

February 2025 market update

Markets shifted in February as global markets face heightened tension hurting consumer optimism.

March 5, 2025



Introduction

Global equity markets edged lower in February. Investors feared that escalating trade tensions could weaken the global economy. Among major central banks, the Bank of England held a meeting in February, lowering its policy interest rate by 25 basis points. Inflation remained stubbornly elevated in many parts of the world, continuing to weigh on consumer activity.

In Canada, the economy grew at an annualized pace of 2.6% in the fourth quarter. Still, the S&P/TSX Composite Index moved lower, hindered by weakness in the Information Technology sector. Yields on 10-year government bonds in Canada declined. U.S. equities fell over the month. Yields on 10-year U.S. Treasury bonds also finished lower. Oil prices declined, while the price of gold increased.

Give Feedback

Global trade tensions rising

February was filled with tensions about a global trade war that could bring down global economic activity. The month began with threats of a 25% tariff on U.S. imports from Canada and Mexico but with a 10% tariff on energy exports from Canada. However, Canada and Mexico were able to reach a temporary agreement with the U.S. to delay tariffs for one month. As we closed out February, U.S. President Donald Trump said the same tariffs are set to begin on March 4. ¹ (#1) On that date, China would be hit with an additional 10% tariff. China said that it would respond with retaliatory tariffs. There has also been talk about reciprocal tariffs on any countries that charge higher duties on U.S. imports. President Trump also said he has plans for a 25% tariff on all aluminum and steel imports, including final goods. The U.S. administration believes Russia and China take steps to circumvent these tariffs, making it necessary to include final goods. Tariffs are expected to have a negative impact on global trade activity and could hurt global economic growth. The Bank of Canada (“BoC”) studied the potential impact of tariffs, believing they could lower Canada’s economic growth by as much as 2.5%.

¹ The 25% tariff on Canada and Mexico came into effect on March 4. Energy products from Canada will see a 10% tariff. The U.S. also increased the tariff on Chinese goods by an additional 10%. Canada swiftly retaliated with tariffs of its own.

Tariffs hurting Canadian consumer optimism

Despite Canadian economic activity picking up in the fourth quarter of 2024, the outlook is clouded by the threat of extensive tariffs from the U.S., which is weighing on consumer and business confidence. Canada’s gross domestic product expanded by 2.6%, annualized, in the fourth quarter, topping the revised 2.2% rate of growth in the previous quarter. Lower interest rates helped boost consumer and business spending. Looser financial conditions appear to be supporting Canada’s economy, but that could be short-lived with potential tariffs on the horizon. Canadian consumers are worried about the future health of Canada’s economy. For the week ended February 21, the Bloomberg Nanos Canadian Confidence Index showed that 65% of Canadians expect the economy to weaken over the next six months. Lower consumer confidence could weigh on spending and investment decisions. Statistics Canada estimated that retail sales fell by 0.4% in January, which was the first decline since last June. Furthermore, housing market activity dropped in January. Weaker confidence and economic uncertainty could hinder the real estate market. The BoC has also expressed concern, noting that its rate cut in January was due in part to the expectations of the negative impact of tariffs.

U.S. Federal Reserve Board can be patient

Near mid-2024, lacklustre economic conditions and falling inflation had markets expecting the U.S. Federal Reserve Board (“Fed”) to lower interest rates at a relatively aggressive pace. However, improvements in the labour market, still elevated inflation and solid economic growth put the Fed on a slower path to lowering interest rates. The Fed has two key mandates – price stability and maximizing employment. In January, the U.S. annual inflation rate rose to 3.0% from 2.9% in December. Meanwhile, the Fed’s preferred inflation gauge, the personal consumption expenditures price index, rose by 2.5% year-over-year. While down over the previous month, it was still above the Fed’s inflation target. The labour market continues to demonstrate its relative strength despite a pullback in hiring activity. The economy added 143,000 jobs in January, helping to push the unemployment rate down to 4.0%, which was its lowest level since May 2024. In the minutes from its last meeting, the Fed noted it can be relatively patient in lowering interest rates considering the relative resiliency of the U.S. economy. However, solid economic conditions could be derailed by the broad tariffs being proposed by the U.S. administration. The economy could see higher prices, and any decline in spending activity could weigh on the labour market.

Consumer price growth picks up in China

To Beijing’s delight, inflationary pressures in China picked up in January, at least temporarily easing concerns about deflation. China’s annual inflation rate increased by 0.5% in January from 0.1% in December. This was China’s fastest pace of inflation since August 2024. Contributing to the faster pace was an acceleration in the price growth for food and housing. Stimulus measures from China’s government appear to be helping. China’s government announced substantial fiscal policy measures last year aimed at boosting domestic demand and production. The government also pledged to take a proactive approach to fiscal policy in 2025. China’s central bank is doing its part. Last year, the People’s Bank of China (“PBOC”) lowered its one- and five-year loan prime rates to their lowest levels ever. After holding steady in February, the PBOC stated it is willing to loosen policy further to support China’s economy. And the economy may need some more support. China is facing hefty tariffs from the U.S., which could prove to be challenging under already difficult economic circumstances.

Give Feedback

Market performance - as at Feb. 28, 2025

Equity Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
S&P/TSX Composite Index C\$	25,393.45	-0.55%	-0.55%	2.69%	2.69%	18.86%	18.86%
MSCI USA Index US\$	5,685.86	-1.69%	-1.42%	1.22%	1.57%	17.01%	24.44%
MSCI EAFE Index US\$	2,422.66	1.80%	2.08%	7.11%	7.48%	5.98%	12.71%
MSCI Emerging Markets Index US\$	1,097.25	0.35%	0.63%	2.02%	2.38%	7.47%	14.30%
MSCI Europe Index US\$	2,215.04	3.53%	3.81%	10.59%	10.97%	8.30%	15.18%
MSCI AC Asia Pacific Index US\$	183.38	-0.39%	-0.12%	0.96%	1.31%	6.04%	12.77%

Give Feedback

Fixed Income Markets	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
FTSE Canada Universe Bond Index C\$	1,195.87	1.10%	1.10%	2.31%	2.31%	8.48%	8.48%
FTSE World Investment Grade Bond Index US\$	216.48	1.57%	1.85%	2.09%	2.44%	3.20%	9.75%

Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.6915	0.73%	-	-0.36%	-	-5.93%	-

Give Feedback

Commodities	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
West Texas Intermediate (US\$/bbl)	69.76	-3.82%	-	-2.73%	-	-10.86%	-
Gold (US\$/oz)	2,857.83	2.12%	-	8.89%	-	39.80%	-
Silver (US\$/oz)	31.15	-0.49%		7.78%		37.37%	

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