Attachment 1

Investment Management Report for

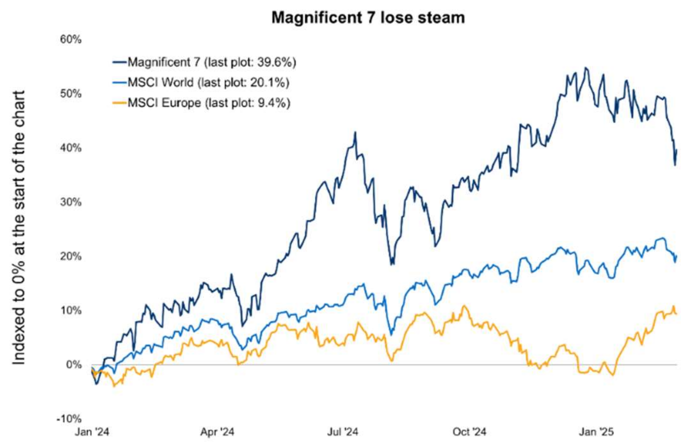
# ONE Investment - Quarterly Commentaries

For Period Ending March 31, 2025

# Macroeconomic and Capital Markets Commentary and Outlook

The following commentary summarizes meaningful trends and events that we've observed over the past quarter.

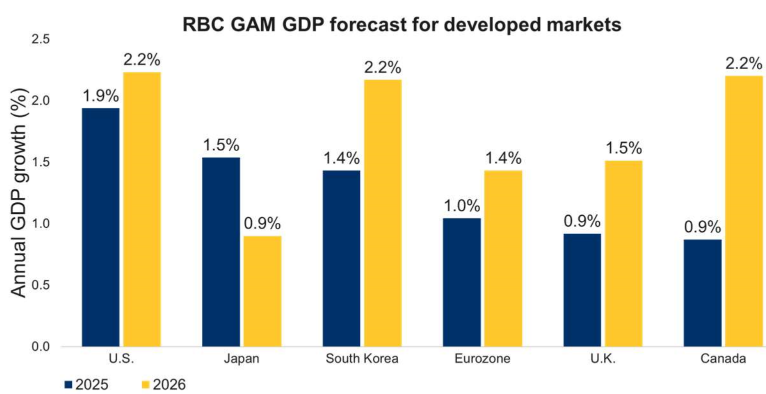
The performance of **global equity markets** was varied across regions in the first quarter, with stocks beginning to fall toward the end of February after reaching record levels earlier in the period as investors shied away from risk taking amid heightened uncertainty. The sell-off was concentrated in U.S. stocks, which had risen the most over the past two years, whereas other markets, which had lagged, delivered gains.




Note: As of February 28, 2025. Price returns computed in USD. Source: Bloomberg, RBC GAM

In terms of **economic activity**, U.S. public policy announcements cast a pall of uncertainty over the global economy. The White House has implemented or announced major changes on many economically relevant fronts, including trade, immigration, taxation, government spending, regulations, the civil service, and foreign policy. Even before the impact of these changes was felt, U.S. economic growth was decelerating slightly, whereas the Eurozone, U.K., and Japan were seemingly on an accelerating track. With business and consumer sentiment fading and tariffs being applied, our developed-world growth forecasts have been nearly universally downgraded for 2025 and now rest somewhat below consensus, while emerging market growth forecasts have been steadier. Risks to these growth forecasts extend in both directions. On the optimistic side, perhaps large tariffs can be avoided or not last long after all. On the negative side, the trade war could be even greater than feared. Another downside risk is the potential for greater geopolitical tension, as the U.S. seemingly pulls away from its traditional allies.

**U.S. economic growth** declined to 2.3% annually for the October through December period, from 3.1% in the previous quarter. Moreover, policy uncertainty and sweeping new tariffs from the Trump administration in the first quarter have combined to result in a highly uncertain and weak outlook for the U.S. economy.

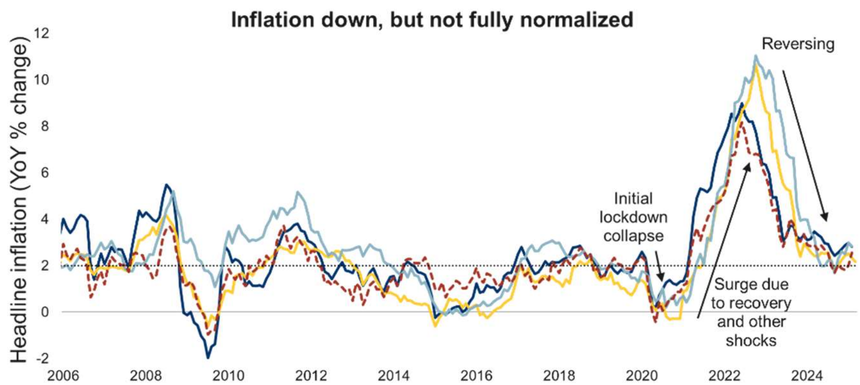



Note: As of 03/07/2025. Source: RBC GAM

Behind the weak GDP forecasts is new evidence that the decline in consumer and business sentiment is showing up in real economic activity. Consumer spending declined for the first time in nearly two years during January, and February saw a smaller comeback than economists had expected. While the talk of recession has lately picked up, with U.S. growth set to be slower than otherwise under a tariff regime and given other policy decisions, it is still more a story of diminished growth than of vanished growth.

The **Canadian economy** began 2025 on a firm footing with January GDP up 0.4%, which was the largest gain since April 2024. However, early signs suggest growth stalled in February amid harsh winter weather and the looming threat of tariffs. Tariffs were a dominant theme for the Canadian economy in the first quarter, with President Trump initiating the trade war with Canada at the beginning of February with a round of blanket tariffs on Canadian goods, though multiple rounds of exemptions and pauses have since ensued. Given the high uncertainty, it is almost impossible to forecast the Canadian outlook with any confidence. A worst-case scenario would have the repeatedly threatened 25% tariff fully delivered; this would induce a recession in Canada, with our models arguing the economy would undershoot its normal rate of growth by around 4.5 percentage points over the coming two years. On the other hand, a best-case scenario would see U.S. tariffs largely avoided, perhaps as the U.S. economy comes to recognize its reliance on Canadian resources.

**While inflation** is no longer the primary market concern that it was several years ago, it is not completely settled either, especially in the U.S. In fact, we have been compelled to increase the 2025 inflation outlook for two reasons: tariffs are inflationary in the short run, and inflation in the U.S. has proven sticky of late. U.S inflation continues to hover near 3.0%, while other countries have wrangled inflation rates down to the 2.0% to 2.5% range. We look for U.S. inflation to increase outright in 2025, from 2.9% in 2024 to 3.3%. Other countries are also expected to experience inflation upticks. Central banks have been in rate-cutting mode for the past year, with some further easing likely in 2025. Though the Fed kept its key policy rate unchanged during the quarter, the Bank of Canada (BoC) cut rates by 50 basis points during the first quarter.



Note: Canada, U.K., and U.S. as of Feb 2025, Eurozone as of Mar 2025. Source: Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Statistical Office of the European Communities, Macrobond, RBC GAM

Should tariffs remain in place for an extended period, the headwind to economic growth, rather than the tailwind for inflation, will likely be the key factor nudging central banks to cut rates. In this scenario, we expect the BoC would cut its policy rate by more than otherwise, and the government would implement its fiscal support plan that is purported to include expanded eligibility for employment insurance and targeted business supports. With Canadian elections scheduled for April 28, we could witness a new era of public policy: one focused in the short run on managing U.S. antagonism, and in the long run on sustainably reviving productivity growth after a long period of neglect. Overall, any inflation caused by tariffs would represent a one-time price-level shock and the inflation rate should return to normal afterward, whereas any related economic damage would be enduring. In turn, there is room for material further monetary easing for a number of countries.

Among **global equity markets**, U.S. stocks struggled during the first quarter, as an impressive launch of DeepSeek – a low-cost artificial intelligence (AI) model from a Chinese company –called into question American companies' spending plans on AI. Consequently, tech stocks lost momentum, and the S&P 500 Index ultimately posted a negative return of -4.2% over the period. Outside of the U.S., eurozone markets were up 12.2% and U.K. 8.4%, while Japanese markets recorded a negative return.

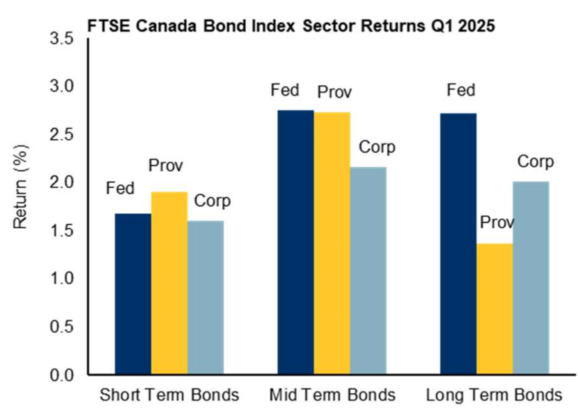
**Equity Indices Performance Comparison as of Mar 31, 2025 (%)**

| | 3 Mo | 1 Yr |
|---|---|---|
| S&P/TSX Composite Index (C$) | 1.51% | 15.81% |
| S&P 500 Index (C$) | -4.17% | 15.00% |
| MSCI World Net Index (C$) | -1.72% | 13.84% |
| MSCI EAFE Net Index ($C) | 6.94% | 11.55% |
| MSCI Emerging Markets Net Index (C$) | 3.00% | 14.96% |

Source: RBC GAM

The **Canadian equity market** registered gains during the period and was up for the third consecutive quarter. The S&P/TSX Composite Index rose 1.5% in the first quarter, led by strength in Materials as gold, often viewed as a safe haven from global turmoil, benefitted from increased central bank buying as well. The Utilities and Energy sectors also contributed to gains, while Information Technology, Financials, and Industrials were among the weakest performers and posted negative returns.

Turning to **emerging markets** (EM), the MSCI Emerging Markets Net Index returned 3.0% over the period. In a quarter dominated by trade tariffs and U.S. policy uncertainty, a falling U.S. 10-year Treasury yield and a weaker U.S. dollar were supportive for EM overall. The country's largest weight – China – rose during the period, benefitting from rising investor confidence and stronger corporate earnings. Looking ahead to 2025, earnings growth should become a key driver of emerging market equities returns. Another potential key driver for EM economies in 2025 will be domestic consumption stemming from lower inflation and lower rates. The key risk to this positive outlook remains geopolitical; specifically, trade tensions that could arise from increasing tariffs on U.S. imports.



Source: RBC GAM, FTSE Russell

**Global fixed income markets** were plagued by uncertainty during the first quarter, as investors were focused on the escalating trade war and the potential impacts on economic growth and inflation. In terms of the **Canadian fixed income market**, the FTSE Canada Universe Bond Index ended the quarter at 3.3%, down 0.3% from where it began the period. Yields remained rangebound during the quarter, oscillating between 3.2% and 3.9% before ultimately ending the quarter lower in response to President Trump's tariff threats and the uncertainty posed for the Canadian economy.

The combination of declining yields and a steeper yield curve over the first quarter resulted in mid-term bonds outperforming short- and long-term bonds. The bond market continues to price in modestly lower short-term yields over the next 12 months in conjunction with expectations for further but relatively fewer policy rate cuts, while longer-term yields are expected to increase slightly from current levels. Our view on the shape and direction of the yield curve is not materially different from what is expected by the market at this time. We expect volatility in yields to be a theme in the short term, and we will continue to look for opportunities to be tactical while remaining prudent in our duration and yield curve positioning.