2025 SECOND QUARTER MARKET REVIEW
AND MID-YEAR COMMENTARY

Global markets look past tariff fallout

IG Investment Strategy Team

"Liberation Day" fallout: volatility grips global markets

The second quarter of 2025 served as a stark lesson in the market's ability to absorb sharp, politically driven shocks. The period was dominated by the U.S. administration's chaotic trade policy, which began with the April announcement of sweeping tariffs, sending global equities into a tailspin. The S&P 500 plunged into correction territory, marking its most significant retreat since March 2020.

This initial panic sent investors fleeing to safe havens, a move clearly reflected in the 5.7% surge in gold prices this quarter. However, the administration's subsequent and rapid reversal of the policy triggered an equally dramatic V-shaped recovery. The initial fear that gripped the market evaporated, and major equity indices charged back into positive territory. The S&P 500 and the S&P/TSX Composite finished the quarter with strong gains of 10.6% and 7.8% (in local currencies) respectively.

Throughout this turbulence, central banks remained on the sidelines. The U.S. Federal Reserve (the Fed) held rates steady, caught between the inflationary threat of tariffs and the risk of a corresponding economic slowdown. Chair Jerome Powell stated that the Fed is "well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance."

This quarter was a textbook example of headline-driven volatility. While the tariff fog prompted companies to lower earnings forecasts, the market's ultimate resilience was the defining story, proving once again that knee-jerk reactions to policy announcements are often premature.

> *This quarter was a textbook example of headline-driven volatility."*
> *– Philip Petursson*

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Index returns

2025 equity price returns and fixed income total returns

Table 1 - 2025 equity price returns

	Currency	Q2	YTD	1-year
S&P/TSX Composite Index	CAD	7.8%	8.6%	22.8%
S&P 500 Index	USD	10.6%	5.5%	13.6%
	CAD	4.8%	-0.1%	13.2%
MSCI EAFE Index	USD	10.6%	17.4%	14.7%
	CAD	4.8%	11.1%	14.3%
MSCI Europe Index	EUR	1.1%	6.5%	5.3%
	CAD	4.2%	14.6%	15.2%
MSCI Emerging Markets Index	USD	11.0%	13.7%	12.6%
	CAD	5.2%	7.7%	12.2%

Table 2 - 2025 fixed income total returns

	Currency	Q2	YTD	1-year
FTSE Canadian All Government Bond	CAD	-0.9%	1.2%	5.5%
FTSE Canada Universe Bond	CAD	-0.6%	1.4%	6.1%
ICE BofA US Corporate Bond	USD	1.8%	4.2%	7.1%
	CAD	-3.5%	-1.1%	6.7%
ICE BofA US High Yield Composite	USD	3.6%	4.5%	10.3%
	CAD	-1.8%	-0.8%	9.9%
Bloomberg Global Aggregate Bond	USD	4.5%	7.3%	8.9%

Source: IG Wealth Management; Bloomberg; 1-year, June 28, 2024-June 30, 2025.
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to June 30, 2025.

Drivers of market performance

Canadian equities

The S&P/TSX Composite Index rose 7.8% during the quarter, with information technology the best performing sector, up nearly 14.2%.

The materials sector continued its gains, with the price of gold appreciating 5.7% in the quarter. Investors continue to rotate out of the U.S. dollar into other safe-haven assets, including gold.

The energy sector was the weakest performer, posting only a slight gain. Middle East tensions led to significant volatility in oil markets, with West Texas Intermediate (WTI) prices fluctuating between US$57 and US$75 per barrel. WTI ended the quarter down 8.9% and 20% lower year-over-year.

U.S. equities

The S&P 500 Index rose 10.6% this quarter, recovering from a brief period of sharp volatility. Wall Street's fear gauge, the VIX Index, spiked after the April tariff announcement but quickly subsided as President Donald Trump rolled back import tariffs; this calmed market fears after a correction scare.

The tech sector led the rally, gaining over 23%, driven by strong expectations for persistent demand and increased investment in artificial intelligence infrastructure. In contrast, the health care and energy sectors underperformed, giving back gains from the previous quarter.

The S&P 500 and Nasdaq reached all-time highs, supported by easing geopolitical tensions, expectations of U.S. Federal Reserve rate cuts and a surge in mega-cap technology stocks. Trade-deal optimism further buoyed market sentiment throughout the quarter.

International equities

International equity markets demonstrated notable resilience in the second quarter, rebounding sharply from the turmoil created by U.S. tariff announcements and postponements. After an initial plunge, international equity markets recovered swiftly.

Emerging markets led the quarter's gains, with the MSCI EM index returning 11% in U.S. dollars (5.2% in Canadian dollars). Developed markets also advanced robustly, as the MSCI EAFE index rose 10.6% in U.S. dollars (4.8% in Canadian dollars). However, European equities underperformed; the MSCI Europe index eked out a modest 1.1% gain in euros (4.2% in Canadian dollars).

Germany's export-driven economy propelled the DAX index to a 20.1% year-to-date gain, fuelled by strong corporate earnings, positive sentiment toward European markets and attractive valuations.

Fixed income

Fixed income markets reacted to the uncertainty surrounding U.S. trade policy. The initial tariff shock drove a flight to safety in sovereign bonds, and, despite the volatility, 10-year Treasury yields remained largely stable between 4.3% and 4.5%.

Central banks adopted a cautious stance. The Federal Open Market Committee (FOMC) held its benchmark interest rate at 4.5%, citing inflation and growth concerns, while the Bank of Canada maintained its overnight rate at 2.75% due to trade and growth risks.

Amid improving market conditions, the Bloomberg Global Aggregate index and the ICE BofA U.S. Corporate Bond index delivered positive returns of 4.5% and 1.8% (in U.S. dollars), respectively. High-yield bond spreads, which had widened during early April's volatility, tightened by quarter-end, reflecting renewed investor confidence. Meanwhile, the Canadian dollar gained 5.7% against the U.S. dollar.

Canadian equities

Chart 1 - S&P/TSX Composite Index performance

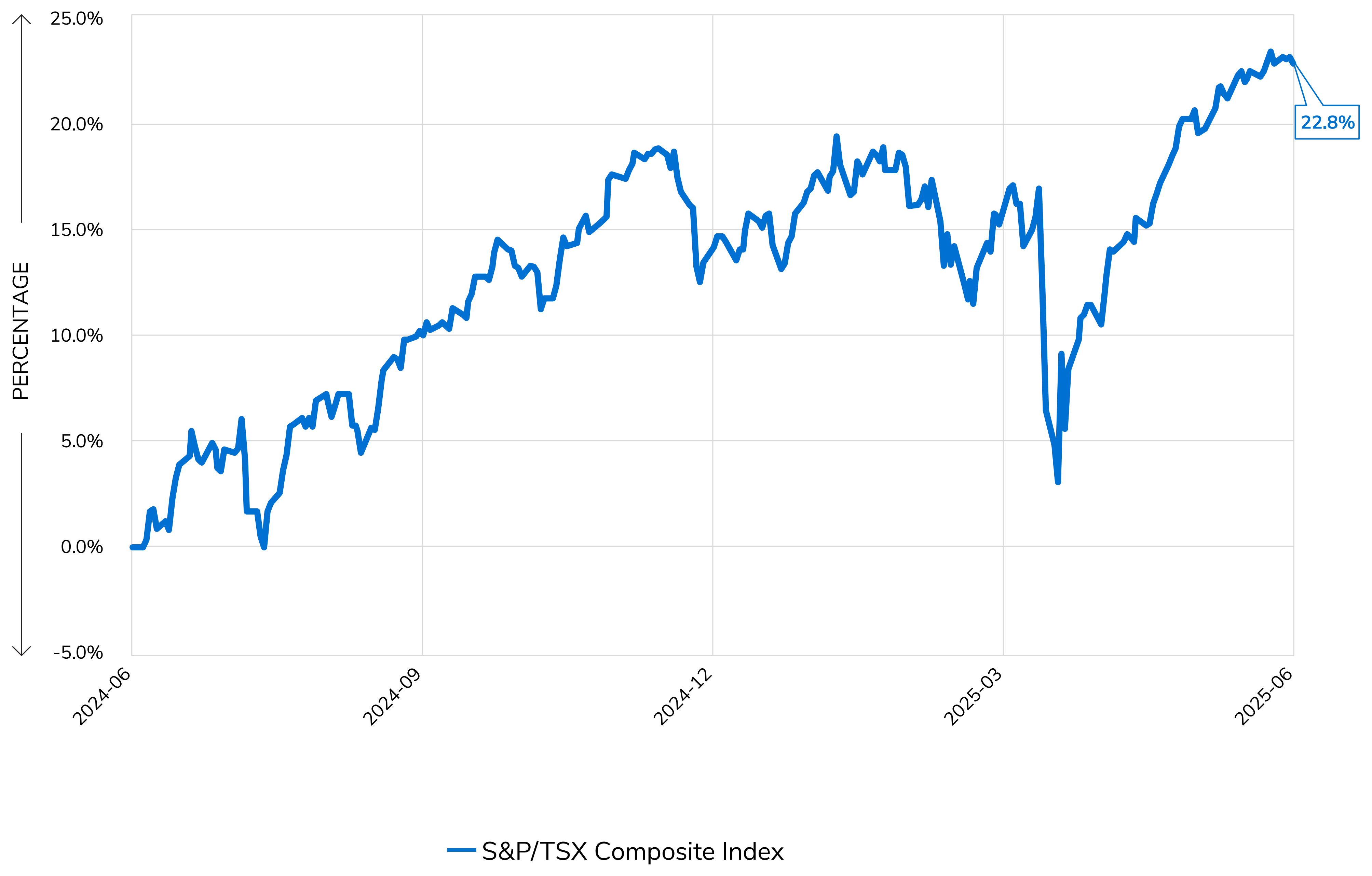
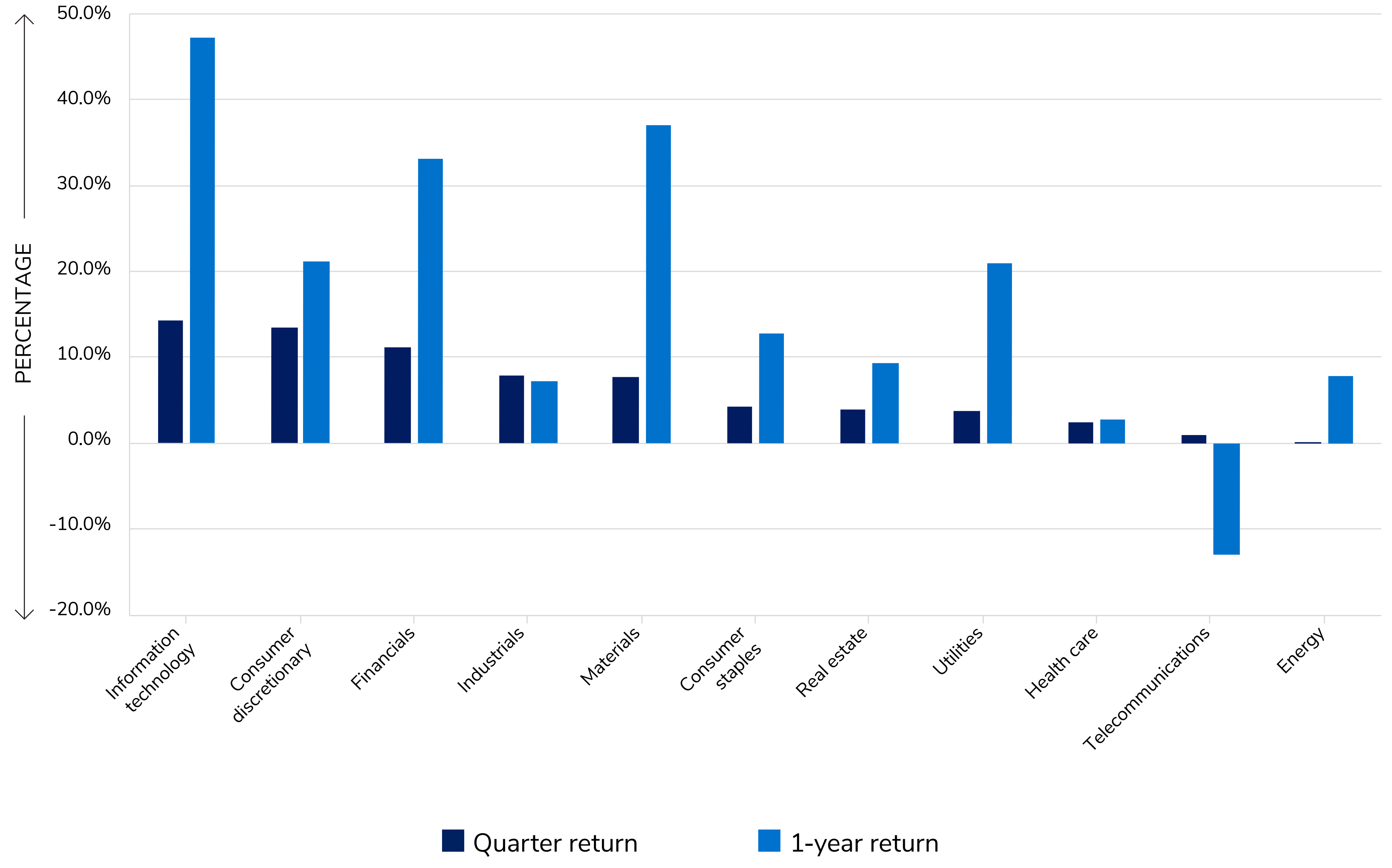


Chart 2 - S&P/TSX Composite sector level returns: quarter vs. 1-year



Source: IG Wealth Management, Bloomberg, as of June 30, 2025.

U.S. equities

Chart 3 - S&P 500 Index performance (USD)

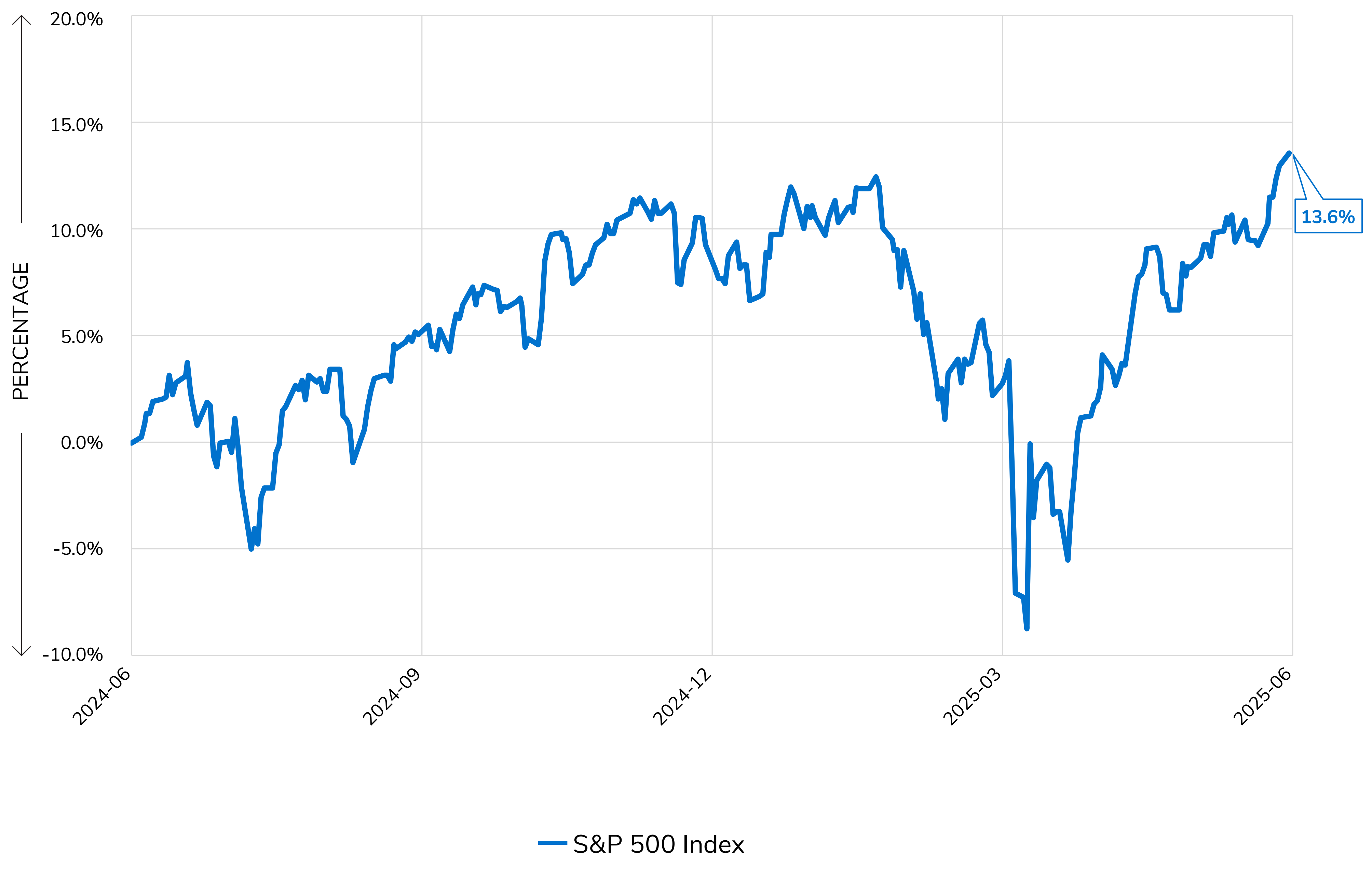
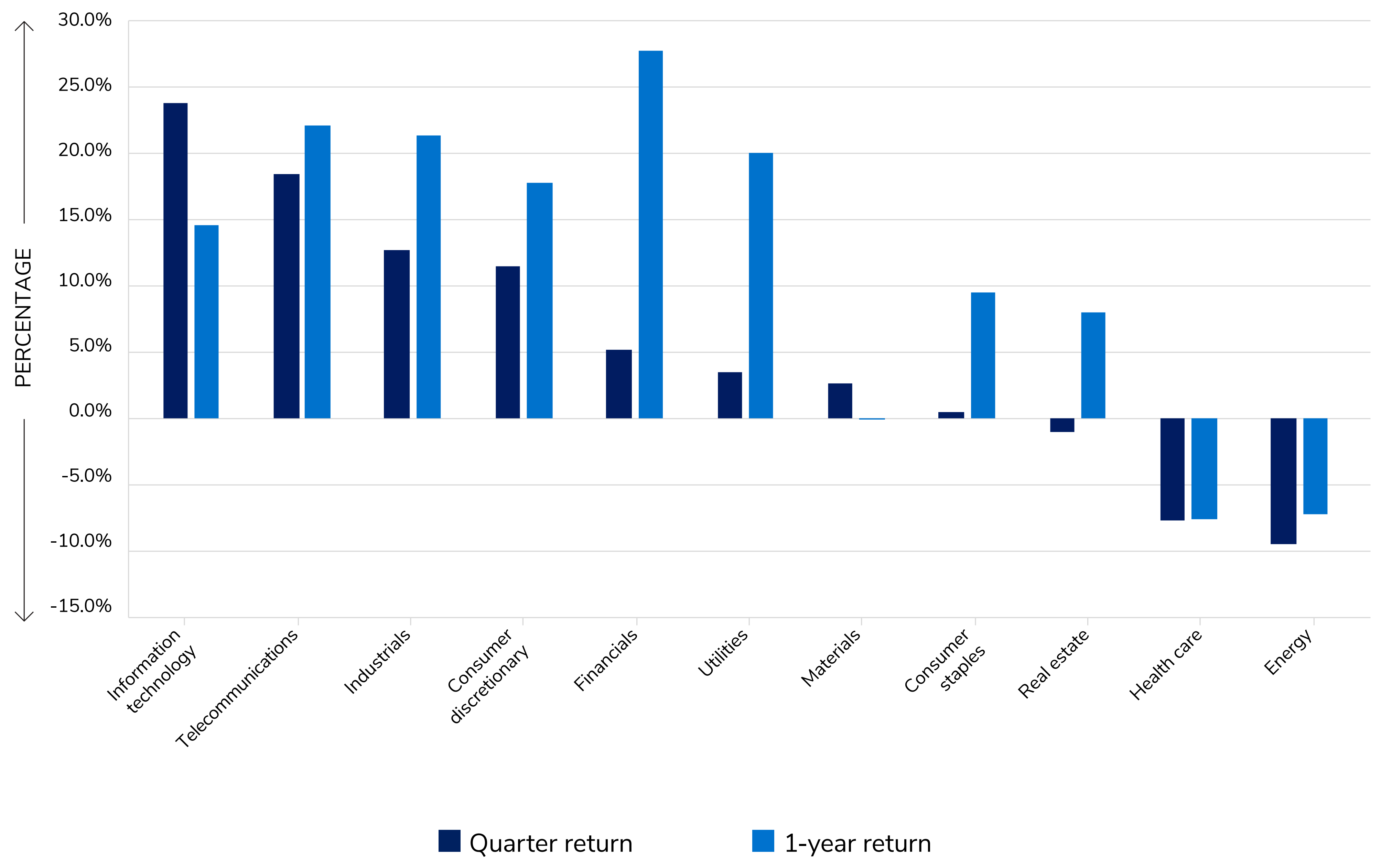


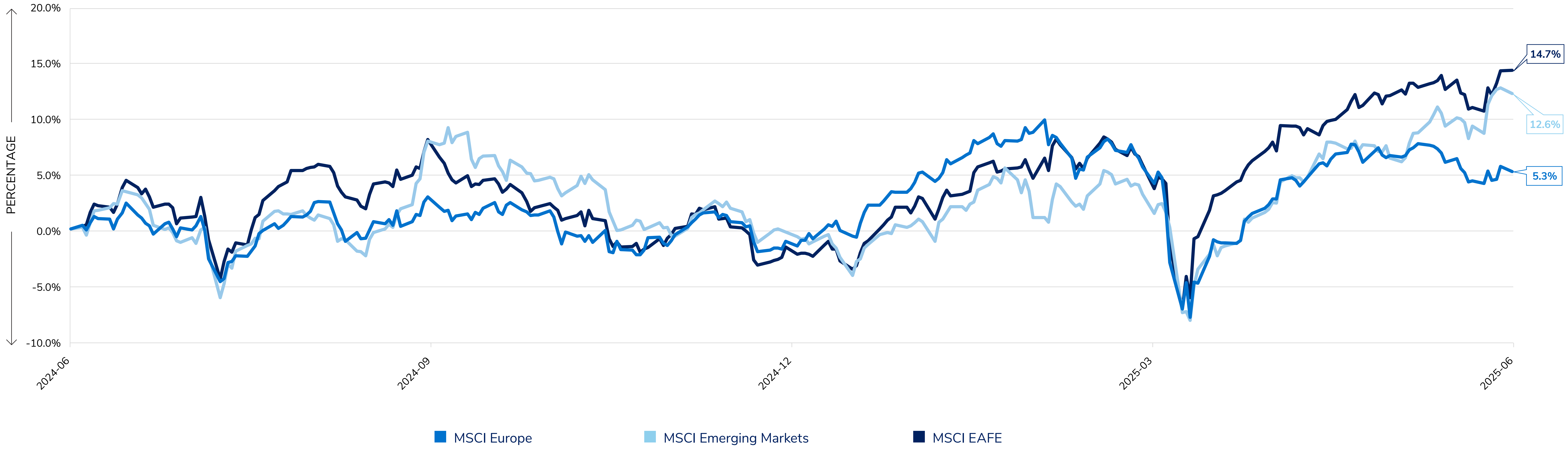
Chart 4 - S&P 500 Composite sector level returns: quarter vs. 1-year



Source: IG Wealth Management, Bloomberg, as of June 30, 2025.

International equities

Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance



Source: IG Wealth Management, Bloomberg, as of June 30, 2025.

Fixed income

Chart 6 – Global central bank policy rates

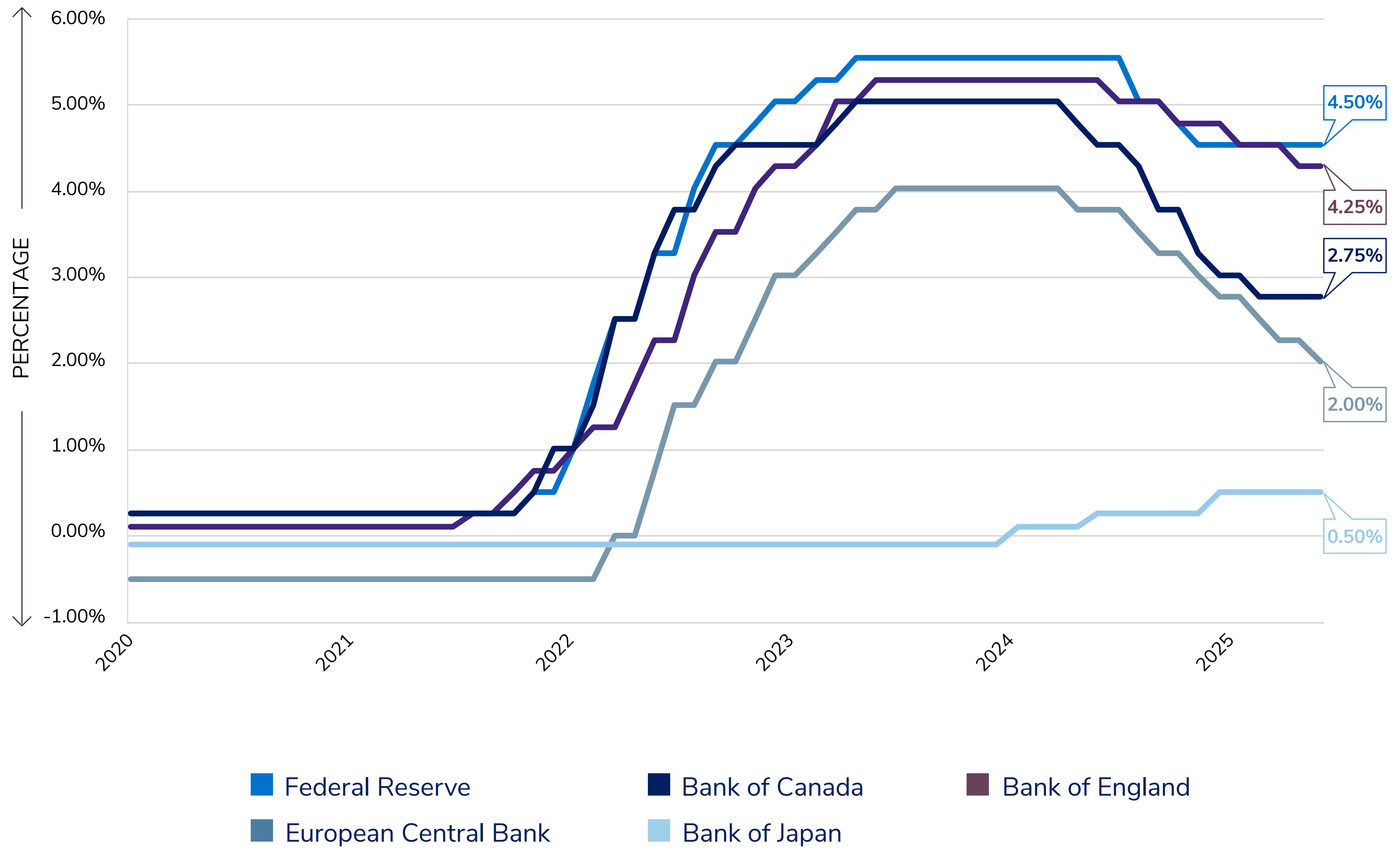
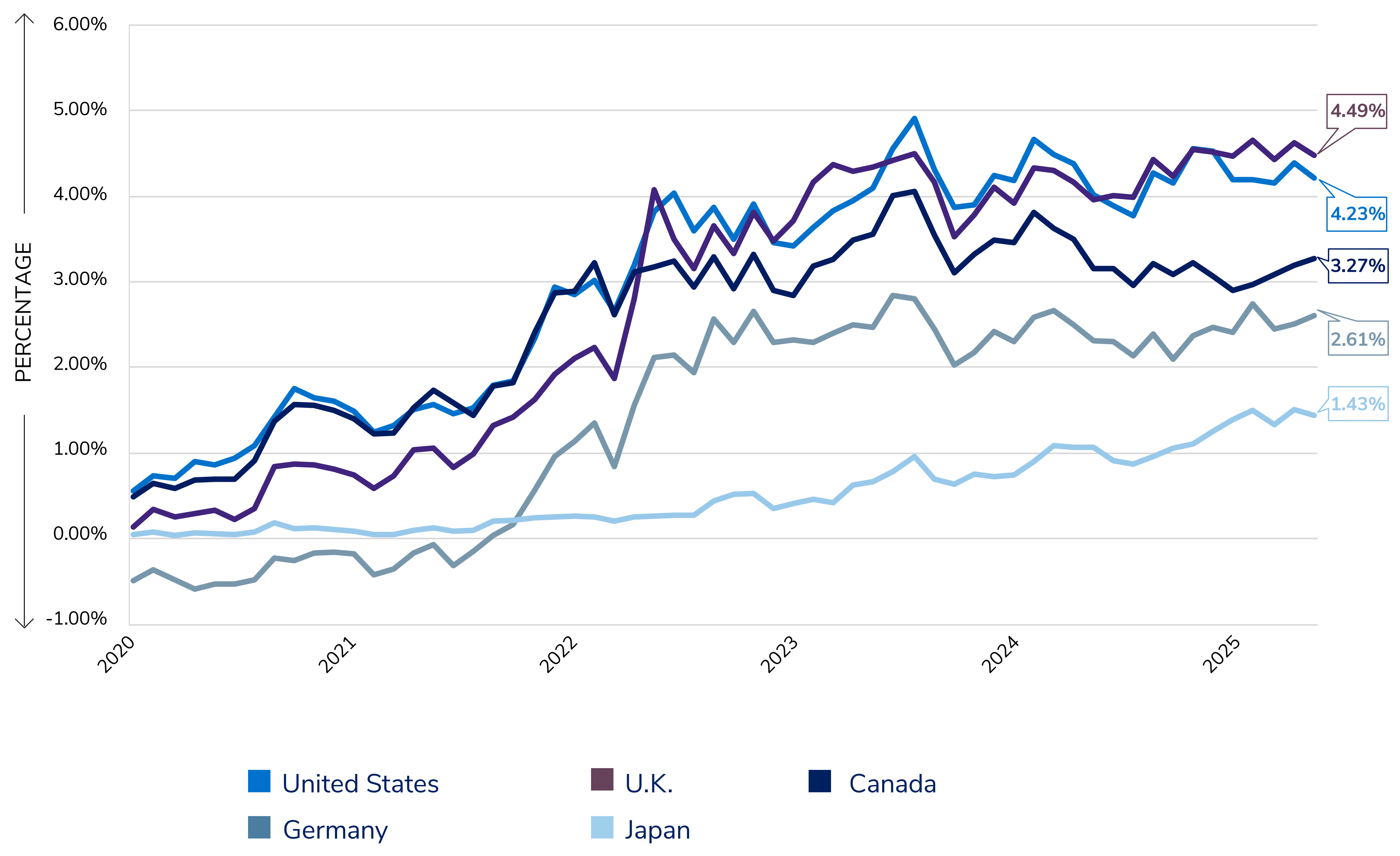


Chart 7 - Sovereign bond 10-year maturity yields



Source: IG Wealth Management, Bloomberg, as of June 30, 2025.

Key benchmark performance

Chart 8 - Canadian dollar/U.S. dollar cross

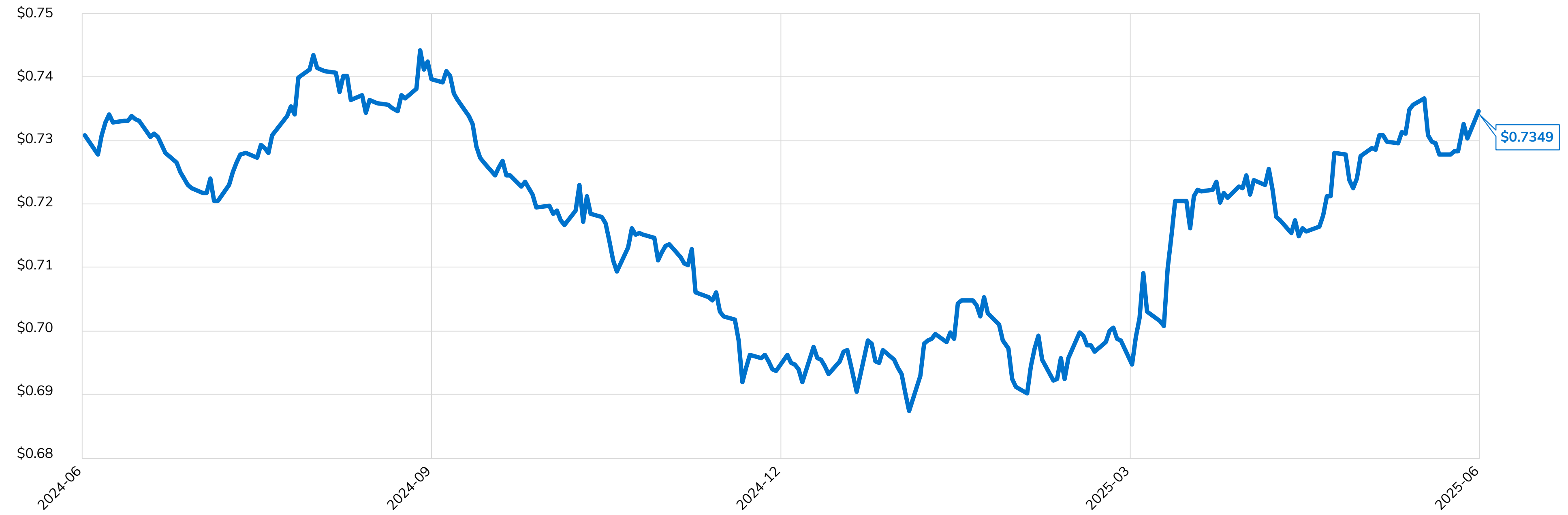


Chart 9 - Crude oil (WTI) US$/bbl

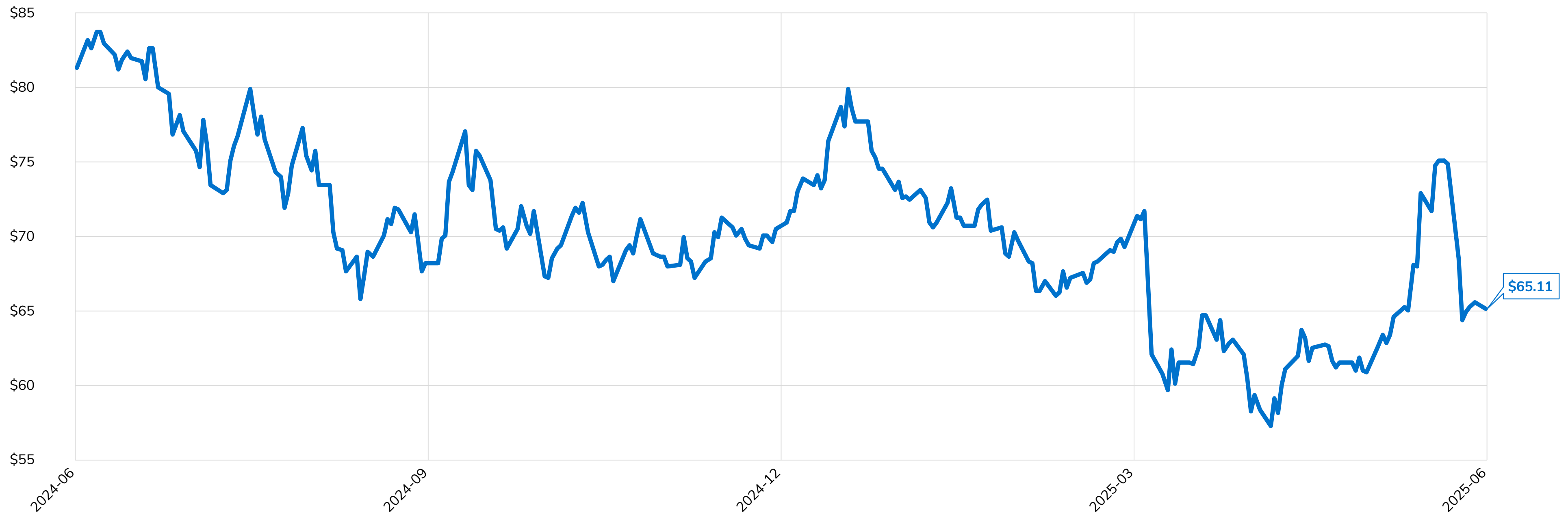


Chart 10 - Gold US$/oz.

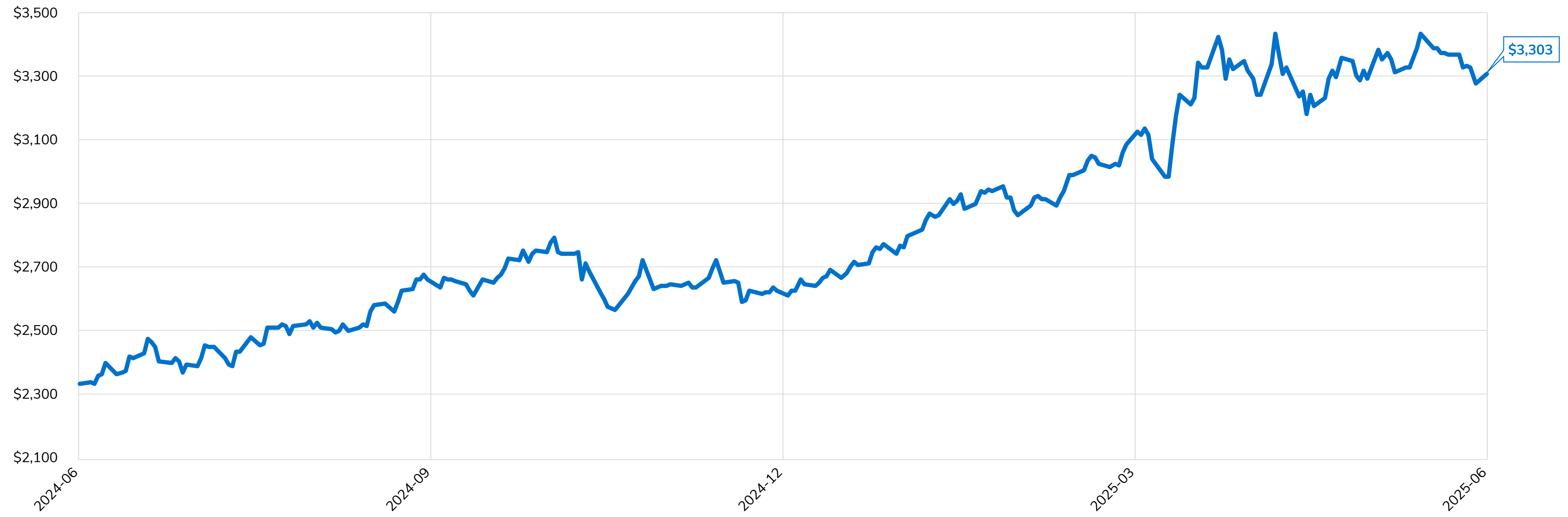
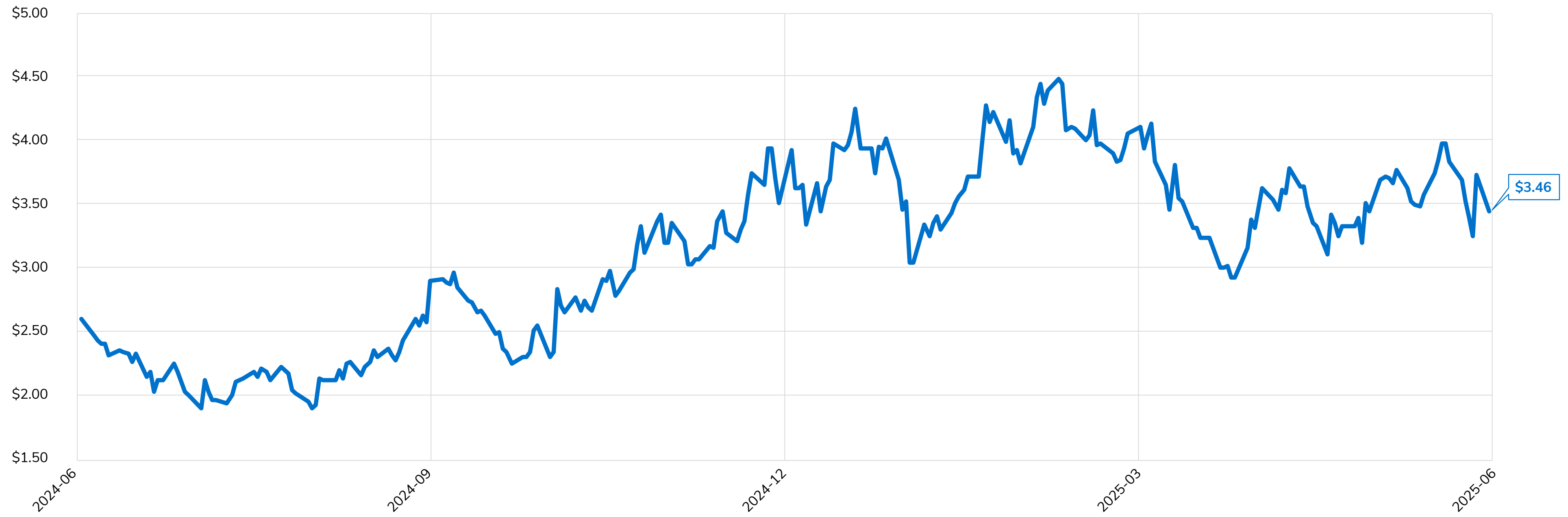


Chart 11 - Natural gas US$/mmbtu



Source: IG Wealth Management, Bloomberg, as of June 30, 2025..

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Market outlook

Investors are currently navigating a landscape dominated by unsettling headlines, from conflicts in the Middle East to persistent uncertainty around U.S. tariffs. It's a natural response to feel uneasy. However, history teaches us a crucial lesson: markets demand clarity, not perpetual calm. While geopolitical shocks often trigger sharp, initial declines, a focus on underlying fundamentals reveals a more resilient picture.

The world is rarely free of turmoil. In the last five years alone, we have weathered a global pandemic, multi-decade inflation highs, aggressive interest rate hikes and major international conflicts. Yet, for those who remained invested, portfolios have not only survived but have often reached new highs. This is because businesses adapt, consumers adjust, and economies find new pathways to growth. Volatility is not merely risk; it is a source of opportunity for the prepared investor.

Reacting to breaking news is a losing strategy

True investment success is built on unwavering principles. First, diversification remains the most reliable defence against unforeseen shocks, ensuring no single event can derail your objectives. Second, maintain a long-term time horizon. The market has a consistent history of climbing a "wall of worry", rewarding those who patiently stay the course. Finally, rely on advice guided by facts, not fear.

Uncertainty is the price of admission for generating returns. By embracing a disciplined, long-term perspective, we can confidently look beyond today's turbulence, recognizing that volatility often plants the seeds for tomorrow's growth.

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> *– Philip Petursson*

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