BIM REVIEW

BARRANTAGH Investment Management

1Q25 | TARIFF BRINKSMANSHIP UNSETTLES FINANCIAL MARKETS

INVESTMENT ENVIRONMENT

- Trade and tariff uncertainty is unsettling financial markets. Hostile rhetoric has not been helpful, though potential offramps still exist.

EQUITY MARKETS

- European markets take a leadership role as U.S. exceptionalism loses a bit of shine. Near-term direction to be driven by trade discussions.

FIXED INCOME MARKETS

- BoC cut twice during the quarter. Current volatility in yields driven by the push and pull of evolving inflation and growth expectations.

INVESTMENT ENVIRONMENT | TRADE UNCERTAINTY DRIVING CHOPPY MARKETS

Whether relating to matters of government efficiency, foreign policy, border security, or trade, the Trump administration has moved at near breakneck speed to push forward their agenda in the early months of their mandate. While investors cheered Trump's election victory assuming priority would be given to tax cuts and deregulation that would underpin economic growth, actions to date have been focused on the trade file and a tariff policy far more extreme than markets had anticipated.

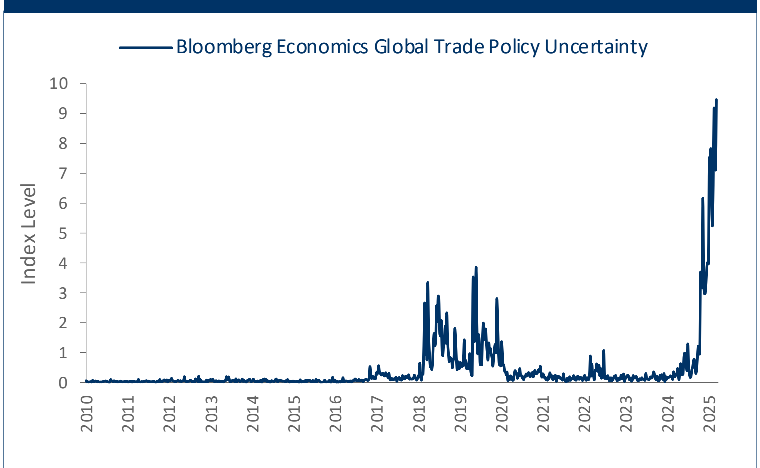
Trade was also a focus during Trump's first Presidential term albeit with a scope generally limited to China along with some select niche industries. Signs that things could be different this time around first emerged with the on-again and off-again threat of 25% near-blanket tariffs on free trade partners Canada and Mexico on grounds of national security related to fentanyl imports. At the industry level, steel and aluminum tariffs from 2018 were reinstated, while the much larger auto industry was also put on notice. Commentary around the approach to reciprocal tariffs also evolved, with suggestions that the trade study would lump headline tariff rates of trading partners together with Value Added Tax (VAT) and other trade irritants as part of the analysis. Regardless of the justification, it became clear that reciprocal tariffs on goods were on the way in some form, alongside many unknowns including terms of quantum, timing of implementation, duration, and any possible exemptions. Unsurprisingly, this uncertainty caused great consternation for consumers, industry, and financial markets (Figure 1).

When finally revealed, the reciprocal tariffs announced were surprising in many ways. Broadly speaking, the levies were higher than feared, and seem calculated on bilateral trade imbalances rather than reciprocal costs of trading partners. With few exceptions, a universal tariff of 10% will apply to goods entering the U.S. effective April 5th. Also, countries with an existing goods trade surplus will have an additional 'reciprocal' tariff applied effective April 9th (Figure 2). Canada and Mexico were exempted from this tariff rollout for goods compliant with USMCA. The tariff rates for certain large U.S. trading partners are difficult to comprehend and would be very damaging if enacted for any meaningful time period. Communications from the White House imply that the baseline 10% tariff is set in stone, and that the reciprocal tariffs are up for negotiation should the right deal be proposed.

Ostensibly, the tariffs are being enacted to level unfair trading practices and to send a lasting message to invest in local U.S. manufacturing. Putting aside the merits of such motivations, the exceedingly aggressive manner in which the Trump administration's tariff agenda has been rolled out could have a number of unintended consequences and presents a source of risk for both the U.S. and the world. We will soon find out if the U.S. government is open to pragmatic compromise, and at the time of writing the markets have judged the tariffs a policy error.

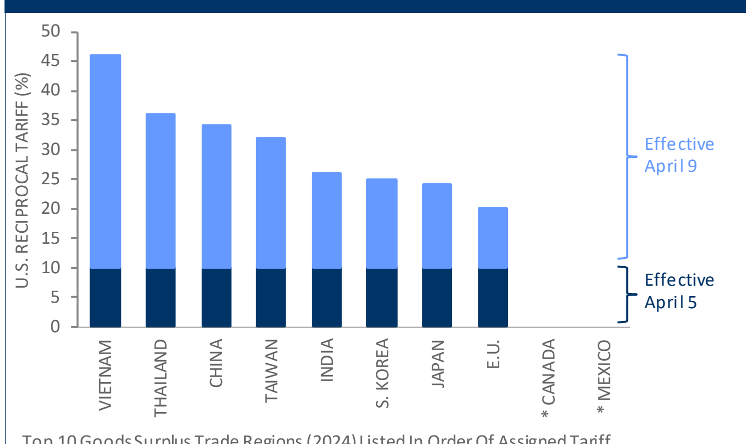
While uncertainty remains elevated, our portfolios continue to be reasonably well balanced for the current environment. That said, we have made a few adjustments in light of the heightened risks. These include a modest increase in allocations to fixed income and cash, as well as a slight reduction in positions with outsized exposure to tariff-related risks.

FIGURE 1: TRADE UNCERTAINTY AT UNPRECEDENTED LEVEL



Source: Bloomberg: Last Data Point = 9.5 (Trade Uncertainty) at Mar-25

FIGURE 2: RECIPROCAL TARIFFS HIGHER THAN EXPECTED



Top 10 Goods Surplus Trade Regions (2024) Listed In Order Of Assigned Tariff
* Non-USMCA compliant goods for Mexico & Canada tariffed at 25%
Source: LSEG & U.S. Government

EQUITY MARKETS | U.S. STOCK MARKET EXCEPTIONALISM LOSES A LITTLE BIT OF SHINE

Equity Index Returns	1Q25 (CAD)	1Q25 (USD)	YTD25(CAD)	YTD25(USD)
Global (Net)	-1.7%	-1.8%	-1.7%	-1.8%
Canadian	1.5%		1.5%	
CDN Small Cap	0.9%		0.9%	

The winning streak for the global equity market ended in the quarter upon the reversal of the "U.S. exceptionalism" theme which saw drawdowns in technology stocks levered to Artificial Intelligence (AI). This factor more than outweighed positive performance across many sectors with European domiciled companies in particular showing well. The Canadian market was weighed down to a degree by tariff uncertainty leading to relative outperformance by more defensive sectors while materials had a standout quarter driven by a rise in gold.

BIM EQUITY FRAMEWORK

The April 2nd tariff announcement from the White house was a negative surprise for equity markets with higher than expected duties on many U.S. trading partners save Canada and Mexico.

The tariffs as currently outlined would further weigh on global growth and sentiment if enacted for any meaningful time and markets have seen a significant drawdown month-to-date. Given the current uncertainty, we continue to focus on industry leading companies run by excellent management teams, while also taking stock of any investments that may be more exposed to the current trade noise. A growing list of influential voices are calling for a more measured path forward for trade resolution and we shall soon see if the powerbrokers opt for restraint or further escalate tensions.

GLOBAL MARKETS

The first quarter of the year brought significant geopolitical and economic developments that are impacting the global investment landscape. A key shift came from the United States, where the new administration outlined a markedly nationalistic policy direction. Most notably, the government signaled a more conciliatory stance toward Russia—an unexpected pivot that has prompted a swift and strategic response from Europe.

With growing uncertainty around the future of U.S. support for the continent, European nations have begun to prioritize strengthening their own defense capabilities and infrastructure. This renewed focus on strategic investment could serve as a powerful economic tailwind for the region, setting the stage for stronger, more resilient growth over the next decade. Markets have responded: European equities significantly outperformed in the first quarter, buoyed by optimism that this policy-driven momentum may continue (Figure 3)

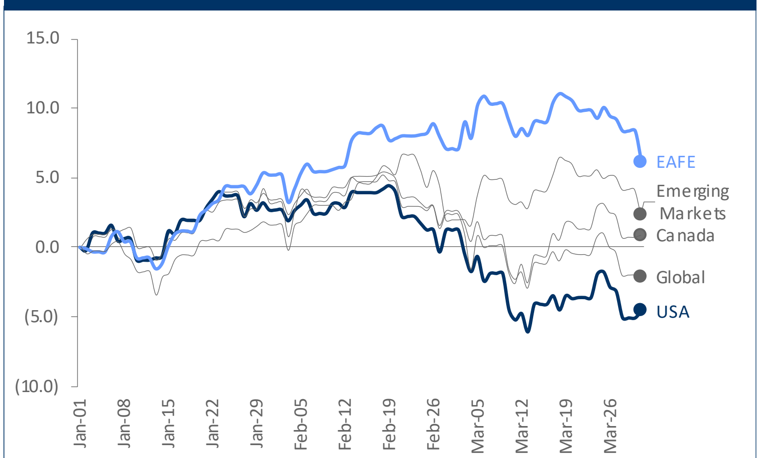
As the medium-term growth outlook for Europe becomes increasingly compelling, we have identified a growing number of companies that align with our quality-value investment framework. This has allowed us to increase our exposure to the region. Historically, European equities have traded at more attractive valuations relative to their U.S. counterparts, though with generally lower cash flow growth. However, as structural shifts take hold, we believe this dynamic may begin to shift, potentially narrowing the gap in growth while maintaining a valuation advantage.

CANADIAN ALL-CAP MARKET

Despite the tariff noise and persistent rhetoric during the first quarter, Canada emerged from 'liberation day' as a relative winner as it dodged both the baseline and reciprocal tariffs (though certain industry specific and non-USMCA compliant items remain subject to duties). Canada is of course still impacted by recent developments given potential impacts to global growth, yet events could have played out worse. One by-product of tariffs has been an upswing in the odds of the Liberals to win the upcoming election as Prime Minister Carney rides a wave of national pride as negotiator in chief with the U.S. administration (Figure 4).

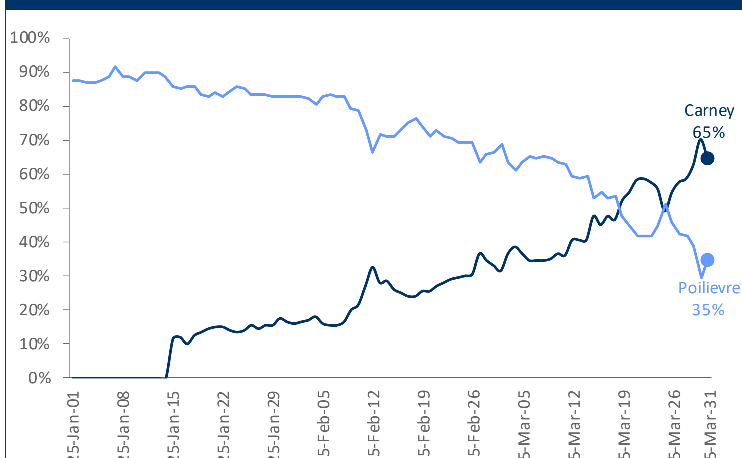
Another consequence of recent developments has been a realization that Canada must become more productive and open to new trade opportunities due to an overreliance on U.S. exports. Two issues for which both leading parties seem to share at least some alignment include ambitions to reduce interprovincial trade barriers, and a more constructive approach to resource and energy infrastructure development than in the past. Given well documented cost and time overruns for certain high profile projects, companies will be looking for meaningful permitting and regulatory reform alongside other more industry friendly legislation before embarking on ambitious pipeline developments in the future. Time will tell if campaign talk will turn into action, though both the energy space and the economy at large could benefit from improved tidewater export optionality in the delivery of oil and gas.

FIGURE 3: EUROPE LED THE PACK IN 1Q25



Source: Bloomberg | Simple % Equity Market Returns in USD vs. 2024-Dec-31

FIGURE 4: BIG MOVE IN CANADIAN ELECTION ODDS



Source: Polymarket | Betting Odds For Next Prime Minister Of Canada after the election

CANADIAN SMALL-CAP MARKET

It was a bifurcated market to start 2025, as increasing tariff threats and protectionist policy in the United States has raised fear and uncertainty and demand for safe havens and liquidity. For Canadian small caps, this has meant general selling pressure – often agnostic to the quality or underlying exposure of the business – and an increasingly large valuation gap to similarly exposed larger cap names.

One area benefiting from the fear trade in the first quarter is junior mining equities, largely exposed to gold. These stocks were up 24%, versus the rest of the small cap benchmark -7%. This was a continuation of a trend that has dominated Canadian small caps over the trailing twelve months with the junior miners +44% on average compared to -1% for everything else. This has been a large relative headwind for the portfolio as we avoid exposure to the gold mining sector due to the high cyclicality and poor long term track record of returns. Like all things cyclical the music will stop and the parabolic rise will come back to earth.

On valuation, small caps now trade at a 37% discount to large cap peers. This has grown from 11% over the last decade, driven by the crowding into larger names and small cap underperformance. For certain sectors the disparity is even starker – small cap industrials now trade at an eye-popping 62% discount to large cap names. Like golds, this too will self correct as extremes don't persist forever just as trees don't grow to the sky.

BIM EQUITY THESIS SPOTLIGHT

Pembina Pipeline is a diversified Canadian midstream energy company with an extensive and integrated infrastructure footprint that offers services that span the natural gas and liquids value chains.

The company has long held an enviable suite of assets in the Montney which have and will continue to underpin natural gas and natural gas liquids (NGL) volume growth in Western Canada. Their Montney system has unparalleled reach, offers dedicated lines across all NGLs, and offers extensive connectivity to fractionation (liquid extraction) infrastructure near Edmonton. NGLs often underpin wellhead economics in the field, and Pembina's ability to maximize producer's netbacks through their value add services highlight the attractiveness of their portfolio.

Providing customers export access to higher value markets is another value add offering. Whether via the Alliance pipeline, or the Prince Rupert LPG terminal, producers have the opportunity to benefit from better pricing. While Pembina will be an indirect beneficiary of the near-term startup of LNG Canada, their own Cedar LNG project will further round out their portfolio in 2028. Pembina's strategically-located assets, leverage to growing gas production in support of LNG, and development projects position the company to continue a history of contracted growth. A government with a potentially more constructive approach to energy infrastructure would only could only further strengthen their positioning.

FIXED INCOME MARKETS | BANK OF CANADA CUTS DRIVE SHORT END OF THE CURVE LOWER

Fixed Income Index Returns	1Q25	YTD25
Canadian	2.0%	2.0%

The trade narrative was deafening in the first quarter with the Trump administration adopting aggressive rhetoric and making numerous tariff threats against friend and foe. This combative tone combined with a number of pivots on potential actions sowed uncertainty across consumers, businesses, governments, and central banks alike. In the end, targeted industry specific levies did come to fruition, as did duties on non USMCA compliant goods from Canada.

The U.S. Federal Reserve (The Fed) saw no reason to adjust the overnight rate though noted that it is prepared to recalibrate monetary policy as needed in support of price stability and economic growth. The Bank of Canada (BoC) cut rates twice in the quarter (Jan and Mar) and indicated some concern for the intensifying trade conflict and how it might impact confidence measures and the price level of goods.

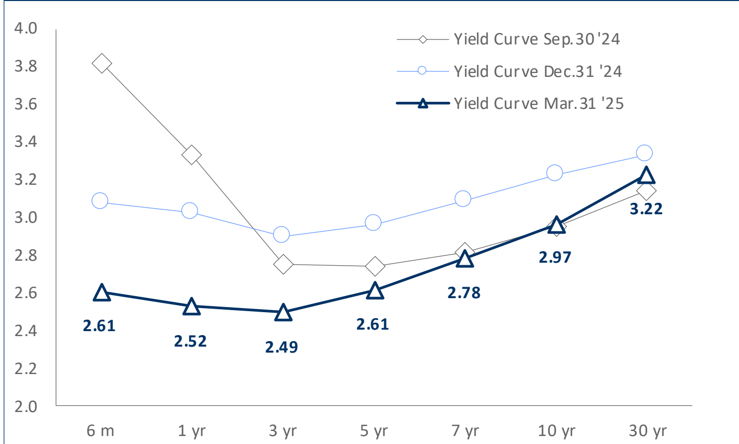
Economic data within the quarter was generally positive with the U.S. posting benign unemployment, some progress on inflation towards the 2% target alongside GDP growth above 2%. U.S. yields tightened with the greatest move in the 5 yr (~40 bps). 2 and 10 yr bonds tightened by ~35 bps and the long-end by ~20 bps. Canadian data included a slight uptick in unemployment over the last 12 months, inflation near the target of 2%, and GDP growth over 2%. In combination with the rate cuts, this led to ~50 bps of tightening at the short-end, ~35 bps in the middle of the curve, and ~10 bps at the long-end (Figure 5). Canadian credit spreads moved ~5bps wider for AA credit, ~10 bps for A credit, and ~20 bps for BBB credit.

The U.S. administration's early April announcement of proposed tariffs across the vast majority of trading partners outside the USMCA upended fixed income markets with bond yields reacting to the dueling narratives of potential recession concerns (downward pressure on yields) and inflation (upwards pressure on yields). We would expect continued volatility until there is greater clarity on how the trade conflict will evolve.

BIM FIXED INCOME FRAMEWORK

Portfolio duration is neutral to the benchmark with slight overweight positioning in Provincial and Corporate credit. We plan to maintain a neutral stance on duration and a slight overweight in credit until more economic certainty develops in the market. We continue to place an emphasis on maintaining liquidity and will look to high grade corporate credit should opportunities present themselves.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

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