**First Quarter 2025 Client Market Update Letter *template (general)***

*Advisors may use this letter as a model for a client letter. Please modify as you see fit.*

**April xx, 2025**

Dear Client,

In the first quarter of 2025, Donald Trump entered office, Justin Trudeau departed, and Mark Carney became Canada’s 24th Prime Minister and called an election for April 28th. Running in parallel to these political changes were numerous and often unexpected US trade tariff announcements that ultimately unsettled markets.

The cumulative effect of Trump’s burst of economic orders and pronouncements on investor sentiment eventually erased a bullish start to the year for North American equities. US investors also found reasons for concern in sagging consumer sentiment and growing unease that tariffs could stoke inflationary pressures and spur broader trade wars. By quarter end US indices were down, with technology shares leading the way. Canadian equities ended essentially flat but European indices posted solid gains. Canadian and US bond yields fell, and gold climbed to new highs, rising 19.20% for the quarter.

For the quarter, the S&P/TSX Composite Index ended up 1.51%, the S&P 500 Index fell 4.37% the Nasdaq Index fell 10.26%, the MSCI World Index slipped 2.67% but the MSCI EAFE Index rose 2.89%. In the U.K., the FTSE 100 Index rose 6.11% and Germany’s DAX Index soared 11.32%. In Asia, Japan’s Topix index fell 4.62%. Canadian and US bond yields fell in Q1 as prices rose, with the FTSE Canada Universe Bond Index up 2.02% for the quarter.

Despite the downbeat quarter North American stocks remained in positive territory on a rolling 12-month basis to March 31. And in a reversal of a familiar trend, Canada outperformed, as the S&P/TSX Composite Index more than doubled the S&P 500’s gain for the 12-month period. It also outperformed the S&P 500 in March.

Canadian economic data released in March was mixed. GDP grew in January by 0.4%, month over month, the strongest pace in nearly a year, and one supportive of a view that the economy was gaining momentum fueled by seven straight rate cuts by the Bank of Canada (BoC) since mid-2024. Yet Statistics Canada’s early estimate for February suggested growth may have slowed significantly as businesses and consumers began bracing for the potential impact of US tariffs.

The unemployment rate was unchanged in February at 6.6% after dipping slightly in December and January. The rate had risen steadily from 5% in March 2023 to a recent high of 6.9% in November 2024. Average hourly wages rose 3.8%, year over year (YoY), in February. Inflation rose 2.6%, YoY, in February, higher than expected and a sizeable jump from 1.9% in January and 1.8% in December. The rise was due in part to the end of the GST/HST holiday.

The Bank of Canada (BoC) cut rates again on March 12th, trimming its key policy rate by a quarter-point to 2.75%. However, the bank’s summary of its deliberations leading to the decision indicated it would not have cut in the absence of the tariff threat looming over the economy. The BoC’s next rate decision will be on April 16th.

Retail sales declined 0.6% to $69.4 billion in January, according to Statistics Canada, as sales in the auto sector fell. Core retail sales, excluding fuel sales and motor vehicle and parts dealers, dropped 0.2% in January, led by lower sales at food and beverage retailers.

In the US,the Commerce Department released revised US GDP for Q4, 2024, up to a 2.4% annualized rate from the previous estimate of 2.3%. That followed growth of 3.1% in Q3. The first estimate for Q1 2025 GDP will be released April 30, but current expectations are for slower activity in the first quarter. Inflation climbed 2.8% in February from a year earlier, slightly better than expected and down from 3% in January. Excluding food and energy, the so-called core measure that economists watch rose 3.1%, the lowest YoY reading since 2021.

Retail sales were mixed in February, with overall activity ticking up 0.2% month-over-month, less than expected, but excluding cars, gas, building supplies, and food services sales were up a 1%, better than expected. But discretionary spending remained soft, particularly for restaurants, clothing, and electronics, a possible sign of consumer caution.

Total nonfarm US employment rose by 151,000 jobs in February, a bit shy of expectations, and the unemployment rate changed little at 4.1%, according to the US Bureau of Labor Statistics. The unemployment rate has hovered between 4% - 4.2%, a very low level historically, since May 2024.

The Federal Reserve held its key rate at 4.25% to 4.50%, citing rising uncertainty around the economic outlook. Fed Chair Powell noted that the central bank is in no rush to make further moves and is waiting for more clarity.

Fixed income investors expressed caution as prices rose and yields fell, with the yield on the benchmark US ten-year note hitting 4.79% in mid-January before falling to 4.21% by the end of March. Investors’ initial enthusiasm for a Trump policy agenda focused on deregulation and tax cuts gave way over the quarter to concerns about tariffs and a possible economic slowdown.

The University of Michigan’s monthly survey of consumer sentiment revealed a pessimistic outlook. The survey’s March headline index was 57, the lowest level since 2022 and down from 64.7 in February and 79.4 a year ago. Two-thirds of respondents said they expect higher unemployment in the next year, the highest level since 2009. On the business side, manufacturing activity contracted in March as the Institute for Supply Management (ISM) purchasing managers’ index slipped to 49 from 50.3 in February, a weaker reading than economists had expected.

A divergent investor response to the cascade of political and economic headlines emerged during the quarter. By the third week of March retail investors had poured USD $67 billion into US stocks and equity ETFs, second only to the USD $71 billion they pumped in during Q4 2024 on the heels of Trump’s victory. In contrast, institutional investors pivoted away from US equites, cutting allocations by 40%, shifting from 17% overweight in February (when the S&P 500 hit a record high on February 19th) to 23% underweight by mid-March. European shares benefited, with allocations to eurozone stocks jumping 27% in the same period. Short term US government fixed income holdings also expanded between January and mid-March, attracting USD $22 billion in net inflows.

In Europe, inflation fell in March to 2.2%, down from February’s 2.3%. Services inflation dropped to 3.4% from 3.7% a month prior and the declining data could lead to another rate cut from the European Central Bank (ECB) in April, which trimmed its key rate from 2.75% to 2.5% in March. Eurozone unemployment dipped to 6.1% in February from 6.2% in January.

The Bank of England (BoE) cut rates by .25% in the quarter and subsequently held the rate at 4.5% at its March meeting. The UK economy remains sluggish and the BoE, like many central banks, is sensitive to the possibility that US trade tariffs and any global countermeasures could be inflationary. In a major development during the quarter, German politicians agreed to loosen the country’s strict government debt borrowing limit. The goal is to make major investments in defense and infrastructure, worth as much as 500 billion euros or more, and such spending could significantly boost parts of the European economy. In Japan, the Bank of Japan (BoJ) held its policy rate at 0.5% and kept a positive growth outlook but also flagged potential risks due to US trade policy uncertainty.

**What can we expect now?**

Donald Trump has said he will announce details of US tariffs on a broad range of countries on April 2. As with most previous tariff announcements markets may react according to initial assessments of the immediate and longer-term implications for economic growth and inflation. Yet investors will also be seeking clarity on the actual nature of tariffs; are they “permanent”, negotiable, or subject to carve outs for certain sectors? For Canada, priority concerns include the treatment of the auto sector, energy, steel and aluminum and supply management. A major question is how any US tariffs on Canada’s exports will align – or not – with the existing USMCA free trade deal Trump signed in his first term in office, an agreement which is due for scheduled renegotiation next year, if not sooner.

The dislocations of the first quarter are a timely reminder of the value of making diversification a core part of a long-term and disciplined approach to investing. Thank you for your continued trust in me and my team for the opportunity to assist you in working toward your financial goals. Should you have any questions regarding your portfolio, please do not hesitate to contact my office.

Sincerely,

[Financial Advisor]

**Note:**

All index performance is in Canadian dollars.

*The information in this letter is derived from various sources, including Wall Street Journal, ISM World, U.S. Bureau of Labor Statistics, The Globe and Mail, BNN Bloomberg, Financial Times, Bureau of Economic Analysis, Toronto Star, and Statistics Canada at various dates. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources and reasonable steps have been taken to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances. Certain statements contained in this communication are based in whole or in part on information provided by third parties and CI Global Asset Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.*

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