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The Leading Edge – Summer 2025

An Outlook on Canada, the U.S., and Global Markets

Note: As global developments unfold swiftly, some content within this document may become outdated by the time of its release.

Canada: Trade Disputes and Economic Headwinds

Efforts by the Canadian government to finalize a trade agreement with the U.S. ahead of Friday’s deadline remain unresolved. Prime Minister Mark Carney warns that a tariff-free deal seems unlikely, given President Trump’s current policy stance.

Canada’s economy ended 2024 on an acceptable note, but momentum has slowed in 2025. The U.S. tariffs—targeting Canadian exports such as steel, aluminum, vehicles, and potentially copper—are weighing on trade volumes and investor sentiment. A continuation of the slowdown is expected for the second half of the year.

The Bank of Canada may consider lowering its policy interest rate from 2.75% to cushion the impact, although rising inflation could complicate those plans. The unemployment rate has been ranging from 6.6% to 7.0% for the first half of the year. The Canadian dollar has held strong, partly fuelled by skepticism toward U.S. trade policy. Falling oil prices may pressure energy stocks, while Canada’s banking sector could begin to feel the pinch of weaker domestic growth.

Canada’s S&P/TSX has outperformed the U.S. S&P 500 for three consecutive quarters—a rare feat. However, sustaining that lead may be challenging. If U.S. trade tensions subside, markets may pivot back toward American equities, which still anchor the world’s most dynamic economy.

United States: Growth Slowing, Rate Cuts Ahead

We expect U.S. economic growth to slow in the second half of 2025 due to uncertainty around trade policy. So far this year, businesses have had to adjust quickly, causing swings in trade, production, and inventories. The job market is showing signs of slowing, and consumer spending is weakening.

Inflation from trade tariffs hasn’t fully hit the U.S. yet, but it likely will. Despite this, we believe the U.S. Federal Reserve will focus on slowing growth and may cut interest rates — possibly bringing the rate down to 3.5% by mid-2026.

So far in 2025, U.S. stock markets have lagged, the dollar has weakened, and long-term interest rates have risen. If some of the uncertainty clears up, these trends could quickly reverse.

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International Markets: Slowing but Improving

Europe is still growing slowly, even with some recent signs of improvement. Manufacturing is picking up, and government spending is helping. Inflation is under control, and the European Central Bank is expected to stop cutting rates soon. If the U.S. imposes tougher trade restrictions, Europe might face more challenges. We believe the euro could keep rising, and we see opportunity in European stocks, which look attractively priced compared to the U.S.

Japan's economy has been improving. Inflation remains high, mostly because of rising wages and food prices. The Bank of Japan may raise interest rates later in 2025. The Japanese yen is likely to strengthen, which could temporarily hurt stocks. But over time, Japanese companies are benefiting from reforms and are investing more, which should support long-term growth.

China's economy improved earlier this year thanks to government support and businesses preparing for more U.S. tariffs. But with trade risks still high, China needs to boost spending at home to keep growing. We expect some slowdown ahead, and long-term challenges like an aging population and a weak housing market continue to pose risks.

Global Trends & NATO Defence Spending

Major European countries and Canada are among the NATO members that recently committed to increase defence spending to at least 5% of GDP by 2035. This could benefit international markets, especially in Europe. European stocks have done well so far this year, helped by lower valuations, strong dividends, and a shift of investor money away from U.S. markets. Germany's decision to increase defence spending has also boosted investor confidence. While we still believe U.S. stocks will catch up eventually, international markets may keep their lead for now.