2Q25 | FOG OF UNCERTAINTY NOT COMPLETELY LIFTED, BUT THINNING OUT

INVESTMENT ENVIRONMENT

- The U.S. trade agenda highly influenced markets. Initial tariff threats stoked fears of a trade war. The subsequent de-escalation was favourably received.

EQUITY MARKETS

- Tariff reprieve sends equities higher following an early quarter stumble. Cyclicals and trade exposed names led the charge off the bottom.

FIXED INCOME MARKETS

- Long yields move higher as corporate spreads tighten further. Although slowing, most economic data shows limited impact from trade tensions for now.

INVESTMENT ENVIRONMENT | MARKETS PREFER STABILITY TO 'STRATEGIC UNCERTAINTY'

The second quarter began on a decidedly negative note as investors struggled to come to grips with the U.S. administration's exceedingly aggressive tariff agenda that appeared to signal an appetite for a trade war. Financial markets clearly disapproved of such a shock and awe approach and quickly retrenched. Whether in response to market forces, or at the behest of more moderate voices, a seeming rethink on at least tariff messaging was a welcome development. **The announcement of a 90 day pause on the implementation of reciprocal tariffs (ex-China) was the first sign of a change in tactic, that was shortly followed by a de-escalation of tensions with China (Figure 1). All in, the quarter was highly influenced by communication from the U.S. administration with markets moving higher in tandem with improving expectations for global terms of trade.**

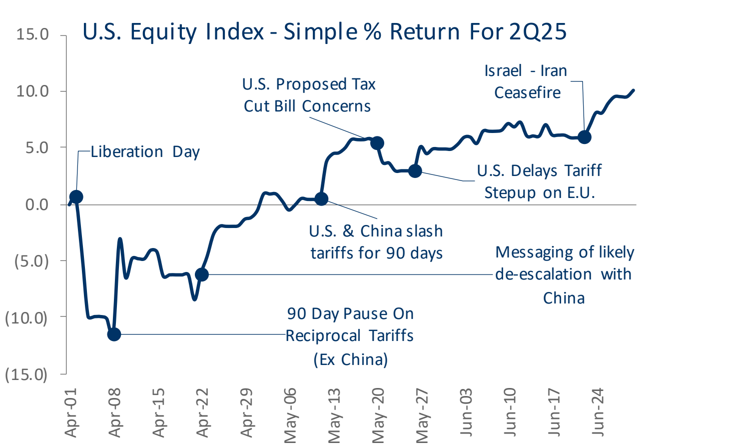
While market sentiment has turned positive on expectations of a less volatile future trade environment, some near-term events could put that view to the test. As of this writing, the U.S. has renewed its threat to increase levies on several trading partners, including Japan and South Korea. This comes while also extending the pause on implementation of such reciprocal tariffs from July 9th until at least August 1st. Canada has a self-imposed deadline of July 21st for working toward a new agreement with the U.S., including a goal of having all recently introduced industry-specific and general tariffs repealed. So while uncertainty remains, markets are no longer fixated on potentially dire trade outcomes and the knock-on effects for businesses and countries. This trend is also reflected in economists' 2025 GDP projections, which have rebounded from the lows forecasted in April/May, but are still less optimistic than at the turn of the calendar year (Figure 2).

The new trade environment has incentivized U.S. trading partners to explore alternative relationships, and to build more diversified supply chains in order to reduce any vulnerabilities to future trade disruptions. Various countries and regional blocs are also looking internally in pursuit of more efficient practices and regulatory frameworks to facilitate economic growth and competitiveness. Within Canada, the push to enhance inter-provincial trade by reducing internal trade barriers has gained renewed urgency given the magnitude of the economic relationship with the U.S. and current uncertainties.

The U.S. has also somewhat upended certain military alliances by providing mixed signals on support for Ukraine, fostering uncertainty about its commitment to NATO, and continuing to advocate for increased spending by NATO members. The spending complaint was a long-standing point of contention for President Trump. This issue was addressed at the recent summit in June, where NATO Secretary General Mark Rutte announced a spending target of 5% of GDP for member countries (up from the current 2%) to be met by 2035. This increase is being justified by the need to enhance defence capabilities in a more dangerous and unpredictable security environment and to equalize spending with what the U.S. has traditionally outlaid.

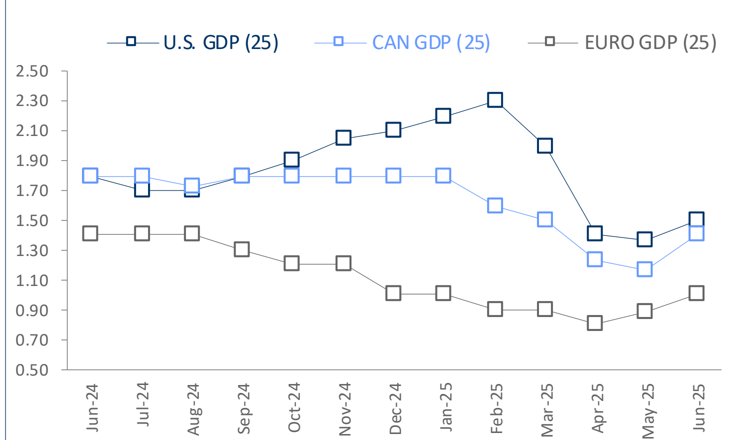
Investor psyche is in a much better place than when the quarter began. Recent actions by the U.S. government seem to acknowledge the interdependence of the global economy and have shifted towards achieving breakthroughs in trade agreements rather than focusing only on extracting concessions. Some bumps in the road may remain, but the path forward seems far better than a few short months ago.

FIGURE 1: U.S. AGENDA HIGHLY INFLUENCED MARKETS



Source: Bloomberg | U.S. Equity Index - Simple % Returns in USD vs. 2025-Mar-31

FIGURE 2: GDP PROJECTIONS BECOMING MORE UPBEAT



Source: Bloomberg | Data represents consensus Y/Y - % GDP growth forecasts

EQUITY MARKETS | TARIFF REPRIEVE LEADS EQUITIES HIGHER FOLLOWING EARLY QUARTER STUMBLE

Equity Index Returns	2Q25 (CAD)	2Q25 (USD)	YTD25(CAD)	YTD25(USD)
Global (Net)	5.7%	11.5%	3.9%	9.5%
Canadian	8.5%		10.2%	
CDN Small Cap	11.8%		12.7%	

The unveiling of the Trump administration's reciprocal tariff plans led to a difficult start to the quarter with U.S. equities trailing the rest of the world in a down market. This performance gap peaked in mid-April which coincided with a more measured and conciliatory negotiating tone out of Washington that helped to ease trade and growth-related concerns. **As subsequent trade updates further de-risked tariff concerns, markets sharply rebounded into quarter-end and U.S. equities narrowed their relative performance gap versus international peers (Figure 3).**

While defensive equities were in favour in the early part of the year up until mid-April, more cyclical and growth-oriented sectors led the rebound into quarter-end. Within Global equities, the rebound was driven by the Information Technology, Industrials, and Consumer Discretionary sectors. In Canada, it was powered by the Information Technology, Financials, and Consumer Discretionary sectors. This reversal in performance and market leadership highlights how quickly sentiment can shift once perceived macro risks begin to abate.

BIM EQUITY FRAMEWORK

Uncertainty is unwelcome in both the business and investment communities. When faced with it, businesses often struggle to make informed decisions and plan for the future. Similarly, investors can become skittish and focus on capital preservation and loss avoidance. We saw the impact of trade uncertainty play out in real-time in the stock markets, while business optimism was captured in surveys (Figure 4). Although risks remain, businesses are feeling more confident about their prospects now that trade policy is becoming less volatile. This renewed confidence presents interesting value opportunities in equities that were more heavily impacted during the recent downturn, as their financial profiles strengthen alongside greater economic clarity.

GLOBAL MARKETS

While the worst tariff-related fears have faded given additional clarity and certain positive developments, risks still remain and could be a source of volatility moving forward. Reaction from corporations on investment plans has been somewhat muted, and focused more on pausing growth initiatives rather than implementing aggressive cost-cutting. While this has been disappointing relative to market expectations earlier in the year, many of these initiatives can be restarted quickly with greater stability in the business environment and offer potential upside should this come to pass.

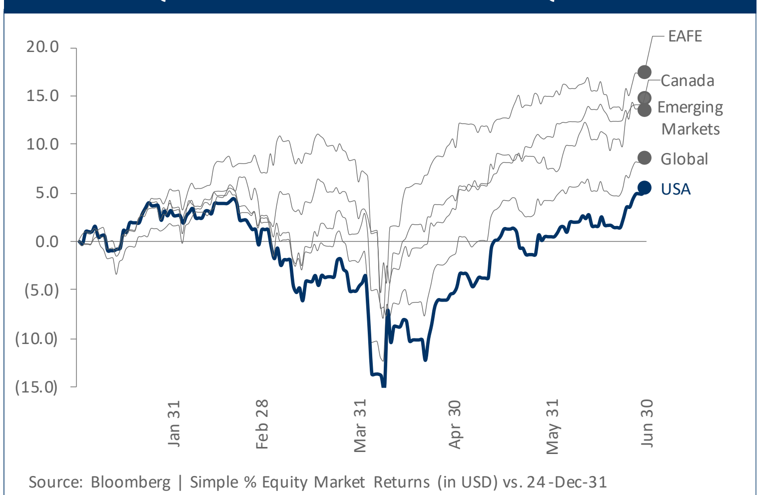
Given this backdrop, a balanced approach to stock selection and portfolio construction is warranted, though oversold names with generally intact fundamentals offer particularly interesting opportunities. To that end, we see value in high-quality global businesses that have been indiscriminately impacted by tariff uncertainty, despite having resilient models and durable earnings power. One such example is Thermo Fisher Scientific, a leader in life sciences tools and diagnostics. Near-term tariff and policy-related noise has pushed the company's valuation to undemanding levels relative to the quality of its long-term outlook, and in our view provides a compelling risk-reward profile in the current environment.

CANADIAN ALL-CAP MARKET

In our previous edition of the BIM Review, we noted that the two leading parties contesting the Canadian election shared some alignment on a more constructive approach to resource and energy development than in the past. With the election now behind us, the new government has recently passed Bill C-5, also known as the "One Canadian Economy Act". One component of this Bill enables the fast-tracking of projects deemed to be in the national interest, with the goal of reducing regulatory burden and expediting approval timelines. Priority project proposals will originate from various industries, including natural resources. Consultations over the summer are expected to yield a shortlist of initiatives to move forward.

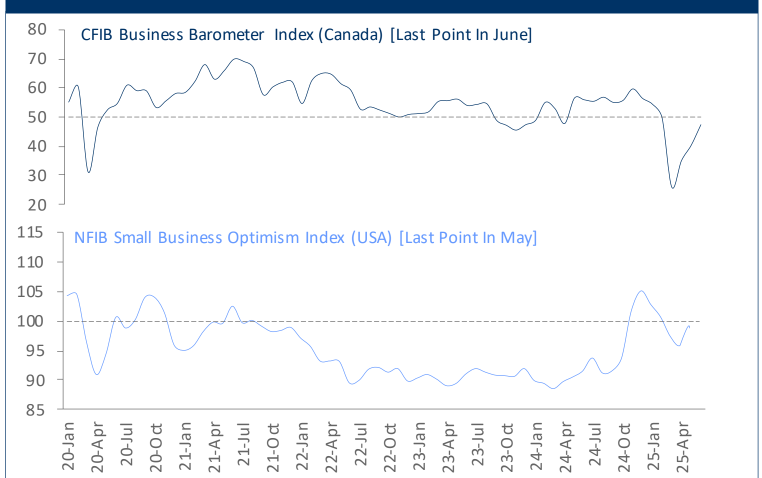
Defence spending has also been a focus, with Prime Minister Carney committing to reach the current NATO target of 2% of GDP in the current fiscal year, as well as committing to NATO's new goal of 5% of GDP by 2035. This 5% target comprises two components: 3.5% for core military spending, and 1.5% for broader defence-related infrastructure and industry. Canadian companies are expected to be prioritized in procurement decisions where possible, in pursuit of enhanced self-sufficiency. Many industrial and technology companies stand to benefit from these developments, including the company profiled in the BIM Equity Thesis Spotlight that follows.

FIGURE 3: EQUITY MARKETS REBOUND INTO QUARTER-END



Source: Bloomberg | Simple % Equity Market Returns (in USD) vs. 24-Dec-31

FIGURE 4: BUSINESS OPTIMISM ON THE MEND



Source: Bloomberg

CANADIAN SMALL-CAP MARKET

Small caps rallied strongly in the second quarter, leading the equity markets. Equities surged forward through the remainder of the period after "peak fear" hit in the aftermath of Trump's tariff "Liberation Day." As highlighted last quarter, the fear-driven sell-off and the corresponding attractive valuation opportunity for small caps bore fruit in Q2, as these stocks saw increased bids.

Another trend we highlighted was the return of mergers and acquisitions activity to the small-cap space. Subsequently, our holding Andlauer Healthcare (AND), a leading provider of healthcare transportation and logistics services, announced a deal to be acquired by industry giant United Parcel Service (UPS) at a ~37% premium. AND is a high-quality transportation company navigating industry growth headwinds. It experienced substantial multiple compression as investors shied away from small caps. The UPS bid is the latest example of a larger strategic or financial buyer stepping in to capitalize when public markets do not appropriately value quality businesses.

The pendulum has swung in three short months from major fear to optimism. Pockets of the market are showing signs of speculative and risk-seeking behaviour, evidenced by IPO bounces, the crypto rally, and AI-related valuations. We foresee the potential for volatility ahead, driven by the possible reemergence of fiscal concerns, delayed inflationary impacts from tariffs, and a slowing job market. Thankfully we don't need a crystal ball and just need to remain focused on owning reasonably valued businesses that are set to thrive and grow. Value hunting in small cap land – an asset class that has witnessed underperformance – provides a robust opportunity.

BIM EQUITY THESIS SPOTLIGHT

Exchange Income Corp (EIF), a consolidator of niche aviation and manufacturing businesses, is a recent addition to the small-cap portfolio that fits our investment checklist well. While on the surface EIF might look similar to other financial roll-ups in the market with mixed track records, under the 20-plus year leadership of CEO Mike Pyle, they have amassed a stellar long-term track record of growth and stability, creating a cash flow compounding machine.

EIF is well positioned to take advantage of two key trends driving investor enthusiasm in the Canadian market: increased spending on defence and continued/accelerated development in Canada's north. Its subsidiary PAL Aerospace is a global leader in special mission aircraft, specializing in maritime surveillance and reconnaissance, operating under long-term government contracts. This business has seen strong growth and boasts an even stronger bidding pipeline.

Furthermore, EIF operates the key transportation infrastructure in the Canadian Arctic. Their Essential Air Services segment offers leading passenger, cargo, rotary, and medevac services in the region. The recently closed $200 million acquisition of Canadian North only strengthens their market-leading position.

FIXED INCOME MARKETS | LONG YIELDS MOVE HIGHER AS CORPORATE SPREADS TIGHTEN FURTHER

Fixed Income Index Returns		
	2Q25	YTD25
Canadian	-0.6%	1.4%

It seems that trade negotiations are proving to be a little more difficult than the Trump administration had expected, with only two deals being announced thus far. That being said, the market has taken some comfort in the fact that negotiations are ongoing and is hopeful that tariffs will settle out at a more reasonable level, allowing global growth to continue on a positive path. Commentary from negotiating teams is setting expectations that deal announcements could happen in the near-term.

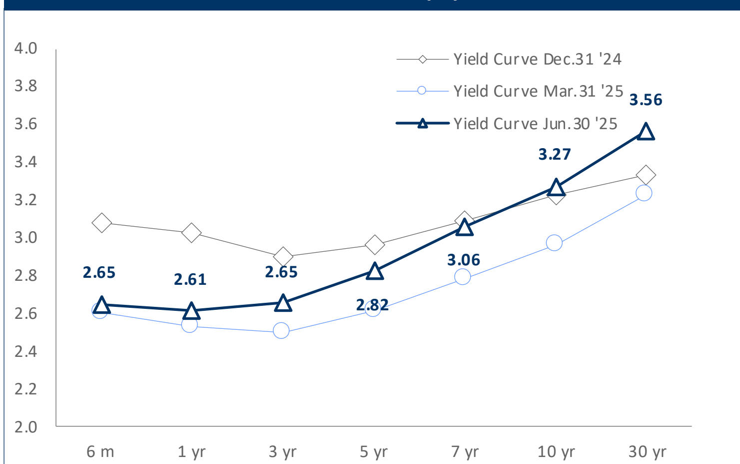
In the second quarter of 2025, The Federal Reserve (the Fed) kept the overnight interest rate unchanged. In their statement, they indicated a continued commitment to monitor incoming data and expressed preparedness to adjust the stance of monetary policy to move toward their goals of price stability and sustainable economic growth. The Bank of Canada (the BoC) acknowledged that the trade conflict is a headwind for the Canadian economy, noting firmer inflation, a softer economy, and high uncertainty for both consumers and businesses. The BoC also held the overnight interest rate unchanged at both meetings in the second quarter, indicating they would monitor incoming data and react accordingly. In his statement, the BoC governor stated that their outlook would be less forward-looking and focus more on the short-term, emphasizing a close eye on economic data.

Economic data came in generally better than subdued expectations, and contained no meaningfully negative surprises. In the U.S., inflation remained below 3%, unemployment continued to hover around its lows at 4.1%, and GDP experienced a slight slowdown. In Canada, GDP also slowed slightly but remained positive at 1.3%. Inflation measures were hovering around 2%, accompanied by a slight uptick in unemployment. **Regarding fixed income markets, yields on Canadian government bonds moved wider, with short-term yields outperforming long-term yields (Figure 5).** Corporate spreads tightened during the quarter, driven by a very strong new issue market where investor demand outpaced the above-average issuance.

BIM FIXED INCOME FRAMEWORK

When comparing our portfolio to our benchmark, we are slightly longer in duration, underweight in Federal bonds, neutral in provincial bond holdings, and overweight in corporate credit. Our focus is to maintain sufficient liquidity and hold high-quality names, thus providing us the opportunity to take advantage of any market dislocations.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Bloomberg

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