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Review

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Certain uncertainty

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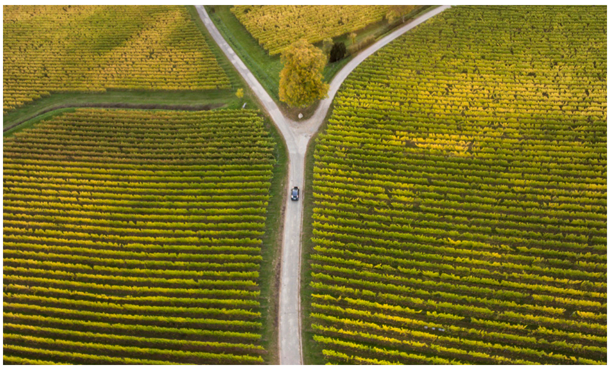

Key points

- Markets have largely recovered from their February-April swoon, leaving investors to contend with elevated valuations amidst policy and geopolitical uncertainty.
- Consensus earnings estimates for this year and next are robust enough to support those valuations as long as trade uncertainty doesn't bring the prospect for a U.S. recession back onto the table.
- We have conviction that more new highs lie ahead for the major markets, but the path taken by equity indexes may be a bumpy one as tariffs and counter-tariffs work their way into the earnings and valuation equations.

For all the world's major equity markets, the worst and longest-lasting stock-market declines have been associated with U.S. recessions. While markets have largely recovered from their February-April swoon, one key question remains: Is a U.S. recession likely to arrive in the coming 18 months?

Just a couple of months ago, surveys of U.S. consumers, businesses and investors offered up a deeply pessimistic "Yes" to that question. The overwhelming view at the time had the U.S. entering recession by the second half of this year or by early next year at the latest. That extreme low point for sentiment coincided with a concerning low for stock prices—the S&P 500, for its part, had fallen almost 19 per cent in just six weeks, from which it has largely recovered.

Surprisingly, Canada's S&P/TSX, rapidly sprinted to a new all-time high, the first major index to do so. This was all the more noteworthy because, as the largest trading partner of the U.S., Canada's economy has been contending with massive trade/tariff uncertainty.

Meanwhile, those sentiment surveys cited above have all improved somewhat but are still a long way from the extended over-optimism that often spells trouble for the stock market.

There is room for the major global equity indexes to go on moving higher for some time, but there are caveats.

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U.S. recession needs to be avoided

Negative Gross Domestic Product (GDP) data in the first quarter of 2025 reminds us that there continues to be great uncertainty about the potential impact of tariffs on the U.S. economy and those of all its trading partners, especially Canada's. We believe another sustained up-leg in equity markets requires a catalyst which opens a plausible path to continued growth without recession.

The most welcome case would be a trade deal between the U.S. and one of its notable trading partners—the EU, China, Canada, and Mexico represent about 60 per cent of U.S. imports. At the time of writing, no such deal has emerged. With most tariffs set to take effect in the coming weeks, the impact on inflation and Federal Reserve policy could unfold over the second half of the year. At the moment, the U.S. central bank looks to be wary of cutting rates ahead of a price shock it assumes will be coming. The same looks likely for the Bank of Canada.

Rich valuations require constant reassurance

Consensus earnings estimates for the S&P 500 remain unreservedly optimistic at $265 per index share, up by an above average 7.5 per cent, with next year's forecast to advance by a booming 13 per cent to $300. And investors look to have embraced these estimates wholeheartedly: today the index trades at 22.8x this year's earnings estimate and 20.1x next.

It should be noted that the broad indexes in Canada, Japan, Europe, and the UK are at comparatively much less demanding multiples—the mid-to-high teens for the first three and only 13x for the UK. The price-to-earnings (P/E) gap for all four vis-à-vis the U.S. would narrow to some degree if one adjusted for sector weight differences, as the U.S. market has much higher exposure to the high-P/E Tech sector and much lighter exposure to the low-P/E Materials and Financials groups. What valuation gap remains is largely attributable to the preponderance of mega-cap growth stocks such as the "Magnificent 7" (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) found in the S&P 500.

Markets, even high P/E ones, can withstand some near-term earnings disappointments as long as investors can remain hopeful of a 2026 full recovery. However, a rocky second half for earnings, should it arrive, could be expected to take a periodic toll on investor confidence and produce bouts of downside volatility along the way. And, while forecasts of a 2026 U.S. recession, so prevalent two months ago, have largely faded, they could come back onto the table just as rapidly.

Other risks abound

Earlier in the year, we argued that catalysts were needed to make a sustained path higher for stock markets plausible. Our first choice was "some significant improvement on the trade front" and it still is. However, we also thought "a Ukraine truce would be helpful."

Regrettably, the Ukraine-Russia conflict has escalated in the interval, diminishing the prospects for a hoped-for negotiated ceasefire. Now, an already highly fraught Israel-Iran relationship threatens to escalate, perhaps pushing aside any possible U.S.-Iran nuclear deal along the way. And still lurking on the sidelines is the very recent confrontation between India and Pakistan.

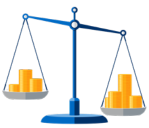
Invested, but watchful

Markets are often said to "climb a wall of worry." If that's so, there looks to be lots of climbing left to do. But all-too-human investors can and do change their minds—often abruptly. There may be plenty of reasons presented to do just that in the coming quarters.

We expect major equity markets to post further new highs in the months ahead. But we also think something more than "the trend is your friend" thinking will be required. We advocate for a cautious, watchful approach.

Closing the gender retirement income gap

Canadians, on average, are living longer. This is especially true for women, as they are more likely to outlive their male counterparts. In addition, older women are living with less financial security due to the socioeconomic differences over many decades leading up to one's pensionable years.

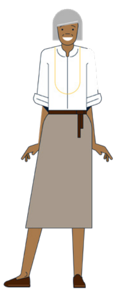


83 cents

The amount women receive in retirement income for every dollar men receive.[1]

4.41 years

The additional years a woman lives on average compared to her male counterpart.[2]



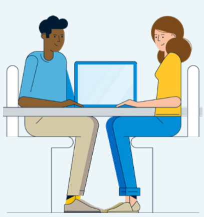
These differences arise as women have previously tended to work fewer years than men over the course of their careers due to temporary or permanent labour force exits. For many women, these leaves take place during peak earning years and are often done to raise children or to provide care to aging relatives.

The gap is further compounded by women receiving lower wages throughout the span of their careers.

If you or a family member have already or are considering taking a leave of absence to raise a family or act as a caregiver to a loved one, it's important to consider how this will impact your/their financial security and economic wellbeing, and the steps can be taken to minimize the impact.

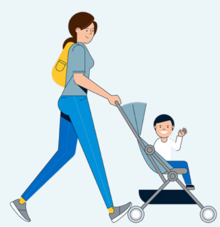
For those who have already taken time out of the workplace for the above reasons there are options available to help close the gap.

Contributing factors



21.3% gap

The gap between the employment rate of women with children under the age of six, compared to that of men with children under the age of six.[3]



42%

How much more likely women are to act as caregivers to children or care-dependant adults compared to men.[4]

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Items to review with your advisor

If you or a family member have taken or are considering taking a leave of absence, we can help.

Key questions

- ☐ Does your employer offer a pension plan that enables you to make contributions while on leave?
- ☐ Does your employer offer a matched contribution plan? Would this continue while on leave?
- ☐ Does your employer enable you to "buy back" missed contributions after you return to work either in installments or in lump sums?
- ☐ Have you examined what other supports may be available from the government or your employer?
- ☐ **If you have already taken a leave of absence:** Have you utilised your full Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) contribution room?

Other areas to explore

- ☐ Examining income splitting during times of lower income
- ☐ Opening a Registered Education Savings Plan (RESP) to avail of government incentives for children
- ☐ Creating or updating your financial plan to understand and account for retirement income goals

Ready to collect your pension?

If you took time off work or worked reduced hours to look after your young children, you may be able to increase the amount of your Canada Pension Plan (CPP) retirement pension and other CPP benefits with child-rearing provisions. Review the Government of Canada's child-rearing provisions webpage to see if you qualify and learn how to apply.[5]

We're here to help. Talk to us today to help close the gender retirement income gap.

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[1] https://payequity.gov.on.ca/gender-pension-gap/#:~:text=Understanding%20the%20Gender%20Pension%20Gap%20in%20Canada,-The%20gender%20pension&text=It%20currently%20stands%20at%20about,women%20get%20only%2083%20cents.

[2] https://www150.statcan.gc.ca/n1/daily-quotidien/190530/cg-d002-eng.htm

[3] https://payequity.gov.on.ca/gender-pension-gap/#:~:text=Understanding%20the%20Gender%20Pension%20Gap%20in%20Canada,-The%20gender%20pension&text=It%20currently%20stands%20at%20about,women%20get%20only%2083%20cents.

[4] https://www.statcan.gc.ca/o1/en/plus/2649-more-half-women-canada-are-caregivers#

[5] https://www.canada.ca/en/services/benefits/publicpensions/cpp/child-rearing.html

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