CARDINAL POINT
FOCUS PARTNERS CANADA

quarter ending in March 31, 2025

Quarterly Newsletter

Diversification Pays Dividends

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The 1st quarter of 2025 saw mixed results with U.S. stocks falling while Canadian and International stocks, as well as fixed income, advanced. This was a meaningful deviation from the prior two calendar years when an investor could have simply bought a few of the mega cap U.S. names and seen tremendous returns. That is a great reminder of why we continue to believe that a well-diversified portfolio is the best approach to meeting your long-term financial goals.

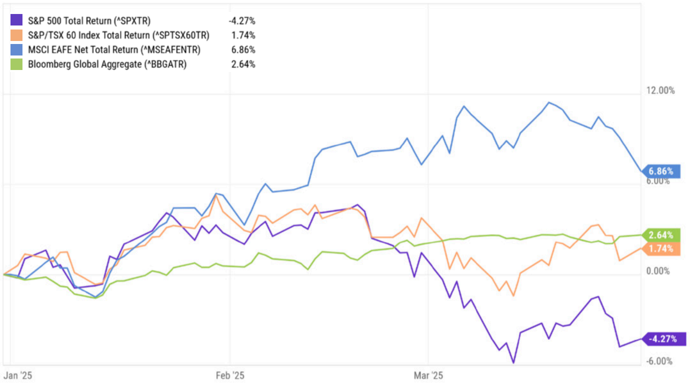
For the quarter, U.S. stocks saw initial gains hitting a new high in mid-February before a precipitous fall in the 2nd half of the quarter—amid escalating tariff announcements and finishing the period down 4.3% on the S&P 500 in USD. Canadian stocks followed a fairly similar up and down trajectory, but were able to maintain gains of 1.7% as measured by the S&P/TSX 60 in CAD, compounding on 2024 momentum. International Stocks did quite well, with a gain of 6.9% in USD, benefiting from some weakness in the USD and announcements by many countries of large budget expansions as they grapple with an increasingly isolationist America.

Interest rates were somewhat mixed around the globe, but in general were slightly lower over the quarter through March 31st—and the Global Aggregate Bond Index advanced by 2.6%. Investors with a combination of globally diversified stocks, bonds, and some alternatives generally saw relatively flat performance in the 1st quarter, despite the steady barrage of negative headlines.

Global Diversification & Tariff Navigation:

The main story at the moment is tariffs, and how International trade is conducted in response to those. In a world of accelerated trade tensions and tariff announcements, understanding how to

Index Returns



position your portfolio has never been more challenging. As the tariff news changes by the minute, we step back for a moment to evaluate the U.S. tariff policy.

The Economic Impact of Tariffs: Historical Lessons

When countries implement tariffs, they typically trigger several counterproductive economic mechanisms, and history offers clear warnings about the effectiveness of tariffs. As financial historian William Bernstein documented in "A Splendid Exchange," the Smoot-Hawley tariffs of the 1930s had devastating consequences:

> *"Between 1930 and 1933, worldwide trade volume fell off by one-third to one-half. Depending on how the falloff is measured, this computes to 3 to 5 percent of world GDP, and these losses were partially made up by more expensive domestic goods."*

This dramatic decline in global trade deepened the Great Depression and contributed to the economic isolationism that preceded World War II. Even earlier examples show similar patterns. President William McKinley's tariffs in the late 1800s,

Clients of Cardinal Point are strategically invested with a focus on long-term performance objectives. We evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in context, but we do not make sweeping model changes based on short term market movements.

while initially popular, quickly backfired. As JP Morgan's Michael Cembalest noted:

> *"President William McKinley tariffs were very popular at the time they were enacted, but they caused an almost immediate inflation spike. Voters were very unhappy: a few months later, the GOP lost 100 seats in the 1890 midterm elections."*

These historical examples demonstrate a consistent pattern: broad-based tariffs often lead to economic pain through higher prices, reduced consumer choice, and potential job losses as businesses struggle to adapt their supply chains.

The Largest Tax Increase in Modern History

If fully enacted, the proposed tariffs announced on "Liberation Day" would amount to the largest effective tax increase in modern U.S. history, equivalent to an estimated 1.6% of GDP. The tariffs are expected to generate $600 billion in revenue this fiscal year, a figure that exceeds annual corporate tax receipts. While a one-time increase in prices isn't inherently inflationary, it still erodes consumer purchasing power and confidence, and is likely to dampen real economic growth.

However, it's likely, and hoped, that these tariffs are merely an opening position in a negotiation strategy. It's possible that the administration took a harsher approach to gain leverage as they head into negotiations with other countries. A series of deals that subsequently reduce tariffs from their proposed levels would likely be well received by the markets.

The Challenge of Economic Disruption

While targeted tariffs for strategic industries might serve specific purposes, universal tariffs create widespread economic disruption. Financial analyst Cullen Roche points out, "Manufacturing has fallen from 40% to 7% of US employment since 1950 and robotics will decimate the remaining 7% in the next 50 years. Those jobs aren't coming back and trying to turn the most advanced technological economy in the world back into an emerging market manufacturing economy is backwards thinking."

The notion that tariffs will broadly restore manufacturing jobs overlooks fundamental economic realities. Advanced economies naturally evolve beyond manufacturing as their primary economic driver. As Bloomberg reporter Joe Weisenthal explains, "One way to think about any relatively open trading bloc is that by allowing more specialization and focus, the economy can build out more complex market objects. If you want to have autarky in America, you could probably do it, but good luck building out any advanced, complex industry, with so many resources dedicated to manufacturing kitchen mitts or microwaves."

Beyond Borders: The Power of Global Diversification

Despite these tariff concerns, it remains crucial that investors continue to look beyond U.S. stocks. Putting all your investment eggs in one basket, even if it's the mighty U.S. stock market, might not be the smartest move for your long-term financial health. That especially true now that many investors appear to be seeking safer haven alternatives in other parts of the world.

The Rotating Spotlight of Market Performance

Some of us with a few decades of experience can remember when international stocks were all the rage in the 2000s. While U.S. markets struggled through the dot-com bubble aftermath, going nowhere for an entire decade, international investments were shining. That's how markets work—leadership rotates, sometimes over years or even decades.

Right now, many international markets are trading at significant discounts compared to their U.S. counterparts. Value investors see this as opportunity knocking. Different economies dance to different rhythm and may be impacted by the changing trade landscape in different ways. Gaining exposure to such diverse economic cycles can help smooth your investment journey.

Diversification is Already Paying Off

While the last few years have been dominated by the "fear of missing out" (FOMO) on the opportunity known as the Magnificent 7, diversification strategies are paying off so far this year:

- International equities are holding strong, buoyed by both improving global growth and a weaker U.S. dollar
- High-quality bonds are benefiting from attractive yields
- Alternative strategies are in many cases outperforming both equities and fixed income

This pattern reinforces the value of maintaining diversified exposures, especially during periods of market volatility triggered by policy changes like tariff implementations.

Long-Term Investment Strategies During Tariff Periods

Rather than making short-term tactical shifts in response to tariff announcements, a more sustainable approach focuses on building resilience into your portfolio through thoughtful global diversification:

1. Geographic Diversification with Purpose

Instead of avoiding international markets altogether during trade tensions, consider a strategic approach to global allocation:

- Diversify across multiple regions to reduce concentration risk
- Balance exposure between developed and emerging markets
- Consider allocations to countries with different economic drivers and trade relationships
- Maintain exposure to domestic markets as part of a balanced global strategy

2. Strategic Asset Allocation as a Buffer

A well-constructed portfolio includes different asset classes that respond differently to economic events, including trade disputes:

- Maintain a strategic mix of stocks, bonds, and alternatives determined by your long-term goals
- Resist the urge to make abrupt changes based on short-term tariff news
- Rebalance periodically to maintain your target allocations as markets shift
- Consider the correlations between assets when building your portfolio

3. Alternative Strategies for Diversification

Beyond traditional stocks and bonds, certain alternative investments can provide additional diversification during periods of tariff-induced volatility:

- Market-neutral and hedged strategies that aim to reduce correlation with traditional markets
- Private market investments that may be less immediately reactive to public market volatility with a longer term orientation
- Absolute return strategies designed to perform in various market environments
- Managed futures or systematic trend-following approaches that can potentially benefit from market dislocations

Volatility as Opportunity

While volatility can be unnerving in the moment, corrections are a normal part of long-term investing. Historically, the S&P 500 has experienced 10% corrections in about 60% of calendar years and 15% corrections in roughly 40% of them. In the years that saw 10%–20% drawdowns, the average full-year return was still a solid 15%.

Sentiment is particularly pessimistic right now, with fewer than 20% of individual investors expressing bullish views. This extreme pessimism has historically been a contrarian indicator. Data shows that when investor sentiment falls below 25% bullish, the average S&P 500 return over the following 90 days has been 5%, and over the following year, 18%. Investors with a long-time horizon can benefit from some occasional volatility by continuing to buy additional shares at lower prices and rebalancing.

Diversification

Building a truly diversified global portfolio is a thoughtful process that evolves as your financial situation changes and as the global trade landscape shifts. Start by looking beyond domestic stocks to international markets. Add appropriate fixed income for stability. As your portfolio grows, consider adding alternative investments that align with your goals and risk tolerance.

Remember that diversification isn't about maximizing returns—it's about optimizing them relative to the risk you're taking. When you combine assets that don't all move in the same direction at the same time, something wonderful occurs. Your overall portfolio becomes more stable. It's about creating a portfolio that can thrive in various market conditions, not just during periods of trade harmony.

In this environment, it's worth remembering that the long-term return expectations embedded in financial plans are designed to include significant annual variations from both buoyant market periods and challenging markets alike.

As we navigate increasingly complex global markets shaped by tariff policies and trade negotiations, expanding your investment horizons isn't just an option—it's essential for building lasting wealth. It's our job to ensure that you have a portfolio that's ready for anything the financial world throws at it.

Financial Markets Review

The USD View

Data from recent months indicates that the U.S. economy is still growing but caution and uncertainty are starting to take their toll. Job growth numbers had a solid quarter with the most recent estimate being 228k jobs added in March. The unemployment percentage rate ticked up just slightly over the quarter from 4.1 to 4.2. These numbers remain very healthy, but much of the concern in markets today is forward looking—around the impact tariffs may have on corporate profits and overall employment levels.

Our most recent measure of overall growth in GDP came in at 2.4% for Q4 2024, a slight slowdown from the previous two quarters but a perfectly good rate. Early indications for Q1 of 2025 are where the concerns now are, with the Atlanta Fed GDP Now Gold Adjusted estimate at -1%, the first predicted slowdown in many quarters.

Inflation continues to be stuck in neutral. We've now seen a moderate growth rate of 2.8% over the last 12 months, slightly higher than a quarter ago. Those numbers are still above the Fed's target of 2.0%, and appear to be stubbornly sticky. Similar to the other numbers above, the potential impact of tariffs can have a massive impact on short-term inflation rates—and that puts the Federal Reserve in a tricky situation.

The uncertainty around a dramatic change in trade relations for the U.S. going forward led to increased odds of a recession to come, and interest rates fell during the quarter by nearly a half point on the US 10-year Treasury. Against this falling interest rate backdrop the Bloomberg U.S. Aggregate Bond Index advanced by 2.8% for the quarter. The Fed remained on pause during the quarter, but with the recent volatility traders are now estimating four rate cuts before the end of 2025, meaning a 1% reduction in the overnight rate before the end of the year.

For stock markets, the S&P 500 started off well, hitting new highs in mid-February, but turned down in the 2nd half of the quarter as tariff news and other policy uncertainty took center stage. The index finished the quarter down 4.3%. After two fantastic returning years, stocks look set to give back some of those gains. International Developed Market companies, on the other hand, as measured by the MSCI EAFE Index, advanced, helped by the combination of domestic gains and a weakening of the U.S. Dollar. The index advanced by 6.7% for the quarter, an outperformance compared to U.S. Stocks of over 11%. Emerging Markets, as measured by MSCI Emerging Markets, also advanced, tacking on 2.9%

US Stocks
Q1 2025

	Value	Blend	Growth
Large	2.1%	-4.5%	-10.0%
Mid	-2.1%	3.4%	7.1%
Small	-7.7%	9.5%	-11.1%

Within the U.S. market, returns were negative for most segments with the exception of Large Value companies. Growth oriented stocks, after jumping in 2024, sold off considerably in Q1.

International Developed Markets also saw Large Value companies lead the way this quarter with a strong 11% gain, while all segments registered positive gains. The USD declining against most other major currencies had a material impact in helping fuel those positive gains.

International Stocks
Q1 2025

	Value	Blend	Growth
Large	11.0%	6.4%	2.0%
Mid	7.7%	3.4%	2.6%
Small	5.8%	3.4%	0.9%

Asset classes ranked by annual returns (in USD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 Q1
US REITs 4.5%	US Small Value 31.7%	Emerging Markets 37.3%	Cash 1.9%	US Stocks 31.5%	US Stocks 18.4%	US Small Value 28.3%	Cash 1.5%	US Stocks 26.3%	US Stocks 25.0%	Intl Stocks 6.9%
US Stocks 1.4%	Canadian Stocks 24.9%	Intl Stocks 25.0%	US Bonds 0.0%	Canadian Stocks 29.5%	Emerging Markets 18.3%	US REITs 24.5%	Alternatives -5.7%	Intl Stocks 18.2%	Canadian Stocks 13.0%	Emerging Markets 2.9%
US Bonds 0.5%	US Stocks 12.0%	US Stocks 21.8%	Alternatives -3.2%	US REITs 23.1%	Intl Stocks 7.8%	Canadian Stocks 19.8%	Canadian Stocks -11.4%	Canadian Stocks 16.0%	US REITs 8.1%	US Bonds 2.8%
Cash 0.1%	Emerging Markets 11.2%	Canadian Stocks 16.8%	US REITs -4.2%	US Small Value 22.4%	US Bonds 7.5%	US Stocks 15.9%	Intl Stocks -14.5%	US Small Value 14.6%	US Small Value 8.1%	Canadian Stocks 1.8%
Alternatives -0.7%	US REITs 6.7%	US Small Value 7.8%	US Stocks -4.4%	Intl Stocks 22.0%	Canadian Stocks 6.6%	Intl Stocks 11.3%	US Bonds -13.0%	US REITs 14.0%	Emerging Markets 7.5%	US REITs 1.2%
Intl Stocks -0.8%	Intl Stocks 1.0%	Alternatives 7.1%	US Small Value -12.9%	Emerging Markets 18.4%	Alternatives 6.4%	Alternatives 7.2%	US Small Value -14.5%	Emerging Markets 9.8%	Cash 5.2%	Cash 1.1%
US Small Value -7.5%	US Bonds 2.6%	US REITs 3.8%	Intl Stocks -13.8%	Alternatives 9.3%	US Small Value 4.6%	Cash 0.1%	US Stocks -18.1%	US Bonds 5.5%	Alternatives 4.3%	Alternatives 0.8%
Emerging Markets -14.9%	Alternatives 1.3%	US Bonds 3.5%	Emerging Markets -14.6%	US Bonds 8.7%	Cash 0.7%	Emerging Markets -1.2%	Emerging Markets -20.1%	Alternatives 4.4%	Intl Stocks 3.8%	US Stocks -4.3%
Canadian Stocks -23.5%	Cash 0.3%	Cash 0.8%	Canadian Stocks -15.3%	Cash 2.3%	US REITs -11.2%	US Bonds -1.6%	US REITs -26.0%	Cash 5.0%	US Bonds 1.3%	US Small Value -7.7%

The CAD View

Growth and employment rates for the Canadian economy continue to lag the U.S. The unemployment rate was relatively unchanged over the quarter, ending at 6.7%. New job creation which had spiked at the end of 2024 saw a precipitous drop-off, culminating with an outright loss in March of 33k jobs—the biggest decline since Jan 2022.

GDP growth in 2024 was a brighter spot, with Q4 coming in at a 2.6% annualized rate, roughly the average seen over the course of the year. Inflation, which had appeared tamed in 2024, saw a jump most recently to 2.6% from data through February, though may have been at least partially caused by the end of the goods and services tax and harmonized tax breaks halfway through the period.

Bond yields in Canada ticked down during the quarter, causing the Bloomberg Barclays Global Canada Index to register a solid gain of 2.1%. Canadian stocks, as measured by the S&P/TSX 60, continued their momentum from 2024 and added 1.7% of total return. U.S. stocks, as measured by the S&P 500, fell by 4.2% in CAD for the quarter. International stocks gained 6.9% in CAD for the quarter.

Canadian markets saw significant variation among different sectors of the stock market, with Large Growth and Small Value companies doing the best.

Cdn Stocks
Q1 2025

	Value	Blend	Growth
Large	0.1%	1.7%	3.6%
Mid	3.3%	-1.4%	-3.8%
Small	2.2%	0.9%	-0.4%

Asset Classes Ranked By Annual Returns (In CAD)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 Q1
US Stocks 21.6%	Canadian Stocks 21.1%	Intl Stocks 16.8%	US Stocks 4.2%	US Stocks 24.8%	US Stocks 16.3%	Canadian Stocks 17.5%	Canadian Stocks -5.8%	US Stocks 22.9%	US Stocks 36.4%	Intl Stocks 6.9%
Intl Stocks 19.0%	US Stocks 8.1%	US Stocks 13.8%	Canadian Bonds 2.5%	Canadian Stocks 22.9%	Canadian Bonds 7.4%	US Stocks 15.3%	Intl Stocks -8.2%	Intl Stocks 15.1%	Canadian Stocks 21.0%	Canadian Bonds 2.1%
Canadian Bonds 3.7%	Canadian Bonds -0.3%	Canadian Stocks 9.1%	Intl Stocks -6.0%	Intl Stocks 15.8%	Intl Stocks 5.9%	Intl Stocks 7.7%	Canadian Bonds -9.9%	Canadian Stocks 12.1%	Intl Stocks 13.2%	Canadian Stocks 1.7%
Canadian Stocks -8.3%	Intl Stocks -2.5%	Canadian Bonds 0.1%	Canadian Stocks -8.9%	Canadian Bonds 3.7%	Canadian Stocks 5.6%	Canadian Bonds -3.8%	US Stocks -12.2%	Canadian Bonds 5.0%	Canadian Bonds 2.9%	US Stocks -4.2%

Indexes used: Cash represented by ICE BofAML 3M U.S. Treasury Notes. MSCI Canada, MSCI World Ex USA and U.S. Russell series used for Large Value, Large Blend, Large
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Growth, Mid Value, Mid Blend, Mid Growth, Small Value, Small Blend, Small Growth representations. Alternatives in USD and CAD charts represented by Credit Suisse Liquid Alternative TR USD . Nominal Broad U.S. Dollar index for USD comparisons. Additional representations in CAD: Canadian Bonds- Bloomberg Barclays Global Canada, Canadian Stocks- S&P/TSX Composite TR, U.S. Stocks S&P 500 TR, International Stocks- MSCI EAFE NR. Additional representations in USD: Short International Bonds- FTSE WGBI 1-5Yr Hdg, U.S. stocks- S&P 500, U.S. Value- Russell 1000 Value, U.S. Small- Russell 2000, U.S. REITs- DJ U.S. Select REIT, Canadian Stocks- FTSE Canada, Intl Stocks- MSCI World Ex USA Large, Emerging Markets- MSCI EM NR. ETFs were used to represent sector returns, Clean Energy represented by iShares Global Clean Energy ICLN, Energy by The Energy Select Sector SPDR Fund XLE, Defense by iShares US Aerospace & Defense ETF ITA, and Financials by SPDR S&P Bank ETF KBE.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Bank of Canada, Capital Economics, Bloomberg Economic Calendar, U.S. Department of the Treasury, CME Group, Trading Economics, "A Short History of Tariffs" Feb 2025, Ben Carlson, A Wealth of Common Sense, "Wall Street's Market Forecasts Are Out for 2025- Be Dubious," Bloomberg Dec 2024 , JP Morgan Guide to the Markets Q1 2025, YCharts, Morningstar Direct 2025.

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