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INVESTMENT COUNSEL

INTERIM MARKET UPDATE
US Tariff Announcement

April 2025

As you are undoubtedly well aware, the US government recently shocked markets with a 1930s-style tariff plan aimed at closing its various international trade deficits. Our quarterly commentary with a look into current conditions will be out shortly, but in the meantime below are a few comments from DM's investment team.

What happened

- Post election, investors and corporate America were focused on the US administration's pro-growth agenda which would foster investment, cut taxes, ease regulation, support merger & acquisition activity, and capitalize on the AI super cycle to drive innovation and economic expansion.
- Since taking office, however, the government's protectionist tilt has gained momentum and, on April 2nd, the president unveiled a tariff plan that caught markets off guard by both its scale and scope.
- Announced tariff rates were well above baseline expectations of 10%, due primarily to the administration's inclusion of non-tariff barriers in its calculation, incorporating items such as currency manipulation and judicial actions preventing trade.
- The tariffs, if enacted, would mark one of the broadest trade measures in history, reaching levels not seen since 1910 with an effective average rate of almost 25%.

Market reaction

- Markets responded swiftly to the news, with equities tumbling in recent sessions and bond yields falling sharply as investors sought haven assets (note that some of this rate decline has reversed as of this writing, perhaps due to the expected inflationary impact of tariffs now entering the calculus)
- We expect negotiations to start with the US on a country-by-country basis in the days ahead, though many nations are now enacting retaliatory tariffs, with China being the first to respond.
- As retaliatory measures from China and other nations escalate, the administration will face pressure to navigate negotiations while balancing political challenges, economic risks, and potential job losses.

DM portfolio positioning

- Beginning in December 2024, we began derisking our US equity portfolio by realizing select gains (primarily in the tech sector). These trades have contributed significantly to our relative outperformance, with the DM US equity mandate exceeding the S&P500 by over 300bps on a YTD basis.
- On the Canadian side, we moved approx. 4% of DM Canadian Equity to cash prior to April 2nd. The mandate is now defensively positioned, which has helped deliver positive relative performance vs the S&P/TSX since the tariff announcement; in the coming weeks, we will look for attractive opportunities to deploy this cash.
- Bonds are doing what they are supposed to do by posting a positive return YTD, limiting the overall loss in balanced portfolios.

As the tariff negotiations unfold, we recommend staying the course as we did through past market corrections. Our team is working behind the scenes to take advantage of newly discounted prices and to reduce risk where possible. If you are currently holding cash for future investment, now would be a great time to talk to your advisor about deployment strategy and potential entry points.

If you have any questions, please don't hesitate to reach out to your DM Investment Counsellor.

Thanks for checking this out!

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