Monthly Market Commentary

May 2025

Stocks rise despite U.S. trade policy concerns.

- Global equities, as measured by the MSCI ACWI Index, rose sharply in May despite periods of volatility in response to numerous changes in the trade policy of the administration of U.S. President Donald Trump. Developed markets outperformed emerging markets.
- Global fixed-income assets recorded modest losses for the month, while Canadian bonds were essentially flat. U.S. Treasury yields rose for all maturities of three months or longer. (Prices move inversely to yields.)
- We believe investors should thoughtfully construct diversified portfolios appropriate to their unique objectives, risks, and risk appetite.

Economic Backdrop

Global equities, as measured by the MSCI ACWI Index, rose sharply in May despite periods of volatility in response to numerous changes in the trade policy of the administration of U.S. President Donald Trump. Investors ultimately focused on positive news regarding negotiations between the U.S. and several major trading partners. The U.S. broad-market S&P 500 Index and the tech-heavy Nasdaq Composite Index surged 6.3% and 9.7%, respectively, in May (in U.S. dollar terms)—their largest monthly gains since November 2023.[1] Additionally, the S&P 500 Index saw its best May performance since 1990.[2]

Developed markets outperformed emerging markets in May. North America led the developed markets for the month attributable largely to the rally in the U.S. The Pacific ex Japan region was bolstered by strength in Singapore and New Zealand. Despite registering a positive return, Europe was the most notable developed-market laggard in May due to relative weakness in Switzerland, Belgium, and France. The Far East was the top performer within the emerging markets for the month, benefiting mainly from robust performance in Taiwan and Indonesia. Chinese and Hong Kong stocks listed on the Hong Kong Stock Exchange also performed well. In contrast, the Gulf Cooperation Council (GCC) countries recorded negative returns for the month and were the worst performers in the emerging markets due mainly to weakness in Saudi Arabia.[3]

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, dipped 0.4% (in U.S. dollars) in May. Canadian bonds were essentially flat. High-yield bonds comprised the lone sector within the U.S. fixed-income market to finish the month in positive territory, while investment-grade corporate bonds posted virtually flat returns. U.S. Treasury securities and mortgage-backed securities (MBS) recorded losses in May. U.S. Treasury yields rose for all maturities of three months or longer. Yields on 2-, 3-, 5-, and 10-year Treasury notes increased by corresponding margins of 0.29%, 0.29%, 0.24%, and 0.24% to 3.89%, 3.87%, 3.96%, and 4.41%, respectively.[4] The Treasury yield curve turned positive (10-year yields exceeded 3-month yields) over the month.

Global commodity prices, as represented by the Bloomberg Commodity Index (USD), were down 0.6% in May. The West Texas Intermediate (WTI) and Brent crude oil prices rose 4.4% and 4.7%, respectively in USD, during the month amid optimism that an agreement between the U.S. and China, the world's two largest oil consumers, to delay and reduce tariffs on imported goods could boost demand. The gold price retreated somewhat from its recent record highs, ending the month with a 0.1% dip as the postponement of U.S. tariffs on China and, later in the month, the European Union (EU), eased investors' demand for safe-haven assets. The New York Mercantile Exchange (NYMEX) natural gas price fell 5.2% due to a decline in demand and increasing stockpiles in the U.S. The 0.6% upturn in the wheat price resulted mainly from forecasts that unusually warm summer temperatures and extreme weather could reduce stockpiles in North America, Asia, and Europe.

U.S. trade policy dominated the global market news again in May. Under a tentative agreement with the U.K., which Trump and U.K. Prime Minister Keir Starmer announced on May 8, U.K. steel and aluminum imports will be exempt from the 25% tariff and levies on autos manufactured in the U.K. will be reduced from 25% to 10% for the first 100,000 imported vehicles. The agreement stipulates that the U.K. will purchase Boeing jets worth $10 billion and ease restrictions on imports of ethanol from the U.S. Imported goods from the U.K. will still be subject to the global 10% tariff implemented in early April.

Representatives of the U.S. and China hashed out a trade deal at a meeting in Switzerland on May 10-11. The two nations agreed to postpone some tariffs for 90 days while negotiations continue. The U.S. will reduce the levies on most goods imported from China from 145% to 30% (with a 10% across-the-board tariff and an additional 20% levy to pressure China to curb the illegal exports of fentanyl to the U.S.). China agreed to reciprocate by cutting the tariff on U.S. imports from 125% to 10%.

In a social media post on May 23, Trump said that he was considering the assessment of a 50% tariff on imported goods from the EU beginning on June 1, because trade policy talks were "going nowhere." In a separate post, the president noted that he informed tech giant Apple's CEO Tim Cook that he expected the company to manufacture its iPhones in the U.S. "If that is not the case, a Tariff of at least 25% must be paid by Apple to the U.S.," he wrote. Apple previously announced that it will shift the manufacturing of its devices from China to India after the Trump administration imposed tariffs on Chinese imports. Three days later, Trump announced that he was a delaying the imposition of the levies from June 1 to July 9 after the EU agreed to accelerate negotiations. He said that European Commission President Ursula von der Leyen requested an extension of the tariff deadline while trade negotiations continued. The ongoing tariff dispute remains highly volatile and in constant flux.

On the geopolitical front, there were several developments in the Russia-Ukraine military conflict in May. Russian President Vladimir Putin rejected a 30-day ceasefire supported by Ukrainian President Volodymyr Zelensky and refused to meet with Zelensky in Turkey in mid-May. Trump and Putin engaged in a discussion by telephone on May 19, but could not reach agreement on a ceasefire in the war. Late in the month, Russia launched massive drone and missile attacks on Ukraine. In response, Trump indicated that he was considering sanctions against Russia.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) declined 0.1% in April. Year-over-year consumer prices were up 1.7% as consumers paid more for groceries while energy prices were significantly weaker. Producer prices were lower in April, as the Industrial Product Price Index (IPPI) and the Raw Materials Price Index (RMPI) slid 0.8% and 3.0%, respectively. Year-over-year prices were mixed, up 2.0% and down 3.6%, respectively, for the IPPI and RMPI. Prices for metals have sharply increased over the past 12 months, while crude oil prices were once again notably weaker after starting 2025 in strong fashion. The Canadian labour market added a meager 8,800 jobs in May, and the unemployment rate rose 0.1 percentage point to 7.0%. When excluding COVID-19 related distortions in 2020 and 2021, the 7.0% unemployment rate represents the highest level since September 2016.

- The U.S. Department of Labor announced that the consumer-price index (CPI) rose 0.2% in April, up from the 0.1% dip in March and in line with expectations. Housing costs increased 0.2%, comprising more than half of the increase in inflation for the month. Energy prices were up 0.7% in April, as rising costs for utility gas service and electricity more than offset a decline in fuel oil and gasoline prices. The CPI advanced at a slightly lower-than-expected rate of 2.3% year-over-year—the smallest 12-month increase since February 2021—and was down from the 2.4% annual upturn in the previous month. Costs for utility gas service and housing climbed 15.7% and 4.0%, respectively, over the previous 12-month period, while gasoline and fuel oil prices declined by corresponding margins of 11.8% and 9.6%. Core inflation, as measured by the CPI for all items less food and energy, rose 2.8% year-over-year in April, meeting market expectations and unchanged from the annual increase in March. According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) decreased at an annual rate of 0.2% in the first quarter of 2025—down sharply from the 2.4% rise in the fourth quarter of 2024, but slightly higher than the government's initial estimate of a 0.3% dip. The economic contraction in the first quarter was attributable mainly to a surge in imports (a subtraction from GDP) as businesses rushed to purchase goods before the Trump administration's import tariffs took effect in early April. GDP also was hampered by a drop in government spending. Conversely, nonresidential fixed investment (purchases of equipment and software, and nonresidential structures), consumer spending, and exports each rose for the quarter.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, increased 1.2% in April, well above the 0.3% rise in March. The CPI advanced at an annual rate of 3.5% in April, up from the 2.6% year-over-year increase for the previous month. Transportation and communication costs posted the largest gains in April, while prices for furniture and household goods declined. Prices for housing and household services, education, and communication surged 7.8%, 7.5%, and 5.8%, respectively, over the previous 12-month period. Conversely, prices for furniture and household goods, and clothing and footwear dipped by corresponding margins of 0.5% and 0.4% year-over-year. Core inflation, which excludes volatile food, energy, and alcohol and tobacco prices, increased at an annual rate of 3.8% in April, accelerating from the 3.4% year-over-year upturn in March.[5] The ONS also announced that U.K. GDP increased 0.7% in the first quarter of 2025, up from the 0.1% growth rate in the fourth quarter of 2024. Production and services output rose 1.1% and 0.7%, respectively, over the quarter, while output in the construction sector was flat.[6]

- Eurostat pegged the inflation rate for the eurozone at 2.2% for the 12-month period ending in April, unchanged from the annual upturn in March. Costs in the services sector rose at an annual rate of 4.0%, notably higher than the 3.5% increase in March. Prices for food, alcohol and tobacco increased 3.0% year-over-year in April, edging up from the 2.9% annual rate for the previous month. In contrast, energy prices fell 3.6% over the previous 12-month period. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 2.7% in April, up from the 2.6% year-over-year increase in March.[7] Eurostat also reported that eurozone GDP rose 0.4% the first quarter of 2025, representing slight improvement over the 0.2% growth rate for the fourth quarter of 2024. Eurozone GDP increased 1.2% over the previous 12-month period. The economies of Ireland, Lithuania, and Spain were the strongest performers for the first quarter, expanding 10.9%, 3.2%, and 2.8%, respectively. In contrast, GDP in Austria, Hungary, and Germany saw corresponding declines of 0.7%, 0.4%, and 0.2% during the quarter.[8]

Index Data (May 2025)

- The S&P/TSX Composite Index jumped 5.56%.
- The FTSE Canada Universe Bond Index edged up 0.02%.
- The S&P 500 Index, which measures the performance of U.S. equities, returned 5.81%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 5.26%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.52% (currency hedged) and 1.21% (unhedged).
- The Chicago Board Options Exchange Volatility Index (VIX)—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—declined from 24.70 at the end of April to 18.57 to end May.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—rose from US$58.21 to US$60.79 a barrel during May.
- The Canadian dollar modestly strengthened to C$1.37 per U.S. dollar. The U.S. dollar was little changed against the world's other major currencies, ending May at US$1.14 versus the euro, US$1.35 against sterling, and at 144.30 yen.

Glossary

Gross domestic product (GDP) is the total monetary or market value of all the goods and services produced in a country during a certain period.

Economic contraction refers to a decline in GDP.

Mortgage-backed securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches (a slice or portion of a structured security) that vary by risk and expected return.

Safe-haven assets are generally those assets that are considered to be less risky and/or stores of value. Typically, safe-haven assets include precious metals, such as gold, or government securities, such as U.S. Treasurys.

Treasury yields are the yields for U.S. Treasury securities.

U.S. Treasury notes are debt obligations backed by the U.S. Treasury Department with a maturity between one and 10 years.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Index Definitions

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Cboe Volatility Index** (**VIX)** measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

The **Consumer Price Index (CPI)** is based on a fixed basket of goods and services designed according to international standards and methods.

The **FTSE Canada Universe Bond Index** comprises a series of benchmarks designed to track the performance of the bonds denominated in Canadian dollars.

The **ICE BofA High Yield Constrained Index** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities, with maturities of one year or more and a credit rating of BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service, but are not in default.

The **Industrial Product Price Index (IPPI)** reflects the prices that producers in Canada receive as goods leave the factory gate. The IPPI does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes, such as sales taxes and tariffs, and all costs that occur between the time a good leaves the plant and the time the final user takes possession of the good. This includes transportation, wholesale and retail costs. Although the IPPI does not measure the direct effect of tariffs on prices, tariffs may indirectly influence prices measured in the IPPI. For example, inputs used in the production process that are imported and on which Canada imposes a tariff may raise the prices charged by Canadian producers. Tariffs on Canadian imports or exports may also indirectly influence prices in the IPPI through their impact on supply and demand dynamics.

The **MSCI ACWI Index** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **Nasdaq Composite Index** is a market capitalization-weighted index that tracks the performance of all domestic and international companies listed on the Nasdaq Stock Market. Technology stocks comprise nearly 50% of the index's weighting.

The **Raw Materials Price Index (RMPI)** reflects the prices paid by Canadian manufacturers for key raw materials. The RMPI includes all charges purchasers incur to bring a commodity to the establishment gate, including transportation charges, net taxes paid, and customs duties and tariffs paid on imported raw materials. Many of the prices measured by the RMPI are set on the world market. However, as few prices are denominated in foreign currencies, their conversion into Canadian dollars has only a minor effect on the calculation of the RMPI.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The **S&P/TSX Composite Index** tracks the performance of the broad Canadian equity market—i.e., stocks listed on the Toronto Stock Exchange (TSX).

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[1] Source: Nasdaq. “May 2025 Review and Outlook.” May 31, 2025.
[2] Source: MarketWatch.. “S&P 500 scores best May since 1990, but stocks end month with fresh tariff worries.” May 30, 2025.
[3] All equity market performance statements are based on the MSCI ACWI Index.
[4] According to the U.S. Department of the Treasury. As of April 30, 2025.
[5] According to the ONS. May 21, 2025.
[6] According to the ONS. May 15, 2025.
[7] According to Eurostat. May 19, 2025.
[8] According to Eurostat. April 30, 2025.