markets ended the quarter in positive territory. In response, the U.S. administration delayed the implementation of these tariffs by 90 days and announced the framework of a new agreement with China. American markets were also supported by better-than-expected earnings from leading technology firms. In Europe, the market advanced following the additional time granted by the U.S. government to the European Union for tariff negotiations. The strategy benefited from stock selection and overweight exposure in the technology sector, as well as from underweight positions in the health care and energy sectors. However, the strategy suffered from stock selection in the financials, industrials and consumer discretionary sectors. Notably, European banks continued to outperform, supported by the broad-based rise in interest rates across the eurozone.

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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$9.4 billion in assets under management for institutional and private clients as at June 30, 2025.

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Disclaimer

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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