



EMPIRE LIFE 2025 SEMI-ANNUAL MARKET OUTLOOK

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in evolving markets

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Insurance & Investments



Table of Contents

Introduction.....	1
Macroeconomic overview	1
Canada equities	4
U.S. equities	6
Global equities	8
Fixed income overview	10
Final thoughts	13

Introduction

As we enter the second half of the year, we reflect on the key themes that impacted markets: geopolitical instability, trade policy, and the evolving energy landscape. These remain central to our consideration and are likely to influence both investor sentiment and economic outcomes. While uncertainty persists, we identify reasons for both caution and optimism. Maintaining a focus on high-quality companies and remaining adaptable is essential for navigating the path ahead.



Macroeconomic overview

Geopolitical tensions

Globally, we anticipated that changes within the U.S. administration might facilitate progress in conflict areas such as Ukraine, Gaza, and the Red Sea. We've seen some improvement in Suez and the Red Sea, but a broader resolution remains elusive. Given the recent Israeli strikes on Iran's nuclear infrastructure, it doesn't appear that tensions will abate swiftly. The current U.S. foreign policy appears to be evolving toward a more regionally focused stance. We believe that this shift could impact global trade, energy markets, and manufacturing supply chains. European nations, in particular, appear to be preparing for reduced U.S. involvement by accelerating their defence investments—an aspect we consider worthy of close monitoring.



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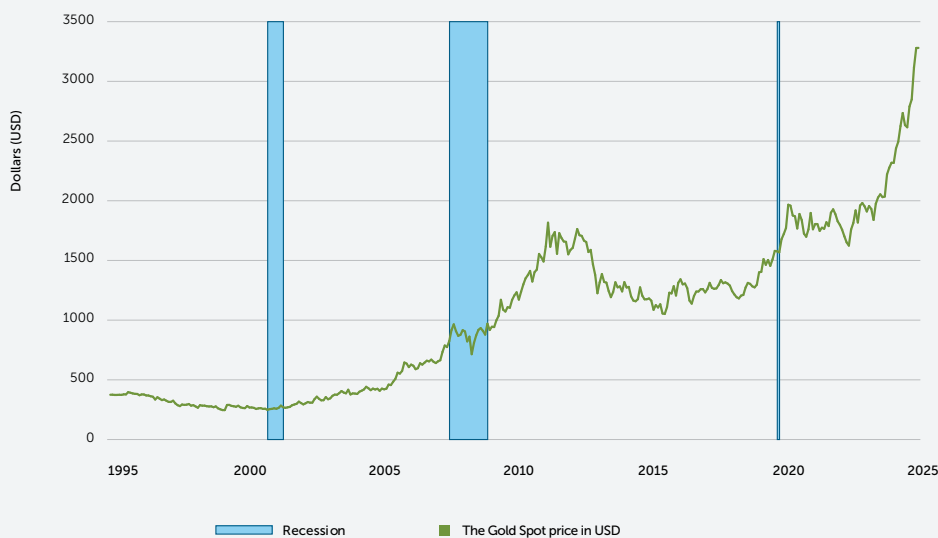
| 2025 Macroeconomic Overview

Debt, gold, and economic resilience

In the United States, sustained fiscal deficits and increased debt issuance continue to raise concerns. In this context, we have observed that central banks continue to augment their gold reserves. We contend that this steady accumulation has been a significant factor in gold's recent performance. Despite these macroeconomic headwinds, global growth has demonstrated notable resilience, and our base case continues to lean toward ongoing, albeit uneven, expansion.



Gold spot price against USD



Source: Bloomberg, as of May 31, 2025



Regional opportunities

India remains a focal point, and we are encouraged by its economic trajectory. The International Monetary Fund (IMF) has recently projected that India may surpass Japan this year, potentially becoming the world's third-largest economy¹. We regard this as a noteworthy milestone, particularly as India continues its transition from an agricultural-based to an industrial-based economy. This evolution could result in significant productivity gains over time. Given its favourable demographic profile and a dynamic technology and startup ecosystem, we believe that India holds long-term investment appeal.

¹ IMF, World Economic Outlook, April 2025

Risks and potential upsides

We acknowledge that risks remain. One area of focus is the potential escalation of trade tensions. Targeted tariffs could evolve into broader trade disruptions, potentially burdening global economic momentum. Similarly, a sudden surge in geopolitical instability, such as a targeted strike on energy infrastructure, could lead to a significant increase in oil prices, driving inflation and exerting pressure on energy-importing economies, particularly in Europe.

All of that being said, there exists real upside potential, especially in the longer term. A resolution of trade disputes could be supportive and lead to improved underlying fundamentals. An unforeseen de-escalation in Ukraine, a resolution of the Middle East conflict or a U.S. policy initiative aimed at fostering growth without significantly increasing the deficit may serve as a significant catalyst for global markets. A strong tax bill out of Congress would be a good start, as would genuine progress on regulatory reform. Although Europe and China have encountered mixed conditions, we believe that effectively addressing immediate challenges could reveal new opportunities.

While there are reasons for caution in the near term, we also see pathways to longer-term positive outcomes.



Canadian equities

Overview

In March, Canada emerged as a central focus in recent U.S. tariff actions, despite being a long-standing ally of the United States. This has strained cross-border sentiment and introduced significant economic uncertainty.

- **March 6:** The U.S. imposed a 25% tariff on non-USMCA goods (excluding energy and potash at 10%). Canada responded with retaliatory tariffs on \$30 billion of U.S. imports.
- **March 12:** The U.S. applied a 25% tariff on Canadian steel and aluminum.
- **March 13:** Canada countered with another \$30 billion in 25% retaliatory tariffs.

Relief came on April 2, "Liberation Day," when Canada was excluded from reciprocal tariffs on other countries. While this brought short-term stability for Canada, broader tariff uncertainty still weighs on the outlook. Despite Canada being spared from a reciprocal tariff perspective, markets reacted sharply down on "Liberation day" and the next several days that followed. The S&P/TSX touched a low of 22,506 on April 8 and has since rebounded 17% to 26,233 by May 31, as signs of friendlier tariff discussions have begun to emerge between the U.S. and other countries.

Domestically, the Canadian election on April 28 ushered in a new administration, with Mark Carney elected Prime Minister, leading a minority government. Given how united Canada is on pro-growth policies, there is an excellent opportunity for the Federal government to improve the growth and productivity of Canada's economy.

Outlook:

Banks

The banking sector faces headwinds from trade and economic uncertainty. We believe a near-term uptick in credit losses is likely, though Canadian banks appear well-prepared with sufficient provisions. While core banking revenues remain pressured, strength in capital markets and trading has provided a meaningful offset. We expect core revenues to recover gradually, supported by a more pro-growth policy stance. Elevated capital buffers provide resilience, and share buybacks and dividend growth remain viable options for maintaining financial stability. However, we remain cautious in the short term given consumer weakness and ongoing macro uncertainty. Moreover, given the uncertainty related to tariffs, we believe that valuations of Canadian banks (trading roughly in line with historical averages) are not overly attractive.



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MID-YEAR HIGHLIGHTS

- Canadian banks face short-term headwinds from economic uncertainty, but sufficient provisions and capital markets strength offer resilience.
- Oil prices remain volatile due to demand concerns and OPEC+ supply increases, while North American natural gas has a constructive outlook.
- Gold has rallied 22% year-to-date, driven by fiscal concerns, inflation, central bank buying, and geopolitical risks, remaining a key diversifier.

Energy

Oil prices are relatively unchanged YTD although they have been extremely volatile. The volatility can be attributed to concerns surrounding slower global demand and rising supply, especially as OPEC+ since April, have now made or announced increases totalling 1.37 million bpd, or 62% of the 2.2 million bpd they aim to add back to the market. Further contributing to volatility is an emerging conflict between Israel and Iran that could result in a material global supply shortage, although OPEC+ has spare capacity that it can bring online as an offset. The largest risk to a supply shortage related to this conflict is if Iran restricts the movement of oil in the Strait of Hormuz. We expect continued volatility in oil prices given the aforementioned factors. We maintain a constructive outlook on North American natural gas, driven by increased LNG takeaway capacity in Canada and the United States. The risk, however, lies in potential oversupply if producers respond too aggressively to expanded LNG capacity.



Gold

Gold has been a top performer, rising 22% year-to-date and crossing \$3,300. The TSX Materials sector—driven primarily by gold—has led Canadian market performance, up roughly 25%². We believe several factors contributed to this rally: U.S. fiscal concerns, inflationary pressures from tariffs, central bank buying, and ongoing geopolitical risks. In our view, gold remains vital for portfolio diversification. It tends to perform well in risk-off environments and during periods of elevated policy uncertainty. However, it may lag if risk appetite rebounds strongly.



S&P/TSX composite index



Source: Bloomberg, as of June 18, 2025

We believe volatility is likely to persist in the coming quarters as tariff-related decisions and trade policy remain unresolved. This uncertainty may weigh on business investment and consumer confidence. Simultaneously, Canada faces rising core inflation despite signs of economic weakness, such as higher unemployment, which we think may delay near-term rate cuts. Valuations across Canadian equities have moved above their five-year average, with the TSX trading at 15³ times the next 12 months' (NTM) P/E, compared to a historical average of 14.7 times³. While this presents a less attractive entry point at the index level, we continue to identify compelling opportunities through bottom-up stock selection. Our focus remains on businesses that we believe are well-positioned to create long-term value, despite a challenging and fluid macroeconomic backdrop.

² Morningstar as of June 1st, 2025

³ Morningstar as of June 1st, 2025



U.S. equities

Overview

We have observed a volatile first half of the year in U.S. equities. A significant factor contributing to this volatility has been the dynamic and frequently evolving nature of tariffs. The current administration's proactive approach, which appears to address various global trade considerations simultaneously, has introduced considerable uncertainty into the market. This has often resulted in fluctuating conditions, as tariffs were announced, communicated through public platforms, and subsequently adjusted, creating a rather complex period for capital management. Despite this intricate backdrop, as we approach mid-June, the market is approximately flat compared to the beginning of the year. Interestingly, for an observer disengaged from daily market discussions, this period may appear relatively uneventful.

There has been some moderation in the Consumer Price Index (CPI). Following a somewhat challenging Q1 GDP report, the second quarter appears to be demonstrating signs of recovery. However, we have also noted moderately concerning data from Purchasing Managers' Index (PMI) reports, which indicate weakness in new orders alongside elevated prices paid. While it may be premature to raise a definitive alarm, it's not a combination we want to see persist.

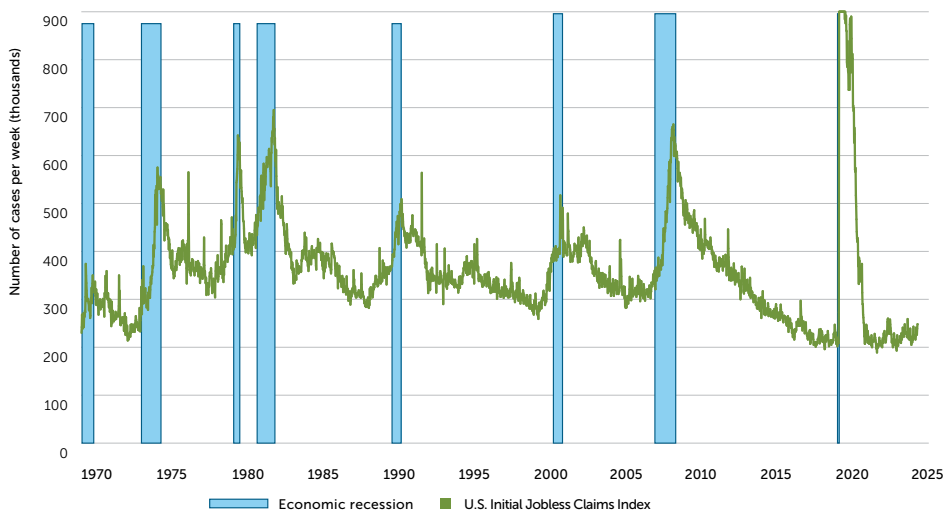


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MID-YEAR HIGHLIGHTS

- Uncertainty from tariff and trade issues hinders U.S. capital deployment.
- A reconciliation bill is likely to pass the Senate to avoid significant tax increases in October 2025.
- The U.S. is seeing a nuclear energy renaissance with bipartisan support, aiming for new plant constructions.

U.S. initial jobless claims index



Source: Bloomberg, as of May 31, 2025

From an employment perspective, recent weeks have revealed shifting patterns in one of the early warning signals we monitor: weekly initial claims reports. This metric, which tracks new unemployment filings, has exhibited an upward trend. Although not yet at levels we would consider alarming, it is positioned above the thresholds where we would confidently assert that conditions are entirely stable.

Outlook

Amidst these economic currents, the development of artificial intelligence continues to accelerate rapidly, with regular announcements of new models consistently showcasing enhanced performance and expanded functionality.

Tariff and Trade issues

The eventual resolution of tariff and trade issues is poised to be crucial for the U.S. economy. Virtually every CEO with whom we interact indicates that the current level of uncertainty complicates capital deployment on major projects. We anticipate some reduction in this uncertainty, primarily due to political imperatives. With midterm elections approaching, economic uncertainty is generally not a favourable platform.

Policy changes

The reconciliation bill has passed the House of Representatives and is now awaiting action in the Senate. It is highly probable that some iteration of this legislation will ultimately be enacted, primarily to avert a substantial tax increase in October 2025, when the 2018 tax cuts are set to expire. Generally, politicians prefer not to face elections after having failed to prevent a significant tax increase for their constituencies. Thus, the reconciliation bill is likely to advance in some form, and we are monitoring its progress closely.

Energy (nuclear) renaissance

We have maintained a positive outlook on a nuclear renaissance in the United States for an extended period. This initiative generally enjoys bipartisan support and is aligned with both energy security and broader national security objectives. We were encouraged to witness a series of positive developments in the first half of the year and expect this momentum to persist into the second half. One of the key indicators we are monitoring is the initial announcements regarding large-scale new nuclear plant constructions. While some form of government support may ultimately be necessary to mitigate against undue cost overruns, viable avenues for advancement appear feasible, particularly given that the reconciliation bill seems to offer support for nuclear energy. Additionally, hyperscalers are increasingly engaging in this sector by forming partnerships with utilities for a reliable energy supply, which could significantly influence new nuclear developments. In summary, we believe this trend is likely to maintain its upward trajectory.

In light of the various near-term factors, we remain fundamentally optimistic about the future of the U.S. market. Although we may continue to witness some volatility, we believe there are sufficiently important tailwinds to support the fundamentally strong U.S. economy, which should continue to present compelling long-term opportunities in U.S. equities.



Global equities

Overview

Trade tensions and tariff uncertainty have predominantly occupied headlines, introducing significant complexity to the global macroeconomic landscape. One might have anticipated this to hinder equity performance; however, EAFE markets demonstrated a remarkable 15% gain in the first half of the year. We posit that several underlying factors contributed to this resilience, warranting closer examination.

Outlook

Europe

In Europe, the ongoing uncertainty surrounding U.S. policy appears to have catalyzed a substantial shift in equity flows into the region—a notable reversal following years of outflows. While the diminished appeal of U.S. assets may have played a role, we contend that the narrative in Europe also hinges on improving fundamentals. Key economies, including Germany, have committed to augmenting fiscal spending, and defence budgets across the continent are on the rise. We maintain our exposure to these defence-related themes and believe that this and broader infrastructure spend could provide a multi-year tailwind to regional GDP. Thus far, our constructive outlook on European equities has proved fortuitous. We believe that potential rate declines in conjunction with still-attractive valuations may continue to support performance. During recent meetings with over 30 European management teams, we observed cautious optimism. While certain risks persist—particularly those associated with China and global trade—we have modestly adjusted our outlook to account for slightly stronger domestic growth coupled with a more challenging external environment.

Japan

Japan presents a more complex scenario. Inflation has reached multi-year highs, diminishing consumer purchasing power. Nonetheless, the Bank of Japan remains constrained in its capacity to tighten policy due to elevated debt levels, demographic headwinds, and uncertainty around U.S. interest rates. In light of this, we have positioned ourselves within sectors such as discount retail and financials, which we believe may benefit from the current conditions. Nevertheless, we have tempered our optimism regarding Japan. It remains a cyclical market, and we believe that persistent inflation, limited policy flexibility, and the absence of substantial stimulus from China could exert pressure on near-term performance. Additionally,



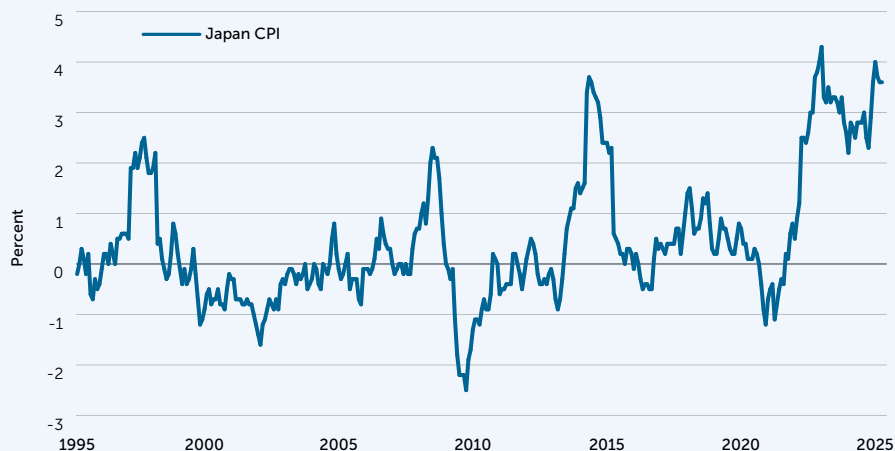
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MID-YEAR HIGHLIGHTS

- Uncertainty in U.S. policy has spurred significant equity inflows into Europe, driven by improving fundamentals, increased fiscal/defense spending, and attractive valuations.
- Japan faces high inflation and limited BOJ policy flexibility due to debt.
- China's economy faces property sector challenges and limited stimulus.

momentum toward governance reform appears to have decelerated. While valuations still appear attractive, we currently perceive no clear catalysts for broad-based upside.

Japan CPI index



Source: Bloomberg, as of April 30, 2025

China

In China, fleeting indications of improvement within the property sector did not sustain. The broader economy continues to grapple with significant challenges, and substantial stimulus has yet to materialize. Our overall stance on China remains cautious, albeit nuanced. Several companies we monitor have reported indications that conditions may be stabilizing. While this is not yet a definitive inflection point, we are closely monitoring the situation. Despite macroeconomic headwinds and elevated tariffs, Chinese equities exhibited strong performance in the first half of the year, with the Hang Seng recording a 15% gain. Our exposure to high-quality technology firms enabled us to participate in this upside. Our positions are in large businesses with very strong competitive “moats,” and we believe they can continue to grow even in a weak economy. For now, we maintain our positions and adopt a measured, “wait and see” approach. Should confidence improve, we would likely augment our exposure through global companies with substantial Chinese operations.



Fixed income

Overview

Fixed income markets continued to experience notable volatility throughout the first half of 2025. Market sentiment was primarily shaped by trade and tariff headlines, which introduced a significant degree of uncertainty into the outlook for global economic growth. The rapid succession of trade policy announcements, including US tariffs on trading partners like Canada, followed by retaliatory measures, contributed to fluctuating market conditions.

A prominent theme in the first half of the year was the divergent paths taken by the Bank of Canada (BoC) and the US Federal Reserve (Fed).

The Bank of Canada implemented easing measures, with two 25-basis-point rate cuts. The first occurred in January, influenced by inflation becoming less broad-based and a softer domestic economic backdrop. In March, anticipating potentially weaker growth after initial tariff announcements, the BoC cut again. This decision reflected restrained household spending and business investment intentions due to tariff threats, along with inflation remaining near its 2% target, which was also influenced by the HST holiday.

In contrast, the Federal Reserve maintained its policy stance, leaving rates unchanged throughout the first half of the year. This approach was based on the perceived resilience of the U.S. economy, as evidenced by a loosening labour market and generally robust consumer spending. Despite the tariff headlines, inflation in the US continued to move lower towards the Fed's 2% target.

Beyond trade, domestic political events also had an impact. Canada saw the Liberals retain power with a minority government. In the US, the combination of tariffs, their economic impact, and the growing fiscal deficit contributed to Moody's downgrading the US debt rating from AAA to AA⁴. This development meant that no major ratings agency now rates the US as AAA, which generally contributed to an upward drift in yields.

The considerable uncertainty surrounding trade policy, combined with the rapid introduction and subsequent adjustments of policies, fostered a high degree of volatility in fixed income markets. We began 2025 with markets pricing in approximately 1.75 Fed rate cuts and 2.5 Bank of Canada 25-basis point cuts. As US data remained resilient, the number of priced-in Fed cuts initially drifted lower. However, as trade tensions appeared to escalate, markets briefly priced in as many as four Fed cuts before settling back around two cuts for the year. In Canada, cut pricing initially drifted lower ahead of tariff announcements, then increased to 3 cuts at the peak of trade tensions. Since March, Canadian cut pricing has generally continued to drift lower, with markets now pricing in about 1.5 cuts for the remainder of the year.

⁴ Moody's Ratings (Moody's) *Moody's Ratings downgrades United States ratings to Aa1 from Aaa; changes outlook to stable May 16, 2025*



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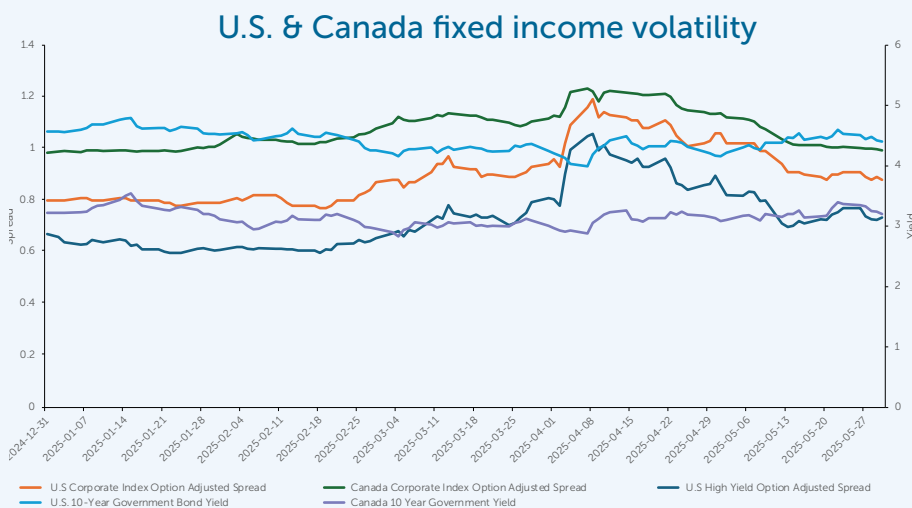
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MID-YEAR HIGHLIGHTS

- Fixed income markets experienced high volatility in H1 2025, largely due to escalating trade and tariff announcements and global economic uncertainty.
- The BoC cut rates twice (January, March) due to softer economy and inflation, while the Fed held rates steady amidst US resilience.
- Moody's downgraded US debt from AAA to AA⁴, reflecting tariff impacts and fiscal deficits, contributing to higher yields

On the currency front, we observed the Canadian dollar appreciate against the US dollar. This dynamic was more a reflection of the US dollar's weakness rather than the Canadian dollar's outright strength. The US dollar depreciated by approximately 9% against a basket of major global currencies, compared to a depreciation of about 5% against the Canadian dollar. US dollar weakness has been influenced by increased expectations of Fed cuts, concerns over the US fiscal position and rising debt, as well as trade and tax policies, and a perceived diversification away from US assets by global investors.

Investment-grade and high-yield corporate spreads also experienced significant volatility in the first half, with notable widening following "Liberation Day" before subsequently tightening. Corporate bonds rated AAA to single-B have largely tightened back to near start-of-year levels, while CCC-rated corporate bond spreads remain elevated.



Source: Bloomberg, as of May 31, 2025

Outlook

Uncertainty remains a key factor for the fixed income outlook. We anticipate some continued divergence between Canada and the US, both in economic performance and central bank policy. Central banks are likely to remain highly data-dependent, perhaps with a less forward-looking posture than typical, given the elevated uncertainty. The path forward for forecasting remains unclear, with further easing from either central bank dependent on evolving economic data and the trade landscape.

Stagflation Concerns

In Canada, GDP showed resilience through Q1, potentially boosted by exports being pulled forward ahead of tariff developments. Q2 is likely to be softer, given this pull-forward effect, and this trend may persist into the second half of 2025. Business and consumer sentiment appear to be depressed due to uncertainty,



and the labour market remains somewhat weak. On the other hand, rising inflation remains a concern, as core measures and breadth continue to increase, and inflation expectations from consumers and businesses have begun to rise again. While headline inflation may receive some relief from the removal of the Consumer Carbon Tax, underlying inflation remains a key focus, especially as the full impact of retaliatory tariffs has yet to be fully reflected in the numbers. The Bank of Canada is closely observing inflation expectations, the pass-through of cost increases to consumers, and the extent to which US tariffs might reduce demand for Canadian exports. If headwinds to growth ease while inflation remains contained, the Bank could potentially find a path towards further easing later this year. However, we may be nearing a terminal point for this easing cycle, unless there is a dramatic weakening of economic data.

Softening U.S. Economy

In the US, we are beginning to observe some economic data showing signs of further softening. Soft data points, including PMIs, business and consumer sentiment, and surveys of business investment intentions, remain on the weaker side. Payrolls are gradually weakening, with recent ADP private payroll reports generally coming in below market expectations, and job cuts beginning to rise. The Fed is maintaining its policy stance to address uncertainty, but has acknowledged that the risks of both higher inflation and a higher unemployment rate have increased. We could potentially see some easing in the US, given the period of holding rates steady; however, they must also balance their dual mandate of maintaining maximum employment and stable inflation at around 2%.

The path for fiscal policy also remains somewhat uncertain for both countries. In Canada, we await the fall budget from the new government, but estimates from their costed platform imply a greater issuance in 2025 than in 2024. In the US, given the adjustments on tariffs (which would result in lower tariff revenue) and the limited effectiveness of efforts to reduce costs, we could foresee elevated issuance and borrowing, particularly as the economy was already running quite strong.

Investment Implications

We anticipate stable fundamentals, but spread volatility may increase if recession risks begin to re-emerge. All-in yields for investment-grade credit continue to appear relatively attractive, particularly in the 5–10 year segment. BB and single-B rated high-yield bonds are generally supported by relatively high all-in yields; however, credit selection is crucial to avoid lower-quality issuers with near-term refinancing needs. We maintain a slight preference for defensive sectors over cyclical names, which may be more vulnerable to margin pressure or tariffs.

Final thoughts

As we enter the second half of 2025, markets remain shaped by geopolitical instability, trade policy, and the evolving energy landscape. While uncertainty persists, a focus on high-quality companies and adaptability is essential. We anticipate continued volatility due to unresolved tariff and trade decisions. Canada faces rising core inflation alongside economic weakness, potentially delaying rate cuts. Despite this, long-term opportunities in U.S. equities remain compelling due to a fundamentally strong economy. We remain committed to pursuing high-quality opportunities and fostering long-term resilience for our investors.



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> Watch for our annual market update, which will be published in Q1 2026

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