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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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TABLE OF CONTENTS

Chartbook Market Comment: June 2025

1. Market Comment
2. Interest Rate Expectations
3. US Federal Budget
4. US Dollar
5. Inflation
6. Consumer Sentiment
7. Investing at All-Time Highs
8. Disclaimer

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Market Comment

On Wednesday, the Bank of Canada announced it would hold its policy interest rate at 2.75%. Governor Tiff Macklem commented on several factors that went into the rate decision, including international trade policy, consumer spending, the labour market and inflation.

Canadian GDP growth was strong in the first quarter at 2.2%, but this was partly due to pull-forward effects of exports to the US increasing to get ahead of the imposition of tariffs. GDP is expected to be significantly weaker in the second quarter. The labour market has weakened as tariffs have threatened international trade, as the unemployment rate increased to 6.9% in April.

Much of the impact of tariffs is yet to be felt in the global economy, so it is too early to tell what the effects will be. It is also highly uncertain what longer term international trade policies will be, as tariff rates are constantly changing and trade agreements are being announced to lower tariffs and resolve disputes.

The Carney government eliminated the Consumer Carbon Tax, which lowered inflation by 0.6% in April. Headline Inflation for April was 1.7%, the lowest reading since September 2024. Governor Tiff Macklem also noted that the path of inflation is highly uncertain due to tariffs.

The Bank of Canada, like the Federal Reserve, is taking a wait-and-see approach with interest rate policy and seeking clarity on international trade and its effect on inflation and economic growth before making policy decisions.

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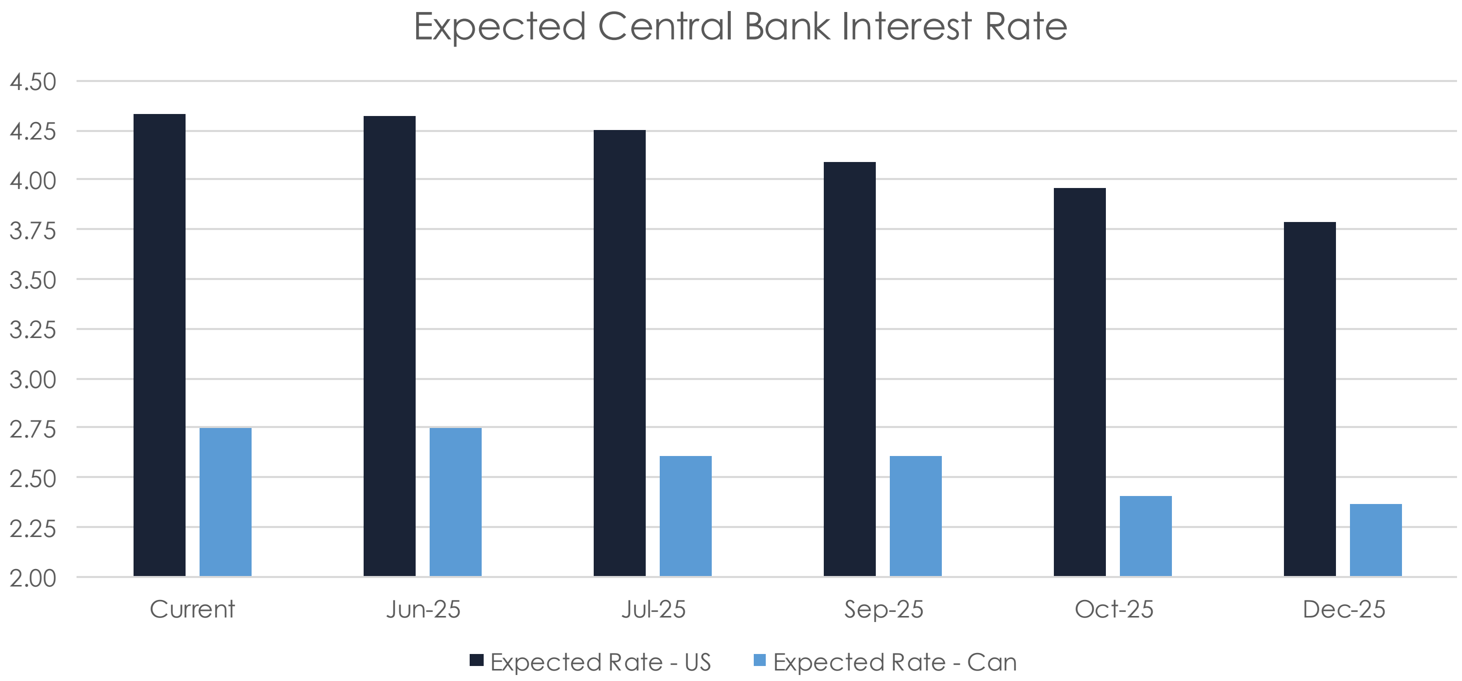
Interest Rate Expectations

Interest rate expectations have been volatile this year, as they have been reacting to a series of trade related headlines and erratic social media posts from the President of the United States.

Markets are currently expecting only one or two more cuts from the Bank of Canada in 2025 and one or two from the Federal Reserve as well.



Data: Overnight Index Swap markets as of June 4, 2025

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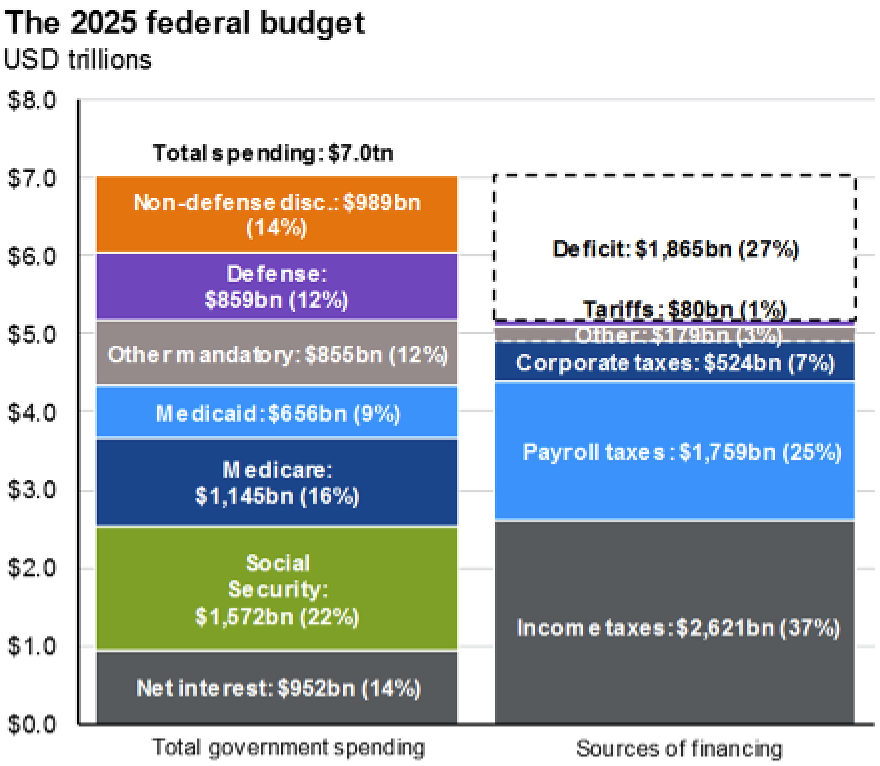
US Federal Budget



CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

This chart breaks down the US Federal Budget and sources of revenue, based on the Trump tax bill that is yet to be passed by congress.

Interest expense on the debt alone is 14% of the budget, larger than the expense on defense and larger than corporate tax revenue.

The cuts from Elon Musk's Department of Government Efficiency are expected to save around $180bn for fiscal year 2026. Estimates of potential future tariff revenue if Trump keeps significant global tariffs of 10%-20% are around $100bn-$330bn per year. Combined, these measures would decrease the deficit by up to $500bn or 27%, if successful.

This is the math that is keeping US Government bond yields relatively high, as the high deficit poses a risk to the capital of bond investors due to potential inflation and dilution from money printing.

The interest rate assumption in the data is 4.1% for the 10-year Treasury, which is significantly lower than where it is currently trading at 4.37% as of this writing.

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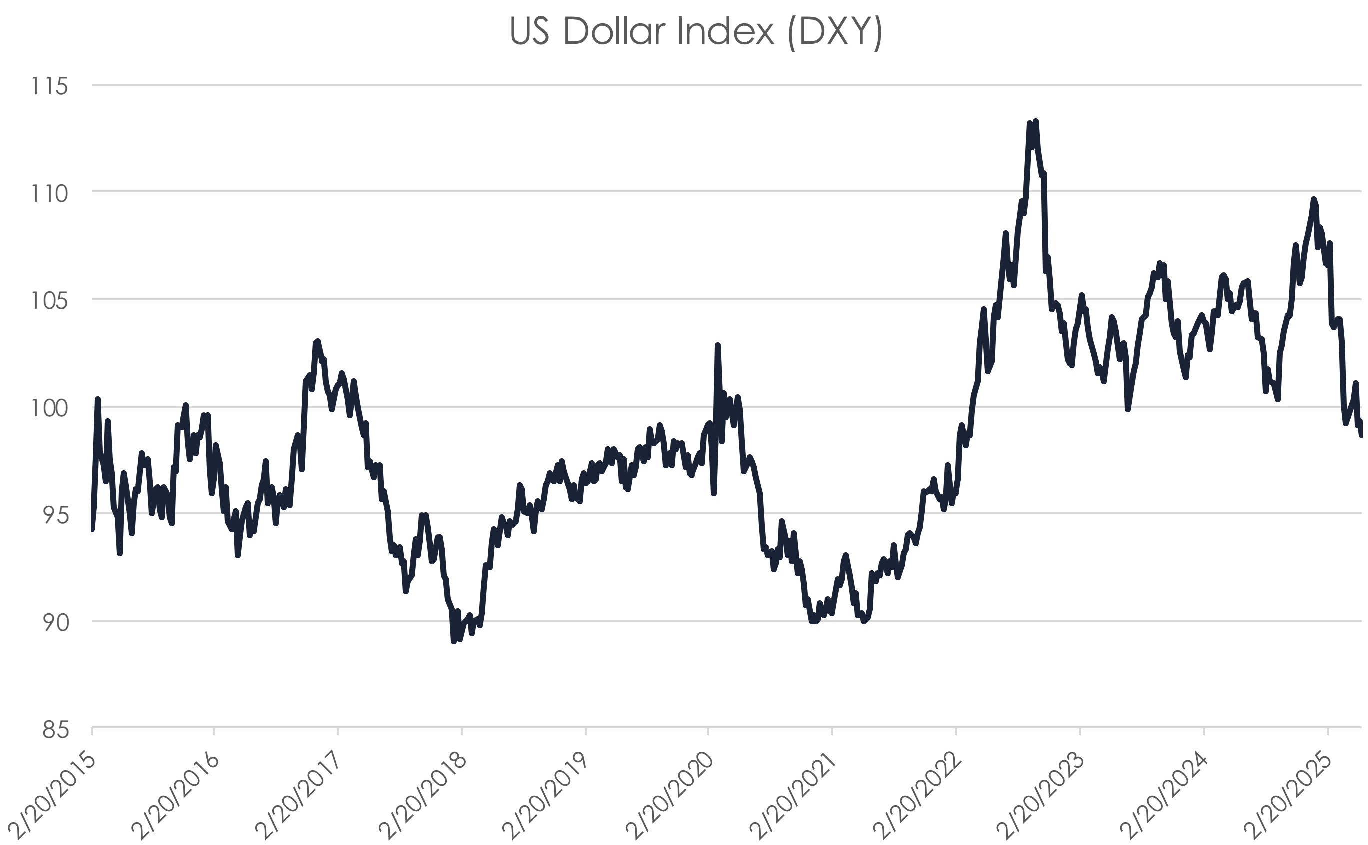
US Dollar



The US dollar continues to fall as investors shun the currency, in part due to fiscal concerns as outlined in the previous slide on the US Federal Budget. The US Dollar Index is trading around a 3 year low.

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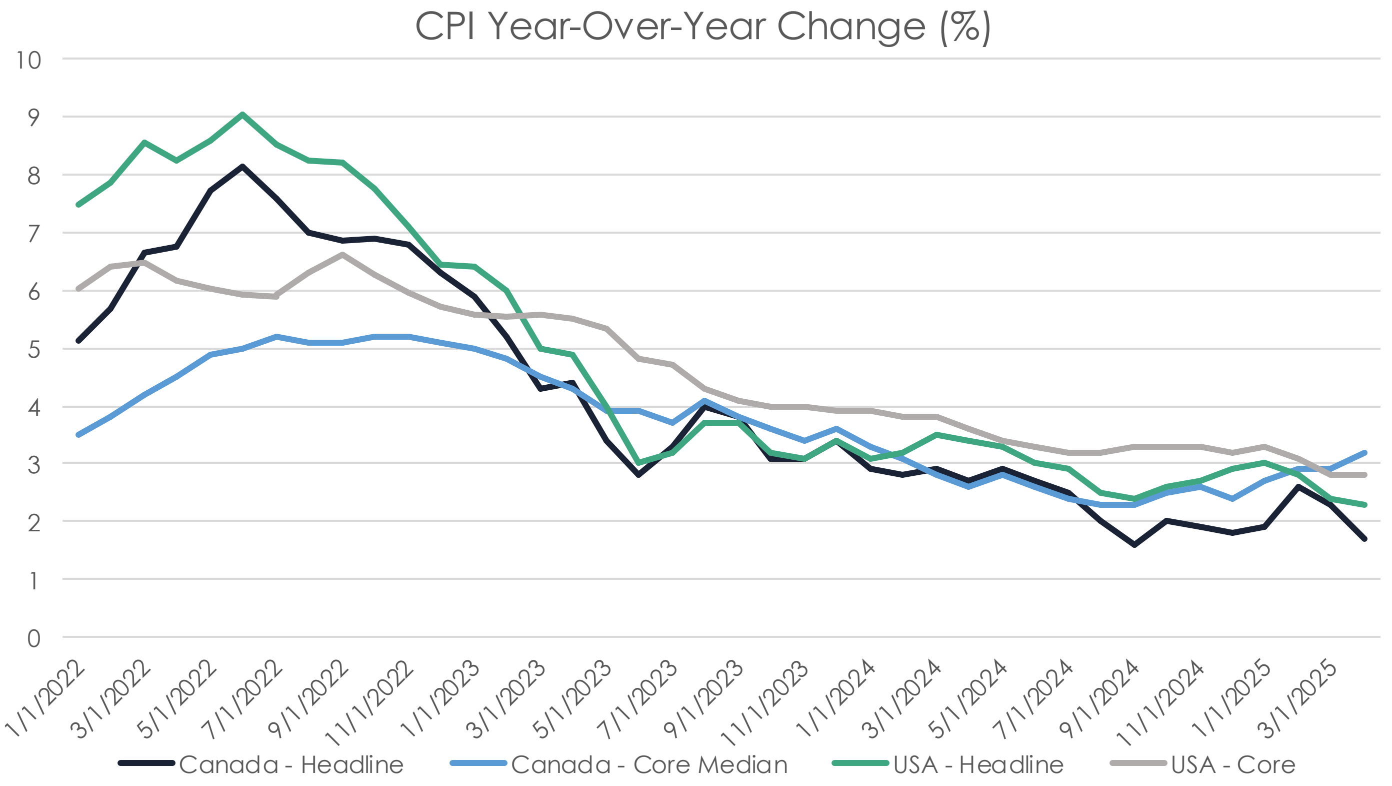
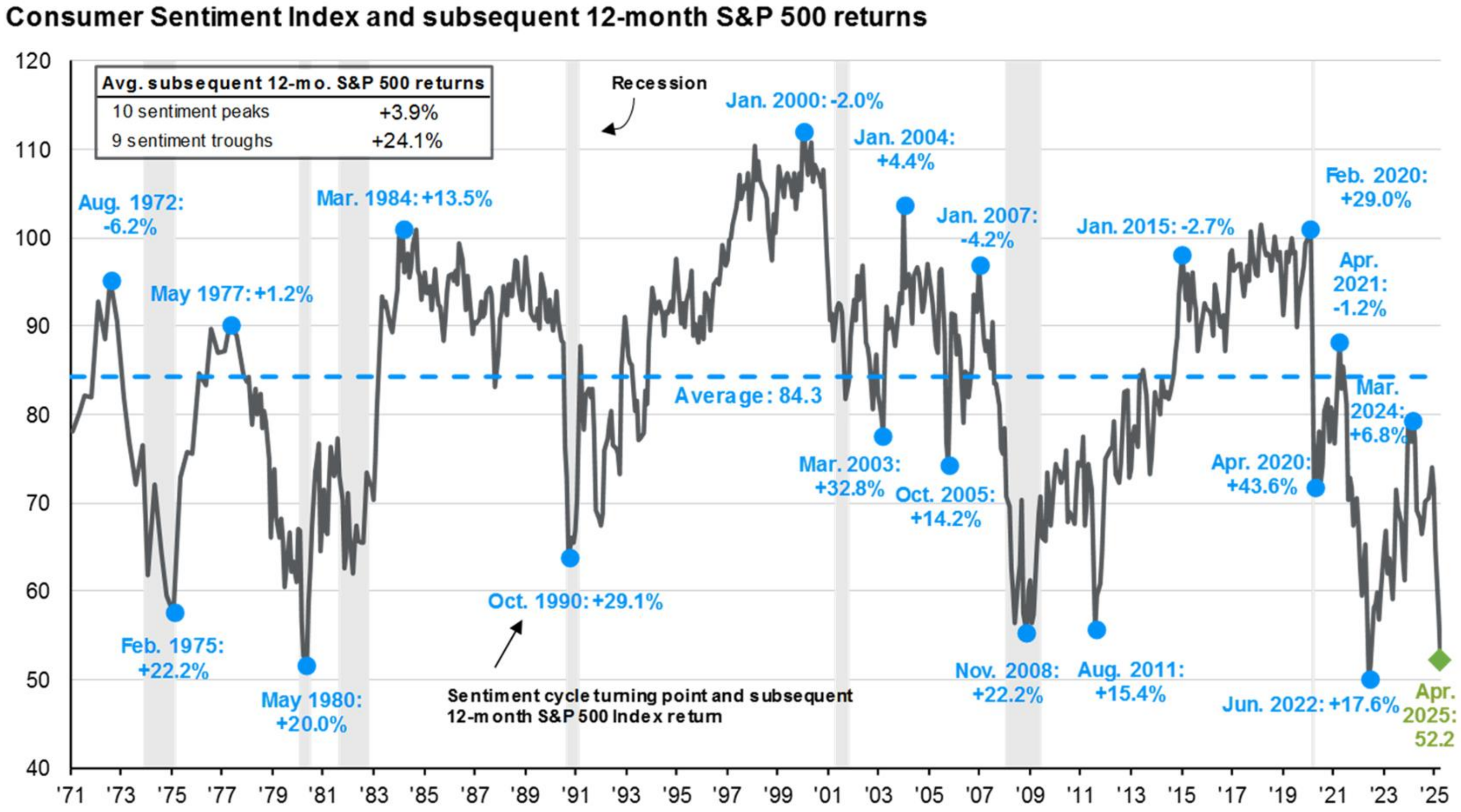
Inflation

Measures of Canadian Core and Headline inflation have diverged of late, with Core climbing over 3% and Headline falling below 2%. Measures of US inflation continue to fluctuate around 3%.



 Source: Bloomberg, Conference Board, OceanFront Investment Counsel Inc.

Consumer Sentiment



The University of Michigan Consumer Sentiment survey gives insight on how consumers are feeling about the economy. Currently, consumer sentiment is very low, indicating that consumers are very pessimistic on prospects for the economy.

Lows in sentiment tend to be good indicators of good stock market returns over the next 12 months or so, as you can see in the chart. An important insight from this data is that getting out of the market when sentiment is low is generally a bad investment strategy.

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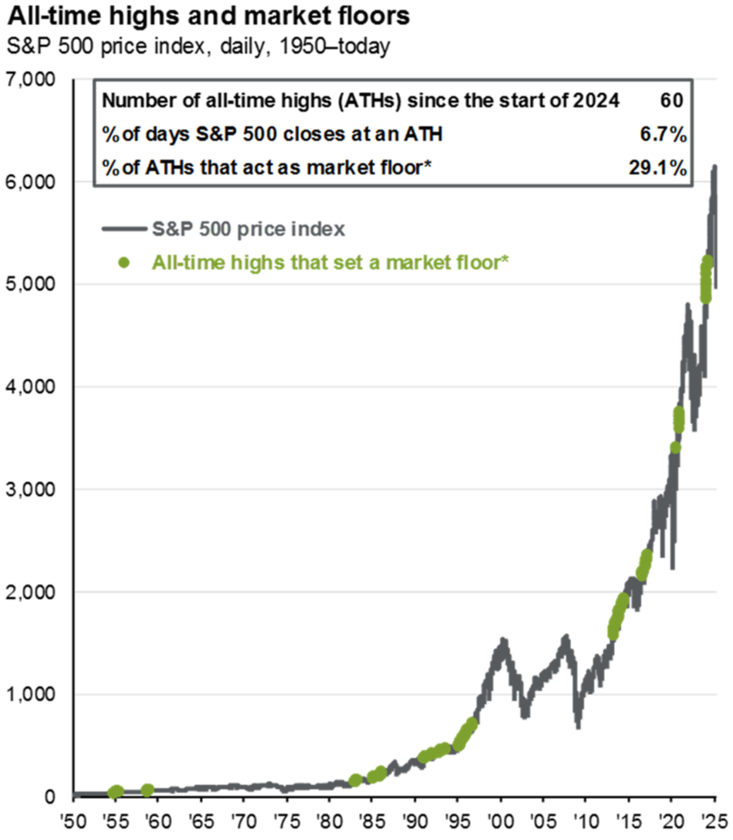
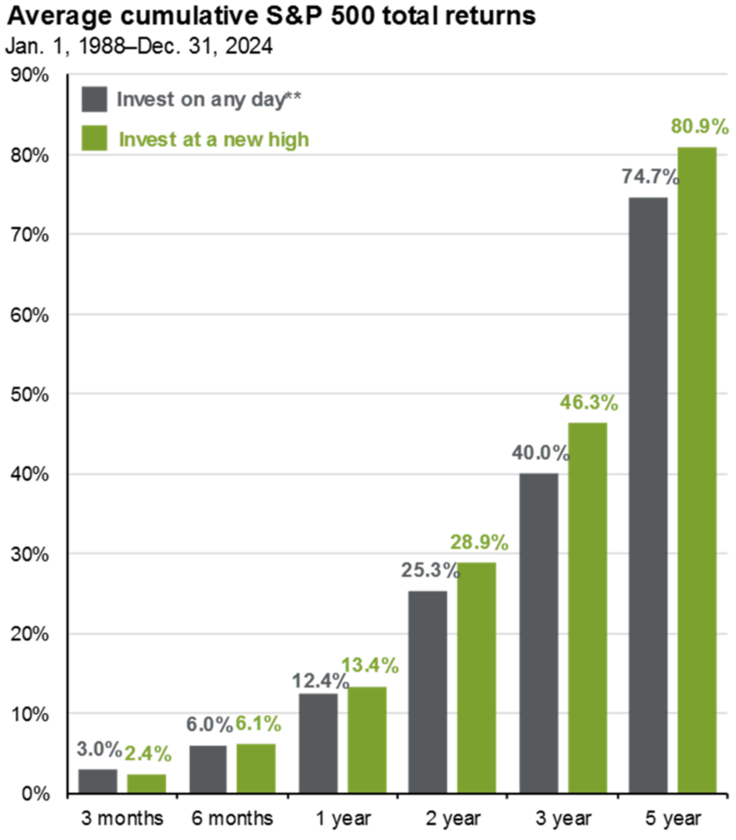
Investing at All-Time Highs

Global markets have rebounded following the initial trade war decline, with many markets trading at or near their all-time high levels.

Investing when markets are near all-time highs tends to be one of the best times to invest, because markets often trend upward to even higher highs.





(Left) *Market floor is defined as an all-time high from which the market never fell more than 5%. (Right) **"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-month, 6-month, 1-year, 2-year, 3-year and 5-year intervals, with data starting 1/1/1988 through 12/31/2024.

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 | Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Guide to the Markets – U.S. Data are as of April 30, 2025.

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