

PH&N Canadian Equity Underlying Fund II



Commentary as at June 30, 2025

Trade negotiations dominated the direction of financial markets during the first six months of 2025. Early optimism that the Trump administration would focus on deregulating the economy gave way to concern that he would instead implement across-the-board tariffs on U.S. trade partners. Canadian stocks retreated from all-time highs established early in the year after Trump announced the tariffs. The outlook subsequently improved as the U.S. administration reached trade agreements that ensured a worst-case scenario did not unfold. Canadian stocks returned to all-time highs late in the period as shares of gold producers benefited from record gold prices. Geopolitical turmoil in the Middle East sent oil prices surging on fears of a wider conflict and instability in the region, but oil prices came back down after tensions eased.

The Materials sector, and gold stocks in particular, helped support Canadian equities, and the Health Care sector lagged. The Bank of Canada lowered its benchmark interest rate to 2.75% from 3.25% in the first quarter, but left rates unchanged in the second quarter as concern that the tariff war would spark inflation outweighed worries that the economy was slowing.

The Fund's relative exposure to Québecor, TFI International and Toronto-Dominion Bank had the most positive impact on the Fund's returns, while exposure to Celestica, Colliers International Group and PrairieSky Royalty was negative for performance.

The sectors that had the most positive impact on the Fund's returns were Materials, Consumer Discretionary and Communication Services, while exposure to Industrials, Real Estate and Consumer Staples had a negative impact.

The Fund had overweight positions in Fairfax Financial Holdings, Manulife Financial and Saputo and underweight positions in Fortis, TC Energy and Bank of Nova Scotia.

At the sector level, the Fund had overweight exposure to Financials, Real Estate and Communication Services and underweight exposure to Consumer Discretionary, Information Technology and Materials.

The Canadian economy faces a challenging near-term outlook, with tariff risks weighing on economic-growth prospects. While tariffs could strain economic activity, growth-oriented government spending and the likelihood of interest-rate reductions could help offset the negative trade outlook and position the economy for a gradual recovery over time.

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