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INVESTMENT COUNSEL INC.

CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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Chartbook Market Comment: April 2025

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Market Comment

In March 2025, the Bank of Canada (BoC) and the Federal Reserve (Fed) made pivotal decisions regarding their interest rates and provided insights into their economic outlooks. The BoC reduced its policy rate by 25 bps to 2.75%, while the Fed maintained its federal funds rate within the 4.25% to 4.50% range.

Both central banks highlighted the challenges posed by trade tensions and their potential to influence inflation and economic growth, underscoring a cautious approach in their monetary policy decisions. The Federal Reserve of Atlanta released its GDPNow forecast for Q1, showing a contraction of -3.7% annualized. The risks of a global recession are rising as economies and businesses adjust to new international trade policies.

On April 2, Trump announced sweeping new sets of tariffs on many of the USA's trading partners, putting further stress on economies. According to Chinese state media, China, Japan and South Korea plan to respond to these tariffs together. This seems to be a likely response from targets of the American tariffs, that USA's trade partners will look to form new alliances and agreements to avoid or lessen the impact of tariffs.

Despite the tariff uncertainty and recession concerns, many markets around the world have performed well year-to-date. The TSX is up 1.5%, Euro Stoxx 50 up 7.7% and gold up 19%. It's the US stock markets that have felt the most pain, with the S&P500 falling 4.3% and the Nasdaq 100 down 8.1%, once again highlighting the benefits of having a diversified, global portfolio of quality assets.

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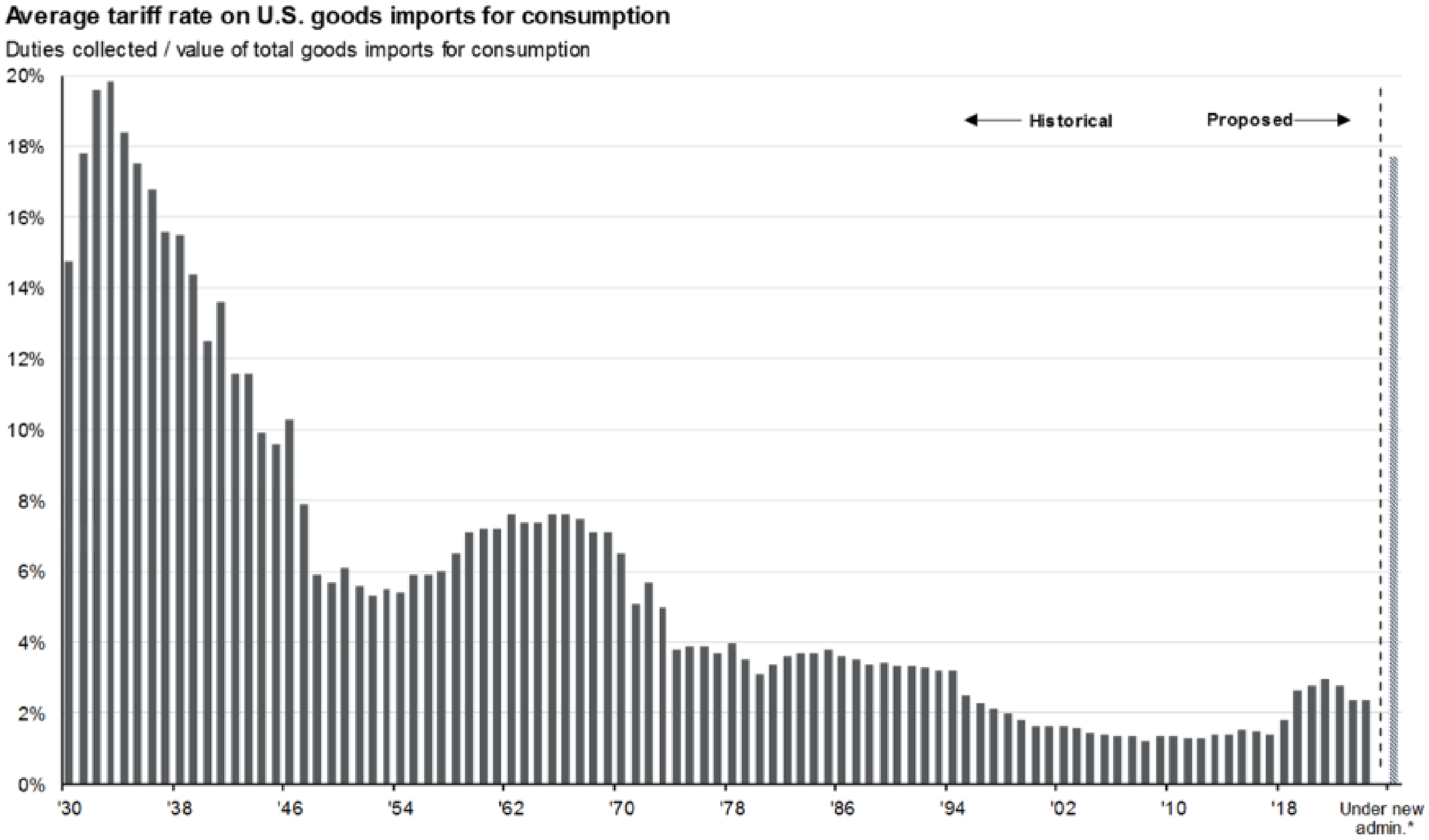
Tariff Rates

The tariffs proposed by the Trump administration would take us back to levels not seen since the Great Depression. Expect businesses outside the US to scramble to seek new, more reliable trade partners to either diversify their supply chains or avoid US suppliers altogether.



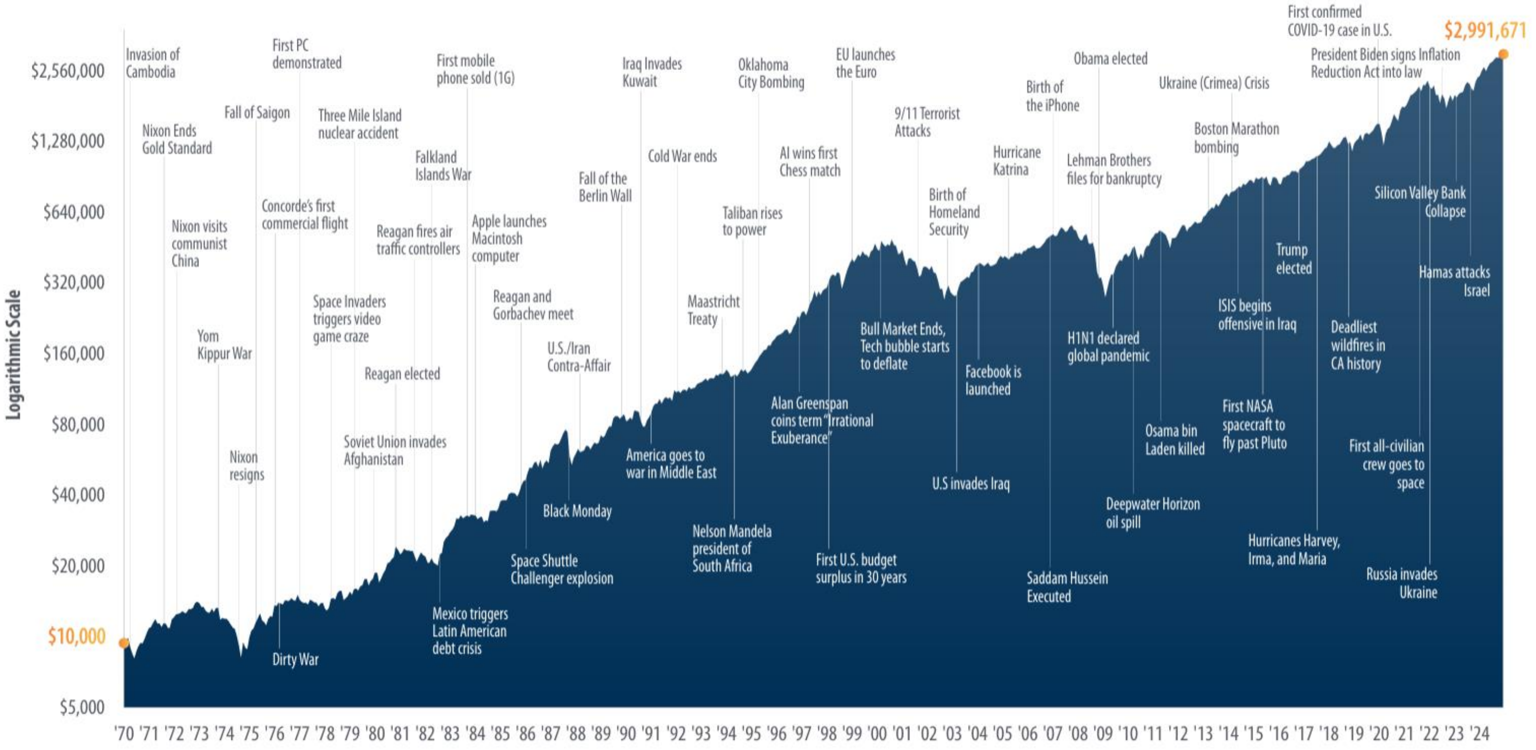
 Source: JP Morgan Asset Management, OceanFront Investment Counsel Inc.

Crises and Events

Markets have consistently recovered and reached new highs despite crises and uncertainty, emphasizing the value of maintaining a long-term investment perspective.

This chart shows the growth of $10,000 based on the S&P500 index performance over the last several decades.

The average annual total return of the S&P 500 Index for the period shown below was 10.92%.



Source: First Trust, Bloomberg. Data from 12/31/1969 - 12/31/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future.

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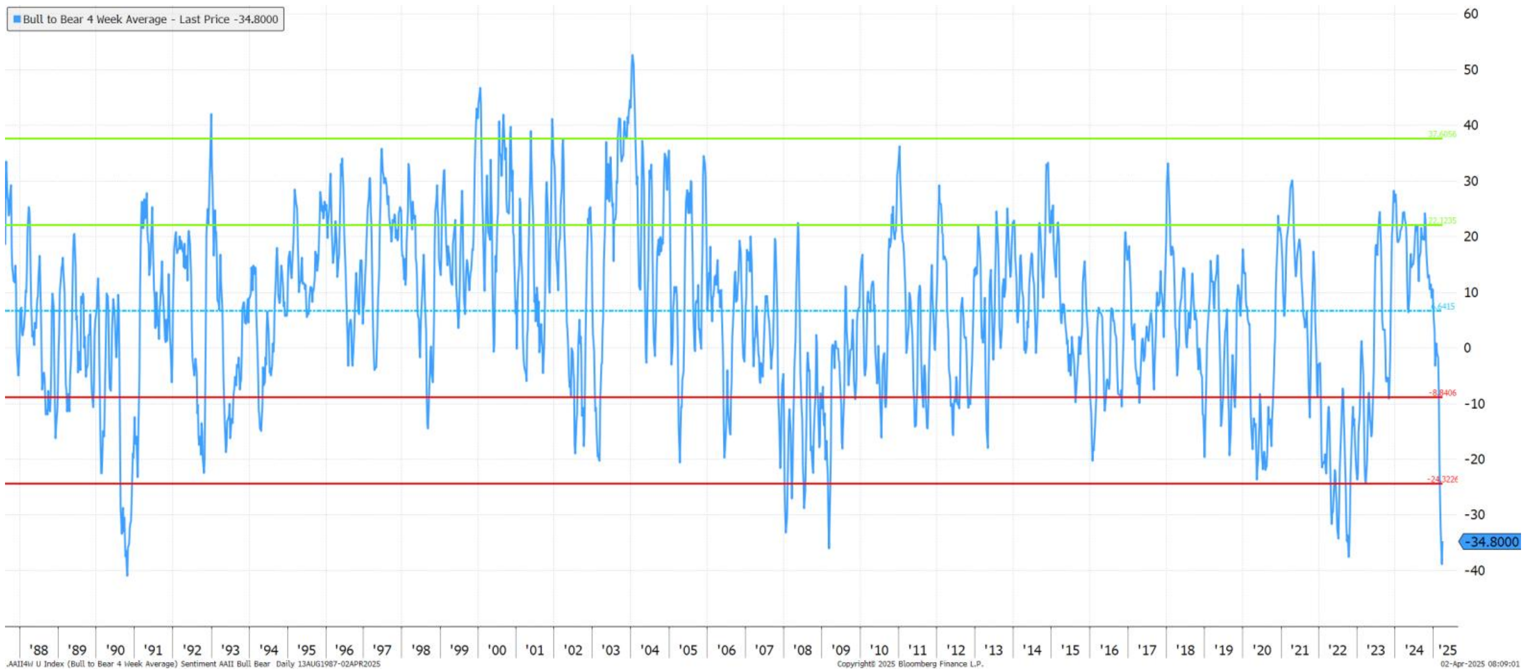
Investor Sentiment



The AAII Investor Sentiment Indicator tracks whether individual investors feel positive (bullish) or negative (bearish) about the stock market—high optimism may signal caution, while high pessimism may indicate opportunities.

Investor sentiment is now very pessimistic – at levels similar to the 1990 Invasion of Kuwait and the Great Financial Crisis of 2008.

Extreme low levels of investor sentiment have historically been associated with buying opportunities.

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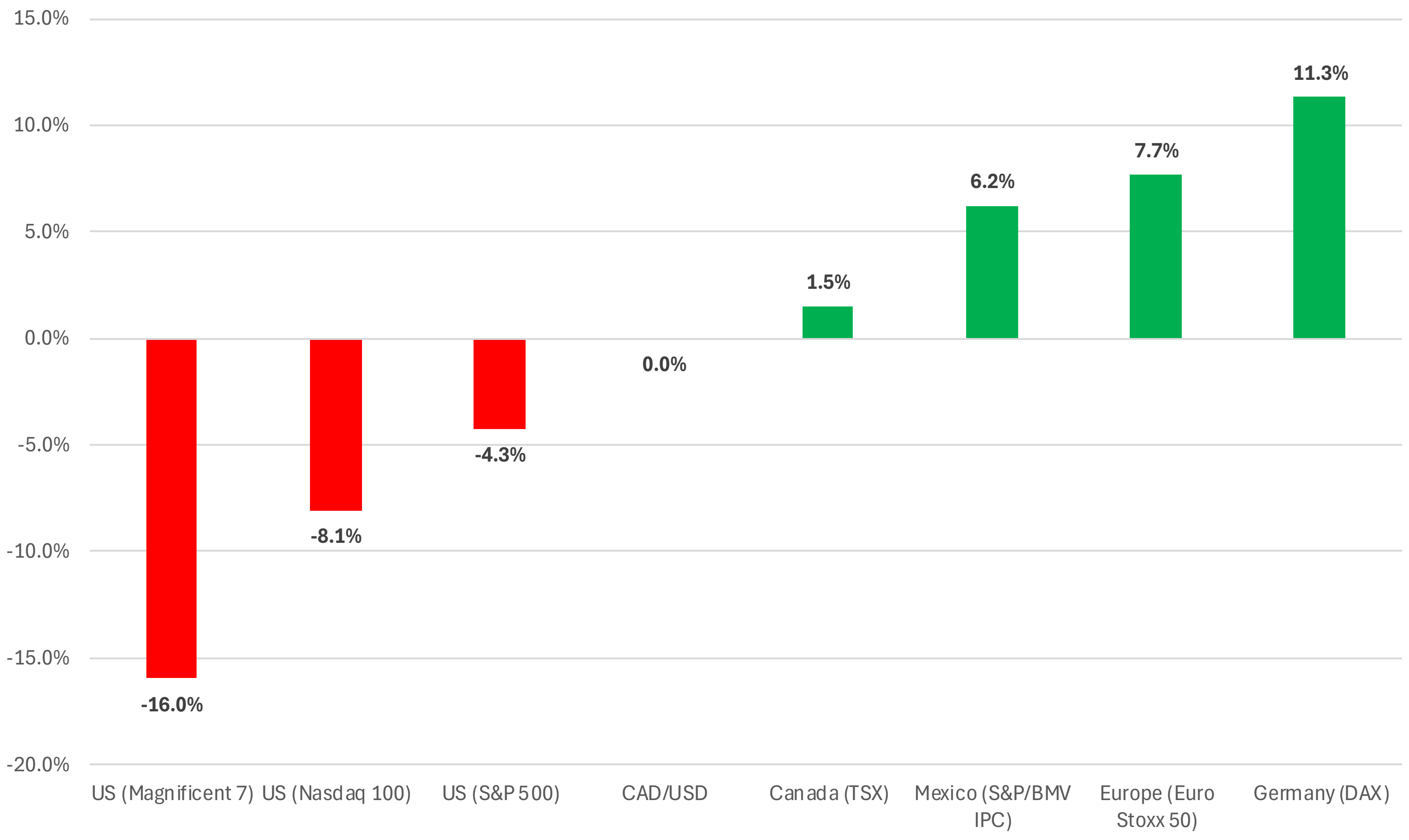
Index Q1 Returns

Returns in the first quarter of 2025 were quite diverse. The high-flying Magnificent 7 (Tesla, Apple, Alphabet/Google, Amazon, Microsoft, Meta/Facebook, Nvidia) stocks suffered a 16% loss, while European stocks were top performers.

The Canadian Dollar, which had fallen substantially in Q4 of 2024, was flat against the USD.



*Total returns in local currency terms

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Stock Valuations: US versus Rest-of-World

US stocks are expensive relative to their global peers. Looking at the 20-year average of Price-Earnings Ratios, the PE of the MSCI All Country World Ex-US Index is at an extreme level, 2 standard deviations below the 20-year average against S&P500 stocks as of February 28, 2025.

This is a disadvantage for US stocks, which have outperformed their global peers for so long. Over the medium-to-long term, some reversion to the mean is expected here in the form of US underperformance.

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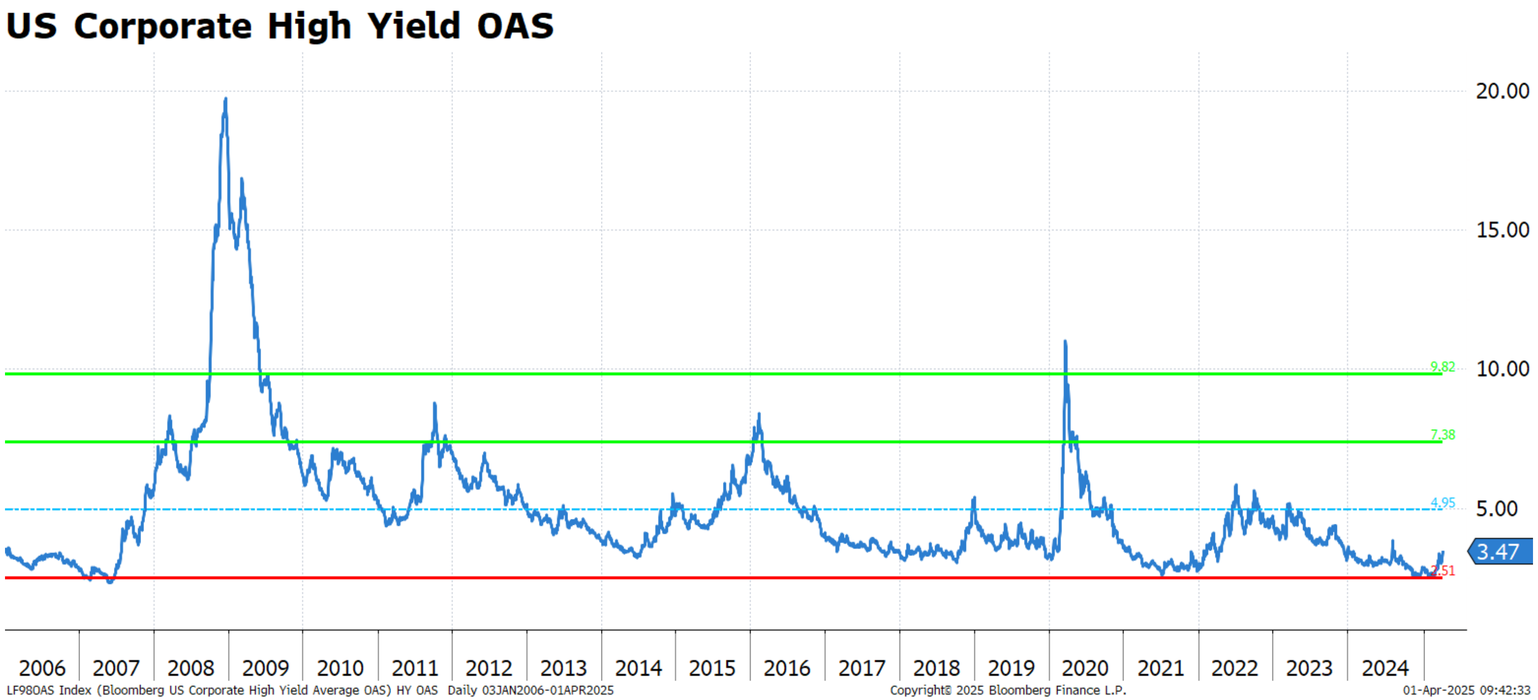
 Source: JP Morgan Asset Management, OceanFront Investment Counsel Inc.

High Yield Bonds



High yield bond spreads, which indicate how cheap or expensive these bonds are relative to less risky government bonds recently touched their tightest level since 2021, about one standard deviation below the mean level dating back to 2006. Spreads have recently widened but remain very much in expensive territory.

Tight high yield spreads are also an indication of relative calm in credit markets. In times of recession and crisis we are likely to see serious volatility in this market, usually before it spreads to other markets like stocks.

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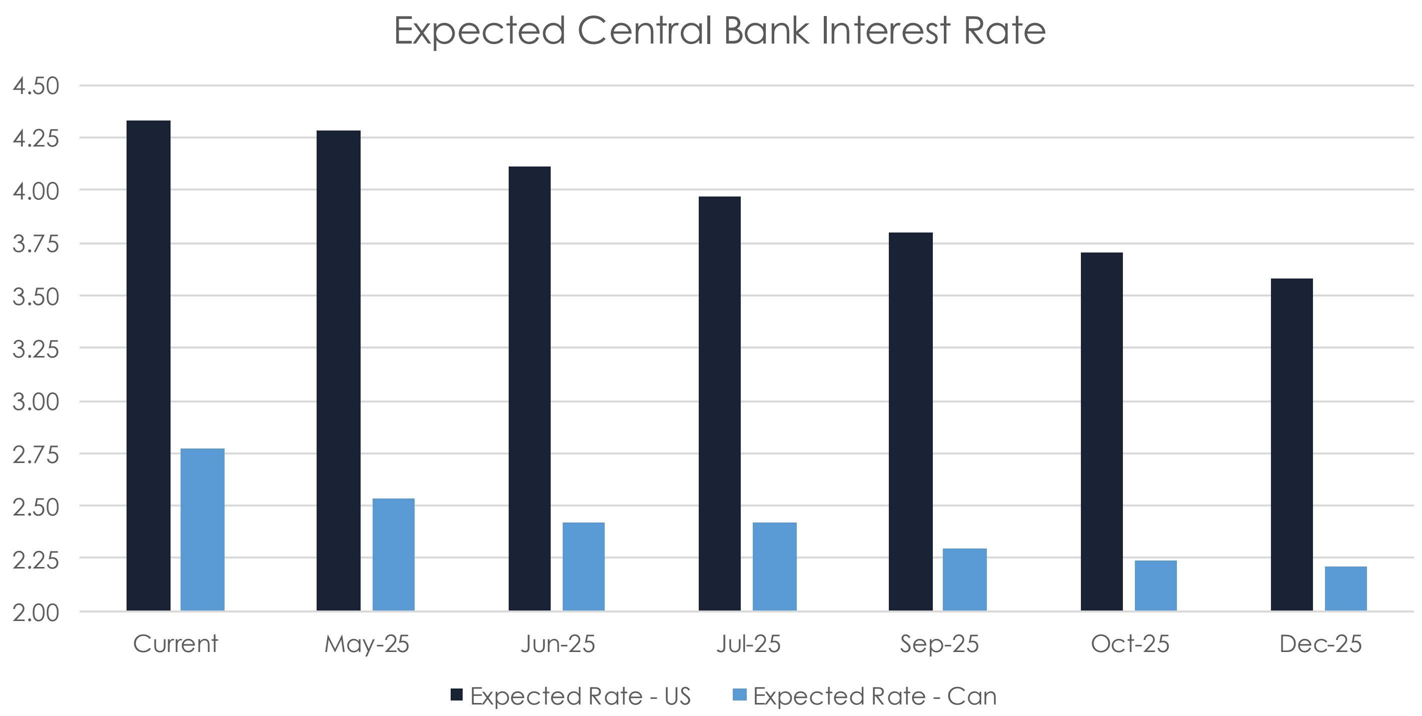
Interest Rate Expectations

The Federal Reserve and Bank of Canada continue to cut rates, with the BoC policy rate expected to decline to 2.25% by year end.



Data: Overnight Index Swap markets as of March 31, 2025

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