

CIO Letter – June 2025

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So Now What?

Markets continued their surge off the April lows with one of the highest monthly returns in years, and the strongest May this century. The panic that hit investors a few weeks ago around tariffs and trade wars seems a long time ago and has been replaced with a mini FOMO market, as many who had sold out are now scrambling to get back in and chasing returns. That's not usually a good outcome, but the stock market is back doing what it always does; doing what makes the most people wrong.

For most of this year equity markets have experienced a healthy dose of sector rotation. After back-to-back years dominated by US mega cap technology stocks, we experienced a reversal of those trends with international markets and cyclicals taking the lead. That reversed in May as the tech stocks that had been most affected in the April selloff, attracted the most attention. It's not often you see stocks the size of NVIDIA Corporation (NVDA) and Tesla Inc. (TSLA) higher by over 20% in a single month, but it happened.

So after this bounce most markets are now basically back to where we started before the tariff panic really took hold. This will give many a chance for a 'do over' or a mulligan. However, this is where it gets tricky as it's not easy to know what to do next.

Holding investors back from embracing this rally have been questions around earnings, politics and the bond market. Until these are resolved many will sit on the sidelines. But we are starting to see some green shoots in several areas.

On earnings, we have just gotten through Q1 reports and while most management teams were understandably reserved in their guidance, the actual numbers were not the disaster that some had feared. That's a positive and the second half will remain a question due to trade uncertainty. But after a few strong years of equity returns valuations are stretched, and earnings had better be great.

On the geopolitical front, there is the possibility that some in Washington have gotten to Trump and been able to convince him that he has overplayed his hand on tariffs and needs to become more market friendly (probably not a sure thing but it's getting a little better). A softer tone here would be a welcome change, but after the wild start to President Trump's second term it's going to take a while to restore confidence that we have stability and clarity here.

As always, the bond market will set the tone and signal the next move for equities. This was expected to be the year of rate cuts and lower yields but that hasn't been the case so far. Inflation has been stubborn to kill and concerns around the US fiscal situation are causing

buyers to be wary. This threatens to keep yields higher for longer which is a negative for valuations.

Having more confidence in earnings or politics could go a long way to help bring money off the sidelines into bonds which, as yields fall, would provide a nice boost to equities.

The cash that has accumulated on the sidelines isn't just in retail accounts, it's also held at the corporate level. When the market rallied last November post the US election it was on the belief that this administration would remove regulations and kick off a wave of acquisitions. Given the uncertainty this was paused to start the year but hasn't gone away and might be the story of the second half as management teams gain confidence. Having more certainty in Ottawa will also help us north of the border and provide some relief to the S&P/TSX.

With a backdrop this muddled and after such a powerful bounce, the near-term picture is difficult to call. Is this the year 'sell in May and go away' works? It hasn't worked in recent years but that's the big question this spring. After a nice rebound like the one in May everyone should feel a little better, but memories are long, and the potential for volatility remains. While selling in April might have been early, the debate over whether now is the time to trim is a little more balanced.

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