

Economic and Market Commentary – Q2 2025

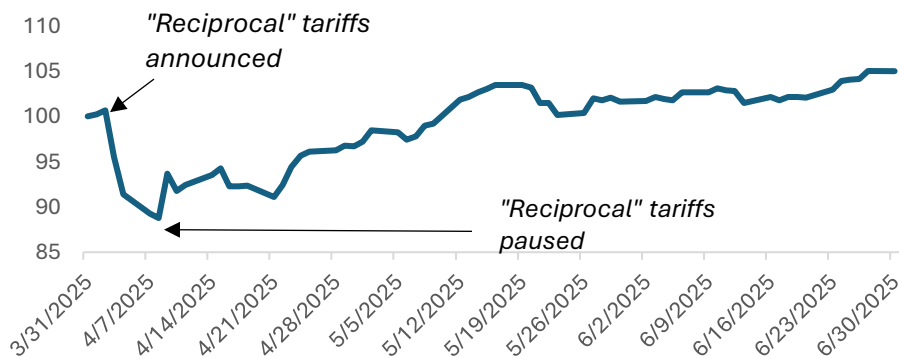
Executive Summary

- Policy announcements from the new US administration had a big impact on markets in the second quarter (Q2):
 - US tariff threats shook stock markets, but markets recovered when tariffs were paused;
 - The US government's plans to cut taxes and increase spending led to a rise in longer-term interest rates.
- The Canadian economy grew slowly as tariffs began to hurt goods-related industries.
- Core inflation in Canada remained around 3%, above the Bank of Canada's target of 2%.
- Equities rose over the quarter as investors hoped tariffs would be smaller than feared.
- Short-term bonds outperformed longer-dated bonds as yields rose on long bonds.
- Looking ahead, there is still a lot of uncertainty around how and when tariffs will be applied, and what their full impact will be.
- As always, if you have questions or want to review your portfolio, please contact your Encasa advisor.

Economic Highlights

The second quarter started with the US administration's announcement of steep "reciprocal" tariffs on almost every country, leading to a sudden drop in stocks around the world. When the US later delayed most tariffs until July, markets recovered, as we can see in Figure 1. On balance, world stocks ended Q2 with positive returns, as investors anticipated that US tariffs, when actually applied, would be less severe than initially announced.

Figure 1. Growth of \$100 Invested in Global Equities on March 31, 2025 (in Canadian dollars)

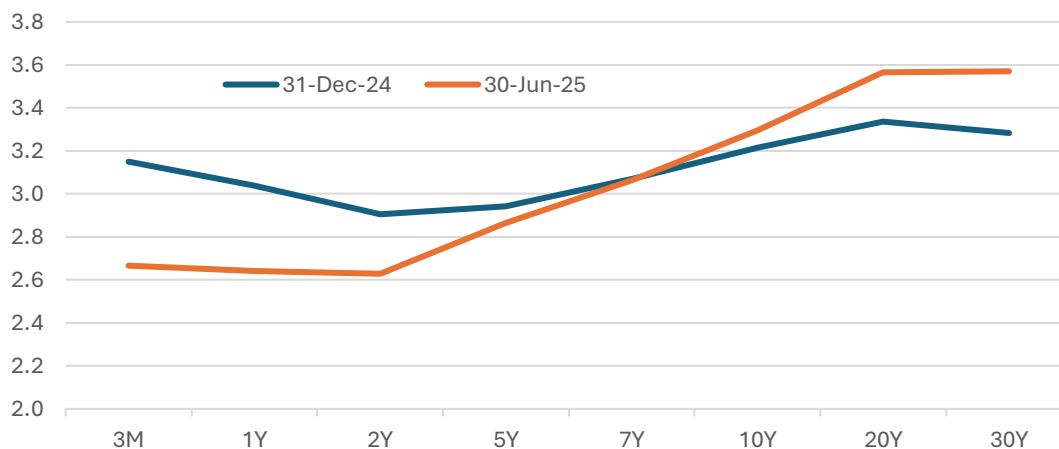


Source: Bloomberg; index used is the Bloomberg World Index in Canadian dollars

The US also worked on passing major tax cuts, which were finalized shortly after the quarter ended. Investors became concerned about how the US would manage its growing debt, so they demanded higher interest rates to lend money. As a result, interest rates on long-term government bonds went up in the US and around the world. Expectations of higher defense spending by European countries and Canada and a weaker US dollar also contributed to higher longer-term interest rates.

Figure 2 shows Canadian government bond yields for a range of maturities. As we can see, interest rates on short-term bonds fell in 2025 as inflation eased and the Bank of Canada lowered its key interest rate. However, long-term interest rates rose, which meant short-term bonds performed better than long-term ones (bond prices usually go down when interest rates go up):

Figure 2. Government of Canada Yield Curve at Year-End 2023 and 2024 (%)

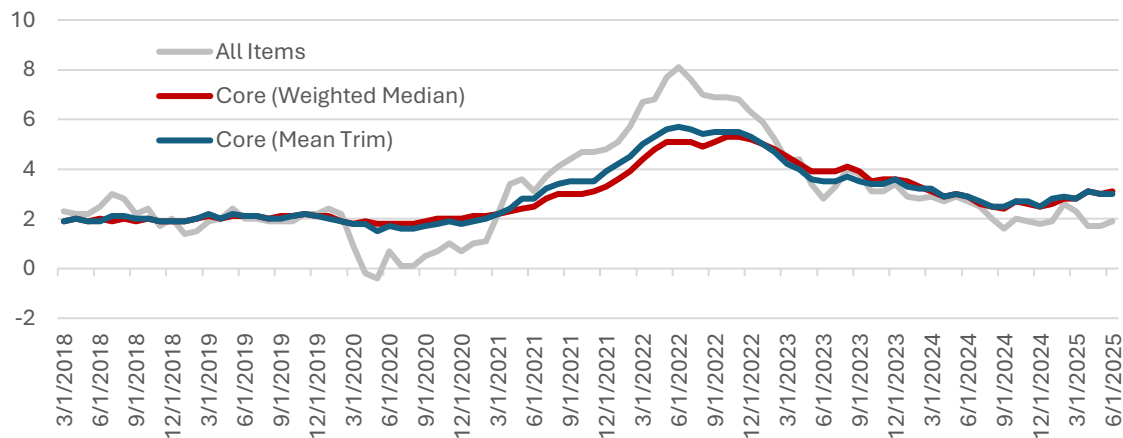


Source: Bloomberg

Inflation has declined substantially since its post-COVID highs, but it remains stuck above the BoC's target of 2%. As illustrated in figure 3, the Bank tracks various measures of inflation, including "core inflation", which removes the more volatile prices of things like food and energy. While overall inflation has dropped (mostly due to lower energy prices and slower food price increases), core inflation has remained steady.

Because of high core inflation and uncertainty around tariffs, the Bank of Canada chose not to change its interest rate in Q2. Economic growth remained positive, though job losses in manufacturing and wholesale trade led to a slight rise in unemployment. Given this mixed picture, the Bank kept its interest rate steady at 2.75%.

Figure 3. Canadian Inflation Measures (%)

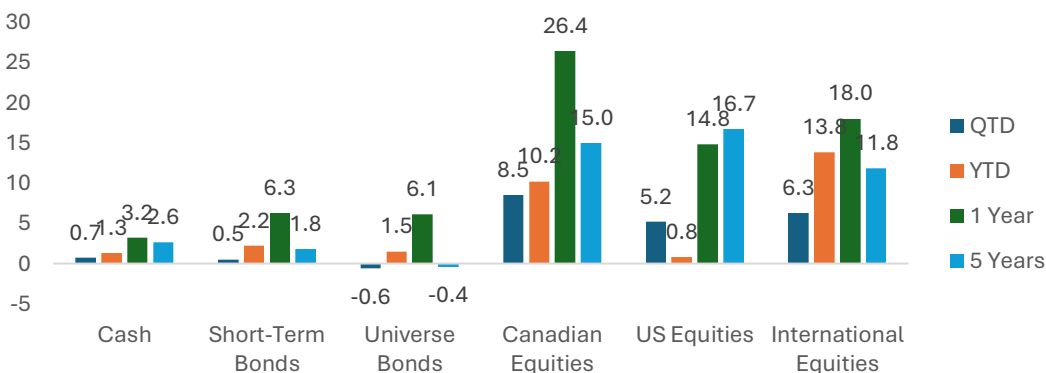


Source: Statistics Canada

Market Highlights

By the end of Q2, returns on all major types of investments were positive for the year. Looking back over the previous 12 months, both stocks and bonds performed well, with Canadian stocks doing the best.

Figure 4. Returns from Key Asset Classes (in Canadian dollars)



Source: eVestment

As noted earlier, falling short-term interest rates combined with rising longer-term rates have led short-term bonds to outperform in 2025, and over the last year.

Equities have had a volatile year, with a dip early in Q2 followed by a recovery. International equities led overall, helped by expectations that European governments would boost defense spending due to uncertainty about continued US support. Canadian equities recovered on confidence that the new Canadian government would be able to reach a good trade deal with the US.

At the end of Q2, US equities had also returned to slightly positive territory, as optimism returned in the face of the administration's apparent willingness to back off from its most damaging tariff threats. However, the falling US dollar reduced returns for Canadian investors, and unpredictable US policies made investors more cautious about the country's future.

Encasa Fund Results (as at June 30, 2025)⁽¹⁾

Product Name	QTD ⁽²⁾	1 Year	3 Years ⁽³⁾	5 Years ⁽³⁾	10 Years ⁽³⁾
Canadian Short-Term Bond Fund	0.0	5.3	3.8	1.0	1.4
<i>FTSE Canada Short Term Overall Bond Index</i>	<i>0.5</i>	<i>6.1</i>	<i>4.4</i>	<i>1.8</i>	<i>1.9</i>
Canadian Bond Fund	-0.7	5.4	3.9	-1.1	1.3
<i>FTSE Canada Universe Bond Index</i>	<i>-0.6</i>	<i>6.2</i>	<i>4.3</i>	<i>-0.4</i>	<i>1.9</i>
Equity Fund	6.3	18.9	18.1	13.3	9.0
<i>35% S&P/TSX Composite Index and 65% MSCI World⁽⁴⁾</i>	<i>6.8</i>	<i>19.9</i>	<i>19.4</i>	<i>15.2</i>	<i>10.4</i>

Encasa Canadian Short-Term Bond Fund

The Short-Term Bond Fund was flat in the quarter, with a one-year return of 5.3% after fees. For comparison, the Fund's benchmark, which doesn't include fees or expenses, delivered returns of 0.5% for the quarter and 6.1% over the past year.

In Q2, the Fund was invested more in Corporate and less in Federal and Provincial bonds compared to the benchmark. At the end of the quarter, the Fund's overall interest rate sensitivity was slightly greater than the benchmark's, meaning its value was a bit more affected when rates moved up or down. Shorter-term bonds were the strongest contributors to the Fund's returns, while longer-term bonds didn't do as well because interest rates for those types of bonds went up..

As at June 30, the Fund's yield to maturity was 3.2%, compared to 3.0% for the benchmark.

Reflecting Encasa's commitment to Responsible Investment, 29.7% of the Fund's portfolio was invested in Sustainable Labelled bonds (bonds that help fund environmentally or socially beneficial projects), compared to 5.0% for the benchmark. The Fund also had a lower carbon intensity, meaning it had fewer carbon emissions relative to the revenues of the companies it invests in — specifically, 21% less than the benchmark⁵.

Encasa Canadian Bond Fund

The Canadian Bond Fund declined by 0.7% in the quarter, bringing its one-year return to 5.4% after fees. The Fund's benchmark, which doesn't include fees, returned -0.6% for the quarter but had a 6.2% return over the past year.

During the quarter, the Fund invested more in Corporate and less in Federal bonds compared to the benchmark, with Provincial bonds slightly below the benchmark. The fund increased its interest rate sensitivity during the quarter in anticipation of lower interest rates in the future. – which can benefit bond prices. At the end of the quarter, the Fund's yield to maturity (expected return if bonds are held to the end) was 3.8%, compared to 3.5% for the benchmark.

Consistent with Encasa's commitment to Responsible Investment, 32% of the Fund's portfolio was invested in Sustainable Labelled bonds, compared to 4.5% for the benchmark. The Fund's carbon intensity (carbon emissions relative to company revenues) was 54% less than the benchmark's⁶.

Encasa Equity Fund

The Equity Fund rose by 6.3% in the Q2, bringing its return for the one-year period to 18.9% after fees. The Fund's benchmark, which doesn't include fees, returned 6.8% for the quarter and 19.9% for the year.

The Fund started the quarter with a smaller allocation to US equities than the benchmark, but raised its exposure to the US as markets recovered from their early-April volatility. Overall, the Fund benefited from strong stock selection, especially its focus on large companies with strong growth potential.

At the end of Q2, the Fund continues to have less exposure to Canada than its benchmark, and more exposure to the US and developed markets outside North America.

Consistent with Encasa's commitment to Responsible Investment, the Fund continues to avoid companies with controversial business practices or industry involvements. The Fund's carbon intensity, or the amount of carbon emissions compared to the revenues of reporting companies the portfolio, was 55% less than the benchmark's⁷.

Concluding Note

We're just starting to see how tariffs are affecting company earnings and the broader economy. Many countries are still negotiating with the US, and it's not yet clear how things will play out. The third quarter (Q3) should provide more information, but for now, uncertainty remains high. That's why we recommend investors stay focused on long-term goals, rather than reacting to short-term market ups and downs.

If you have questions or concerns, please contact your Encasa advisor.

Endnotes

1. Rates of return assume reinvestment of all distributions, after deduction of fees.
2. Three-month and year-to-date rates of return are a simple return on investment (not annualized).
3. Annualized returns.
4. Prior to July 1, 2020, the benchmark for the Encasa Equity Fund was 70% S&P/TSX Composite Index and 30% MSCI World Ex-Canada Index.
5. Based on portfolio's estimated weighted average carbon intensity of 110.9 tCO₂/US\$M revenue for reporting issuers, compared to 141.6 for benchmark.
6. Based on portfolio's estimated weighted average carbon intensity of 97.3 tCO₂/US\$M revenue for reporting issuers, compared to 213.2 for benchmark.
7. Based on portfolio's estimated weighted average carbon intensity of 62.9 tCO₂/US\$M revenue for reporting issuers, compared to 134.0 for benchmark.