



**HARBOURFRONT**  
WEALTH MANAGEMENT

# **WATERMARK PRIVATE PORTFOLIOS**

**MAY 2025 COMMENTARY**



**TRUE INDEPENDENCE™**

# Market Review in Minutes

## Equities

- Volatility in equity markets fell as tariff and trade negotiations progressed between the US and other major countries, such as the UK and China. Tariff discussions continued to dominate the news headline and this month, the news seemed to turn for the better. Both US and Canadian equity markets closed the month in positive territory with the S&P 500 (in CAD) rising by +5.81% and the S&P/TSX Composite increasing by +5.56%.
- International equities (outside the US) had a strong month too, gaining +4.44%.
- Leaders:** The tech-focused S&P 500 slightly outperformed the commodity-heavy S&P/TSX Composite in May.
  - In the US, technology stocks rallied the most, leading the S&P 500 higher for the month.
  - In Canada, the industrial and consumer discretionary sectors were the top performing sectors.
- Laggards:**
  - In the US, the health care sector was the biggest laggard and was the only sector that had a negative monthly return.
  - In Canada, health care sector lagged the other sectors in the S&P/TSX Composite.

## Fixed Income

- The fixed income market remained volatile throughout May. Bond prices in the US continued to slide as trade tensions eased and investors rotated into equities with the market trying to determine the outcome of tariffs on interest rates:
  - Tariffs drive prices higher and will likely cause spending to slow, resulting in slower economic growth and interest rates to fall.
  - Alternatively, higher prices are also inflationary resulting in higher interest rates.
- The credit rating of the US was downgraded this month, increasing the risks of holding US national debt. Higher deficits leading to higher government debt is on the top of bond managers minds and is also a driver of higher interest rates.
- The Canadian Universe Bond Index ended flat in May.

As at May 31, 2025	Monthly % Total Return	YTD % Total Return
<b>Canadian Bonds</b> <i>FTSE Canada Universe Bond Index</i>	0.02%	+1.38%
<b>Canadian Equities</b> <i>S&amp;P/TSX Composite Index</i>	+5.56%	+7.05%
<b>US Equities</b> S&P 500, in C\$	+5.81%	-3.38%
<b>Intl Equities (ex USA)</b> iShares MSCI ACWI ex US	+4.44%	+14.03%
<b>Gold</b>	-0.11%	+25.54%
<b>Oil</b> <i>West Texas Intermediate Crude</i>	+4.43%	-15.24%
<b>Canadian Dollar</b>	+0.39%	+4.83%

# Market Review in Minutes (Continued)

## Commodities

- Oil (WTIC) bounced higher this month by +4.43% and ended close to \$60. The rally occurred as China and the US met for trade discussions, removing fears of a substantial and long trade war that could lead to a global recession.
  - Trade tensions between the US and China eased this month, lessening fears of a global recession and therefore, increasing demand.
  - Geopolitical tensions mounted this month in the Middle East as news broke out about Israel preparing to strike Iranian nuclear facilities; this caused fears of a supply disruption and therefore an increase in oil prices.
- Gold ended flat for the month and ending the month just below \$3,300.
- The US Dollar was flat in the month of May.

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# Notable Monthly Highlights

## USA – US Federal Reserve held its target policy rate at 4.25%-4.50%

- President Trump continued to dominate headlines with tariff announcements on major global trading partners:
  - May 8: The UK agreed to decrease non-tariff barrier on US goods, such as beef, ethanol and machinery. The US agreed that it will keep its overall 10% tariff on British imports but lower the tariff on British autos from 27.5% to 10%.
  - May 12: The US and China met and decided to cut back tariffs for 90 days beginning May 14, effectively with the US cutting back overall tariffs on Chinese goods from 145% to 30% and China's tariffs on American goods from 125% to 10%.
  - May 23: Trump threatened a 25% tariff on Apple products unless Apple moves iPhone manufacturing to the US. He also announced he would put a 50% tariff on all imports from the European Union (EU) due to their lack of progress on trade talks.
  - May 25: Trump announced he would delay the 50% tariff on the EU.
- The US Federal (Fed) Reserve kept its policy rate unchanged, signaling no urgency to cut rates unless more concerning economic signals emerge.
- Despite signs of economic weakness, including consumer spending slowing down and persistent inflation, the labour market remains solid and overall economic growth is holding up:
  - Retail sales grew by +0.1% MoM in April, which was slightly higher than consensus.
  - The US Fed's preferred measure for interest rate policy, the core personal consumption expenditures (PCE), ticked up slightly by 0.1% MoM in April, inline with market expectations.
  - The annual inflation rate declined to 2.3% YoY in April, which was the lowest level since February 2021. The core inflation rate was unchanged from the previous month and was in line with market expectations.
  - The unemployment rate was unchanged at 4.2% YoY in April, which was inline with expectations.

# Notable Monthly Highlights (Continued)

## Canada – Bank of Canada will make its next interest rate policy decision on June 4





- Bank of Canada's future rate cuts will largely depend on the economic supply/demand forces and US tariff policies and their implications on Canada's inflation outlook.
  - Inflation slowed to 1.7% YoY in April, which was slightly higher than the 1.6% forecasted and lower than the previous month. However, core inflation rose from 2.2% YoY in March to 2.5% in April.
  - Retail sales to rise by 0.5% MoM in April, which would extend the 0.8% rise in sales the previous month.
  - Canada's unemployment rate ticked slightly higher to 6.9% YoY in April from 6.7% in the previous month and it was higher than market expectations.
  - Business confidence dropped from 51.3 in March to 47.9 in April. In addition, consumer confidence also fell to 47.7 in April from 48.2 in March.

## World – China cut its benchmark lending rate in May to stimulate growth; Bank of England cut its interest rates as well

- Chinese equity markets ended positive in May as trade tensions between the US and China eased.
  - The People's Bank of China cut its lending rates from 3.1% to 3.0% to help stimulate economic growth.
  - The Manufacturing PMI (Purchasing Manager's Index) declined from 51.2 in March to 50.4 in April but beat market expectations of 49.8.
- The Bank of England (BOE) cut its benchmark rate from 4.5% to 4.25%.
  - The BOE saw signs of weakness in the economy as consumer demand is expected to remain weak this year.
  - Inflation rate rose from 2.6% in March to 3.5% in April. The April reading was also higher than the market expectation of 3.3%.

# Watermark Private Portfolios Outlook and Positioning

This month we saw investors rotate into equities. However, we believe that there is still uncertainty surrounding tariff negotiations, especially once the 90 days pause comes up between the US and China. The market continues to move largely from headline news or announcements made by President Trump. We also expect that economic data will likely start to come in weak once the impact of tariffs trickle into business profit margins.

	Underweight	Target	Overweight	May 2025 Highlights
Equities				<ul style="list-style-type: none"><li>• Early in May, we took profits from the CI Munro Global Growth Equity ETF and iShares Nasdaq 100 ETF (CAD-Hedged) holdings and realized a profit of 17% and 14%, respectively.</li><li>• With market volatility likely to persist, we allocated the sale proceeds into Fidelity All-in-one Equity ETF, which has less growth holdings but still participates on the upside. This ETF is also diversified globally and across different sectors.</li><li>• Overall, the equity investments in the portfolios are high quality (i.e. strong balance sheets and growing cash flows) and diversified amongst different sectors.</li></ul>
Fixed Income				<ul style="list-style-type: none"><li>• We remain underweight fixed income, holding Brandsen Global Income Opportunities Pool, which offers several fixed income strategies that focus on achieving positive returns in all investment environments, thereby providing more diversification than traditional fixed income.</li></ul>
Private Credit				<ul style="list-style-type: none"><li>• No changes. Maintain our long-term allocation to private credit as it adds asset class diversification and reduced volatility to your portfolios.</li></ul>
Private Real Estate				<ul style="list-style-type: none"><li>• No changes. Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class.</li></ul>

# Changes in Portfolio Positioning Over the Past Month

## **In the Enhanced Conservative Plus, Balanced Plus, Growth Plus & Maximum Growth Plus:**

- Sold CI Munro Global Growth ETF in all Enhanced Plus portfolios.
- Sold iShares Nasdaq 100 ETF (CAD-Hedged) in all Enhanced Plus portfolios.
- Bought Fidelity All-in-One Equity ETF in all Enhanced Plus portfolios.



# Did You Know?

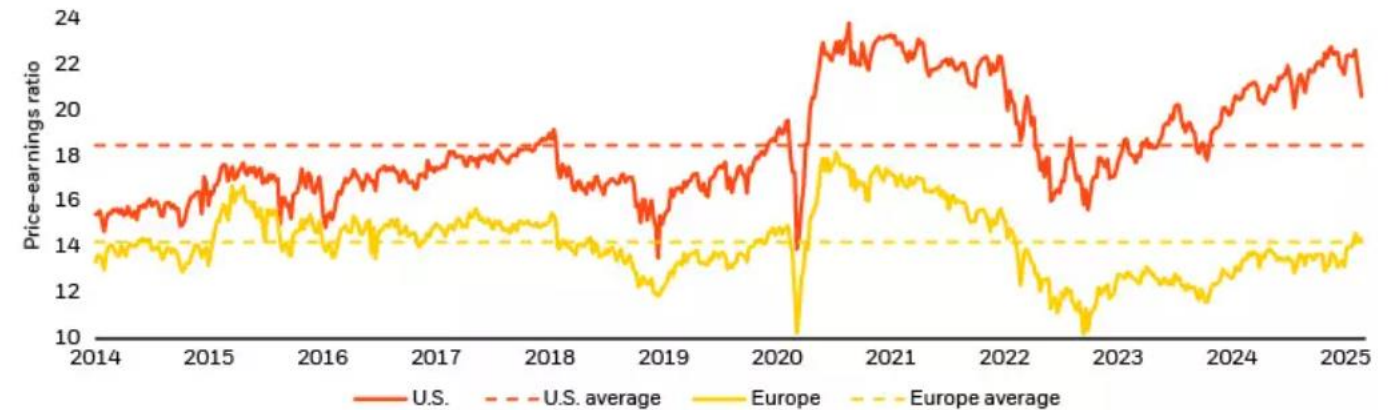
As seen in the chart, there is a large gap between Europe and US stock market valuations. Historically, at some point in time the gap tends to narrow and stock market valuations tend to mean revert to the long-term averages.

## Our opinion:

If US stock market valuations revert to their long-term average around 19, they will have to fall to get there, meaning US stocks currently appear slightly overvalued. Therefore, in the near future we may further diversify equity holdings away from the US and increase exposure to international companies.

## Mind the (very wide) gap


























Europe vs. U.S. stock market valuations, 2014-2025



**Indexes are shown for illustrative purposes only. It is not possible to invest directly in an index.** Source: BlackRock Investment Institute, with data from LSEG Datastream and MSCI as of March 11, 2025. The lines show each market's current 12-month forward price-to-earnings ratio, calculated using I/B/E/S earnings estimates for the next 12 months. Regions based on MSCI indexes.



# Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	2.30%		4.50%		4.20%		2.10%		21.7	
Canada	1.70%		2.75%		6.90%		2.40%		16	
China	-0.10%		3.00%		5.10%		5.40%		11.1	
Japan	3.60%		0.50%		2.50%		1.70%		14.2	
United Kingdom	3.50%		4.25%		4.50%		1.30%		12.5	

Source: Trading Economics

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