



August 13, 2025

Investors sent US and Canadian equity indexes higher again in July, as key economic indicators released during the month offered no hard evidence that international and domestic policies of the Trump administration are hobbling the US economy. Yet trade related uncertainty continues to hang over the Canadian economy and Mark Carney commented during the month that "there's not a lot of evidence right now" of US willingness to resolve bilateral trade tensions without some level of tariffs, a view echoed by various US officials. And despite Donald Trump ratcheting up tariffs at month end on all Canadian goods not covered by the US-Mexico-Canada (USMCA) trade agreement to 35% from 25%, most Canadian exports to the US continue to enter the US tariff free under the USMCA, but significant new levies on key sectors remain, including steel, aluminum and autos. And by month end there was no sign a bilateral agreement would be reached by the (current) August 1st deadline. Globally, the US administration struck trade deals with several countries in July, but negotiations with China continue, with the current August 12th deadline for the ongoing talks extended.

For the month, the S&P/TSX Composite Index rose 1.69, the S&P 500 Index climbed 2.22, the Nasdaq Index gained 3.72, the MSCI World Index rose 2.03%, and the MSCI EAFE Index rose 1.38%. In the UK, the FTSE 100 Index rose 4.31% and Germany's DAX Index gained 0.65%. In Asia, Japan's Topix index advanced 2.83%. Canadian and US bond yields rose in July as prices fell, with the FTSE Canada Universe Bond Index down -0.74% for the month. Gold inched up 0.31% while oil gained 6.37%.

Monthly market developments

- The US economy grew at an annual rate of 3% in Q2, according to the Commerce Department, following a 0.5% contraction in Q1. The rise was driven by a drop in imports as tariffs came into effect and the rush by businesses in

Q1 to buy foreign goods went into reverse. Imports are a subtraction in the calculation of GDP.

- US inflation rose 0.3% in June, the biggest monthly increase in five months, and up from 0.1% in May, but in line with expectations. Annual core inflation inched up to 2.9% from 2.8%, but below forecasts of 3%. The monthly core reading also rose less than expected, at 0.2%, compared to forecasts of 0.3%, but up from 0.1% in May.
- The Federal Reserve kept its key interest rate at 4.25% to 4.50%. In its comments, the Fed noted activity has “moderated in the first half of the year” and reiterated its data-dependent stance. Chair Powell underscored that “a good amount of data” in coming months will guide the Fed’s policy analysis and future decisions.
- Retail sales in the US increased 0.6% in June from May, according to the Commerce Department, better than the 0.2% economists polled by The Wall Street Journal expected. The gain follows a pullback of 0.9% in May. Strong demand for autos (up 1.2%) helped. Sales of clothing, which can be tariff-sensitive, rose 0.9% after ticking up 0.3% a month prior.
- The US unemployment rate in June fell to 4.1%, but softer private sector hiring and job cuts in cyclical sectors suggested underlying weakness.
- Donald Trump’s signature piece of legislation, the Big Beautiful Bill Act, was narrowly passed by Congress on July 3 and US stocks moved up briskly in response.
- The US signed trade deals in July with various tariff levels with the EU, UK, Japan, South Korea, Vietnam, Pakistan, and the Philippines.
- US markets reacted negatively to a barrage of criticism directed at Fed Chair Jerome Powell by members of the US administration, including suggestions that he be fired for cost overruns on Federal Reserve renovations, before settling as Trump signalled there were no immediate plans to replace Powell.
- Canada’s June employment report was positive, with the unemployment rate dipping to 6.9% from 7.0% in May. Gains were mostly for part-time employment, but 9 of 11 sectors added jobs. Manufacturing picked up slightly after four months of decline. Wage growth moderated, easing inflation concerns. Despite lingering economic uncertainty and trade related headlines, the likely preservation of USMCA provisions is providing firms with a degree of reassurance.

- Inflation in Canada rose to 1.9% in June, annualized, up from 1.7% in May. But the Bank of Canada's (BoC) preferred core reading rose 0.25%, month over month. Trade-related pressures surfaced, with vehicle and furniture prices up after earlier declines, while shelter costs (rent and mortgage interest) remained elevated.
- GDP fell 0.1% in May for the second consecutive month, according to Statistics Canada, as goods-producing industries dropped while the service sector was flat. Mining and the oil and gas sectors contracted, but manufacturing expanded slightly. Overall, 7 of 20 industrial sectors expanded in May.
- The advance estimate for June GDP from Statistics Canada indicated a modest gain of 0.1%. The June reading will be updated on August 29 with the official June and Q2 GDP data releases.
- As expected, the BoC made no change on July 30th to its key overnight lending rate for a third consecutive meeting. The rate has held at 2.75% since March, after seven consecutive rate cuts brought it down from last year's peak of 5%.
- A flash estimate released on July 30th indicated the Eurozone economy unexpectedly expanded 0.1% in Q2, despite global trade tensions, but German data released the same day earlier showed Europe's biggest economy contracting 0.1% in Q2.
- The Q2 Eurozone unemployment rate remained at historic lows of 6.2%, adding to signs of economic resilience. The jobless rate was unchanged from a revised May estimate. Eurozone annual inflation rose 2.0% in June, up from 1.9% in May, according to Eurostat, the statistical office of the European Union. At the end of July, the European Central Bank (ECB) left its key rate unchanged at 2% and offered a modestly positive assessment of the Eurozone economy, raising doubts about further policy easing despite the US tariff and trade outlook. The ECB has cut its policy rate eight times since June 2024.
- UK headline inflation rose to 3.6%, annualized, in June, up from 3.4% in May, slightly above expectations. GDP fell by 0.1%, below expectations, and followed a 0.3% contraction in April. Against this backdrop, the Bank of England is expected to cut intertest rates in the first week of August.
- China's official composite PMI edged higher in June, with manufacturing improving. The improvement in manufacturing was largely expected as the data reflects the first full month of activity since the US-China 90-day tariff truce

pause. With first-half GDP growth having beat the 5% target, no major stimulus measures are expected.

- Tokyo's CPI inflation slowed to 2.9%, annualized, in July, down from 3.1% in June. Core inflation (excluding fresh food) also eased to 2.9%. Despite the slowdown, rising costs for processed food and dining out, driven by earlier rice price increases and higher labour expenses, continue to place upward pressure on inflation. The Bank of Japan held its key policy rate at 0.5%, as expected.
- Australian household spending rose 0.9% in May from April, led by a rebound in discretionary categories like clothing, transport, and health. Still, the broader trend remains soft, with nominal growth slowing on a quarterly basis.
- Germany's headline CPI stayed near the European Central Bank's 2% target in June, with core inflation continuing to ease. Services inflation has held steady for much of this year, while goods prices appear poised to increase following several months of deflation.

How does this affect my investments?

North American equity markets hit new highs again in July, adding to a strong recovery from the sharp selloff in early April. Investors have demonstrated remarkable resilience in the face of ongoing uncertainty about the potential impacts of Donald Trump's efforts to reshape world trade. Those efforts have thus far produced deals adding broad tariffs of roughly 15% on US imports from several key trading partners, including the EU, Japan, and the UK. The tariff levels are less than originally feared in many cases but still represent major increases. Those increases are still expected to ripple through consumer prices and employment going forward, but updated projections from the International Monetary Fund (IMF) indicate a modest upgrade to global growth relative to April forecasts. The upward revision reflects lower-than-expected US tariffs, improved financial conditions, and fiscal expansion in major economies. However, the IMF noted ongoing risks related to trade tensions, geopolitical instability, and long-term fiscal sustainability. In this environment, some caution specific to your personal risk tolerance and investment goals remains warranted.

Thank you for your continued support and please contact me if you have any questions or ideas about your current investment strategy.

Sincerely,

John S. Bruce

Note:

All index performance is in Canadian dollars.

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