2025 MID-YEAR OUTLOOK

Between Peaks and Pivots

While the recovery has been welcomed, the landscape remains unsettled.

Executive Summary

As we entered 2025, Matco's investment team maintained the view that a soft economic landing remained the most probable outcome for the year. We assigned a 60% probability to the continuation of economic expansion—albeit with the important caveat that this hinged on the economy walking on a very tight rope to do so, and thus far that has been the case.

However, early in the year, newly re-elected President Donald Trump disrupted that tight rope balanced walk by launching a wave of new tariffs, effectively reigniting a global trade war. The initial round of tariffs in February targeted China, Canada, and Mexico. This escalated significantly on April 2, dubbed "Liberation Day," when the administration imposed 10% universal tariffs on 57 additional countries. In June, the situation intensified further as tariffs on steel and aluminum doubled from 25% to 50%.

The resulting policy uncertainty made it exceedingly difficult for corporate leaders to operate with confidence, and equity markets responded accordingly. Volatility surged, and by April 8, U.S. and Canadian equity markets had declined 15% and 9%, respectively.

Since early April, progress on trade negotiations—along with President Trump reversing portions of the initial tariff measures—has enabled equity markets to recover the losses sustained earlier in the year. It has been a remarkable rebound in a short period of time: as of June 25, 2025 the U.S. equity market is now up 3.6% year-to-date, while the Canadian equity market has gained 7.2%.

While the recovery has been welcomed, the landscape remains unsettled. The potential for further policy missteps and inconsistent messaging from U.S. leadership persists, and geopolitical tensions are likely to remain elevated through the rest of the year. As a result, global equity markets are expected to exhibit continued volatility, with sharp swings in both directions—mirroring the uneven rhythm of the year so far.

Themes for the second half of 2025

Choppy, directionless markets continue.

Expect ongoing volatility, with equity markets moving in a zigzag pattern. Companies with resilient, recession-resistant business models are likely to attract investor attention and capital.

Valuation matters.

Markets with lower valuations —such as Canada and Europe—are positioned more defensively in the face of ongoing global disruptions.

Interest rate tailwinds slowly build.

Central banks are gradually lowering rates, though the pace remains measured as policymakers remain cautious about the inflationary effects of rising tariffs.

Canadian dollar strength driven by US weakness.

A gradual appreciation in the Canadian dollar is expected, largely reflecting broad-based U.S. dollar softness rather than domestic strength.

Opportunistic buying in premium sectors.

Disruptions in high-valuation areas—particularly U.S. equities and the technology sector—should be viewed as entry points for long-term investors when market sell-offs create opportunity.

Canadian Outlook

Anil Tahiliani, MBA, CFA
Senior Portfolio Manager

Canadian Equities: The Underdog Awakes

During the first quarter of the year, many sectors (especially autos, steel, lumber and aluminum) of the economy benefited from front-loading in anticipation of U.S. tariffs. Those tailwinds have now turned into headwinds, as tariffs are now in place awaiting resolution. Rising unemployment and a slowing economy should provide the Bank of Canada the flexibility to cut its lending by 50 basis points through two rate cuts by year-end. This should help Canada skirt a recession despite trade uncertainty with the U.S.

Recent discussions between the federal and provincial governments, First Nations and the energy sector on national infrastructure and energy projects have been very positive. In addition, with the federal government now increasing its NATO spending commitment to 5% of GDP, we should see economic growth pick up once commitments turn into dollars spent. Another positive is high-level talks between Canada and the U.S. on an economic and security deal, which could take months to finalize.

Year-to-Date Performance

This year so far has been the year of extreme volatility, where headlines about tariffs have driven stock and bond market returns. Economic uncertainty has driven investors to gold as a safe haven. Year-to-date, the gold price is up 30%, meanwhile, many gold companies have seen their stock prices rise well north of 50%.

The TSX stock index has benefited from the gold price movement. Year-to-date till June 13th, the Index is up 7%. The TSX Materials sector is up 32%, led by gold stocks. In fact, year-to-date, 9 of the top 10 best TSX Index stocks are gold companies. The next two best-performing sectors are Consumer Discretionary, up 12%, and Utilities, up 8%.

Overall, the Canadian stock market has been one of the best-performing developed markets year to date. We expect further gains this year based on additional private sector spending, as the federal and provincial governments announce nation-building projects over the next few months.

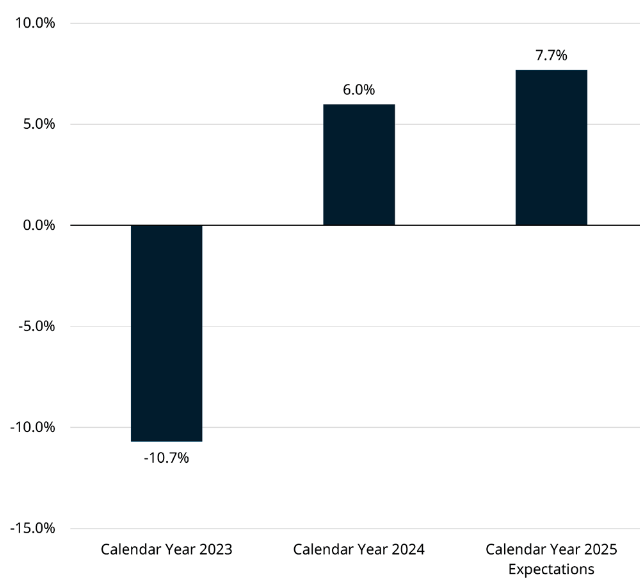
Outlook for 2025

Although the corporate consensus earnings estimate for year-over-year growth has declined from 13.5% to 7.7% (closer to our 7-8% number we predicted in our January outlook), we still believe that Canadian stocks will perform well, given the trade uncertainty.

Valuations as measured by the forward price to earnings (P/E) ratio, currently at 16.6x, are slightly above the historical average since 2001. The Canadian stock market is reasonably valued with some room for upward momentum if earnings exceed expectations.

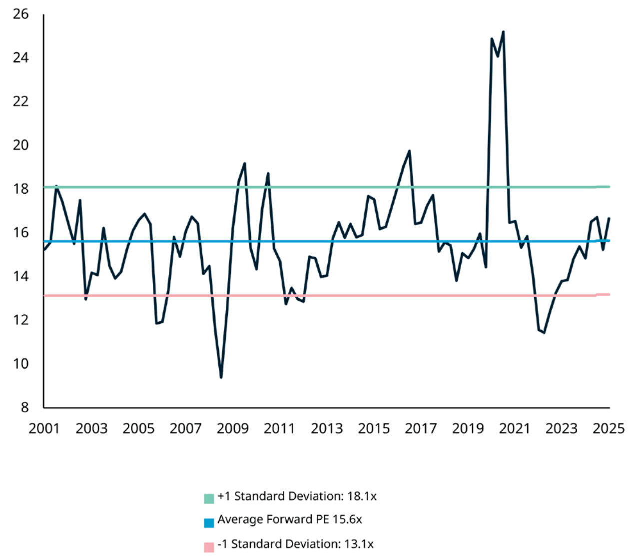
Small and mid-cap companies along with the energy sector remain areas of opportunity. Given the new federal mandate for national building projects and less regulation, we believe we could see a higher valuation for the energy sector as foreign investors see that Canada is open for business again.

S&P TSX Earnings Growth



Source: Scotiabank, FactSet, Matco Financial Inc. as at June 13, 2025.

TSX Index: Forward P/E Ratio



Source: Bloomberg, Matco Financial Inc. as at June 16, 2025.

Although we are positive on the Canadian stock market, we expect volatility to continue given the macro uncertainty and mixed consumer sentiment. Market corrections should be used as a long-term buying opportunity, given that fiscal spending is likely to increase over the next decade as Canada tries to reduce its reliance on the U.S. economy for its growth.

Key Investment Themes

Matco's Canadian equity strategies are focused on three secular investment themes expected to drive returns:

Heightened Geopolitical Risk

Increased global defence spending is anticipated as countries counter rising military and economic pressures from non-U.S.-aligned nations. This trend favours sectors such as surveillance, military equipment, advanced technology, and commodities.

Rising Power Consumption in North America

Growing demand for artificial intelligence applications and data centers will necessitate significant upgrades to the electrical grid and investment in new energy sources.

Infrastructure Renewal

Canada faces aging infrastructure. Investment in roads, highways, bridges, ports, terminals, and critical national security projects is likely to intensify, supported by fiscal spending.

Global Outlook

James Cook, CFA
Portfolio Manager

Global Equities: A Historical Perspective and Future Outlook

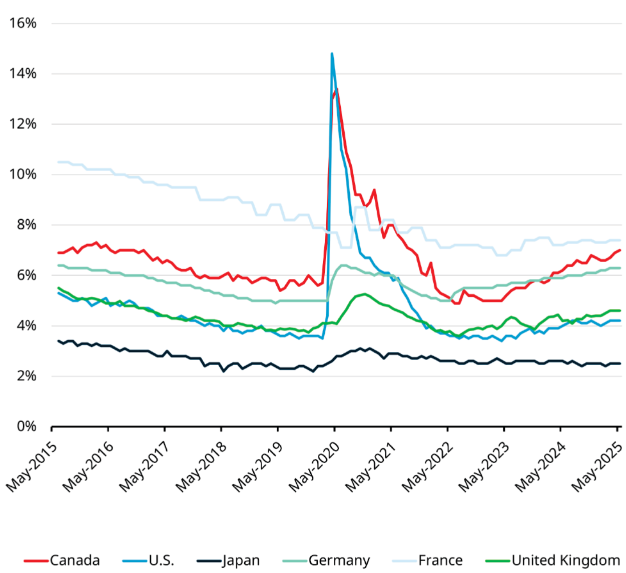
Off to an exciting start, 2025 has not disappointed in terms of volatility and opportunity. International and Canadian markets have led the U.S. in returns year to date, primarily driven by valuation expansion. The U.S. markets have been navigating a policy shift that looks very different from the last administration – and yet U.S. businesses continue to show favourable fundamental improvements and seesaw in market prices has presented opportunity for disciplined investors.

With valuation expansion, increasing in the price to earnings ratio in global markets ex U.S., investors have raised the bar for their expectations of future performance of non-U.S. companies, despite the on-going global trade restructuring. While we are encouraged by our non-U.S. investments this year, we want to see real improvements in their fundamentals to match this increase in future expectations. The balance of 2025 will shape this trend's ability to move from a tactical shift to a more strategic move which would warrant a change to regional exposure within the fund.

In the meantime, approximately 65% of the fund is invested in U.S. domiciled businesses. We are very encouraged by their fundamental improvements in 2025. We have seen a strong first quarter reporting season with supportive guidance for the rest of the year.

In past editions of the World of Opportunity newsletter, we have discussed the surprising health of the U.S. labour market. While we continue to see a cooling in some labour market statistics, they are far from turning red – perhaps a light green is the best way to describe their levels in 2025. Looking at the rest of the developed world, it's a little more yellow. Unemployment rates continue to grind slightly higher. This unfavourable employment trend is encouraging fiscal spending and refocused some governments, like Germany, on economic health as a primary objective.

Unemployment Rates - Developed Countries



Source: FactSet, Matco Financial Inc. as at May 30, 2025.

Investment Themes

Revisiting our investment themes from the start of the year, we continue to see opportunities in AI, weight loss pharmaceuticals, cyber security, and consumer cyclicals like home maintenance.

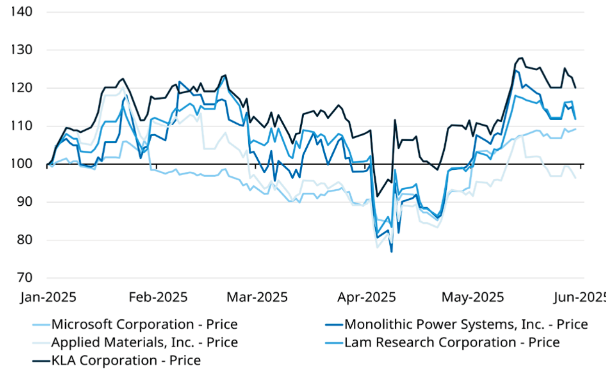
In the AI space, there has been strong fundamental performance for Microsoft – growth of its co-pilot adoptions and its Azure business continues to impress. Our indirect AI exposure has been from the manufacturing, and components of semi-conductors – investments in Applied Materials, Lam Research Systems, KLA Corporation, and Monolithic Power Corporation continue to benefit from the rapid technology adoption in our everyday lives. Continued spending on data centers and the integration of technology into vehicles, smart homes, defence systems, and manufacturing require the best components and the highest quality manufacturing. This trend of technology spend continues its positive trajectory.

Pharmaceuticals for weight loss continue to see strong consumer demand. The manufacturers of these drugs continue to see growth in top and bottom line. In the case of Novo-Nordisk, the company performance and stock performance have diverged over the last year, with the stock trading down and the fundamentals improving. On a forward price-to-earnings basis, the stock looks more attractive than it did at the start of the year. We continue to believe in the demand story for weight loss drugs and believe that Novo-Nordisk will benefit from the growth in its drug sales.

Looking out to 2025 we discussed the value of cyber security investments. The pace of attacks on corporations continues to increase, the cat and mouse game is dynamic and requires investments in security to better protect data from bad actors. In 2025, we have continued to see growth in the sector, and we see growth in Fortinet, a leader in both hardware and software for meetings today's cyber security challenges. When we talk about running a growth-at-a-reasonable price mandate, this name is certainly more on the growth side of the spectrum. However, relative to its peers, it trades at the most attractive valuations. Management continued to raise its outlook for 2025 and has set some impressive goals – with a large share of inside ownership, we are encouraged by managements guidance and look to grow with the firm.

Finally, the consumer. We had posed the question of when will new home construction reaccelerate? And so far, it hasn't been 2025. In our view that is in fact a good thing for Home Depot and Lowe's. While the tariff situation has clouded the outlook for these retailers in the near term, the demand from maintaining an aging home inventory is a long term tend. With wide competitive moats, we believe that these businesses will continue to benefit from the lack of new home construction.

YTD Price Return Indexed to 100

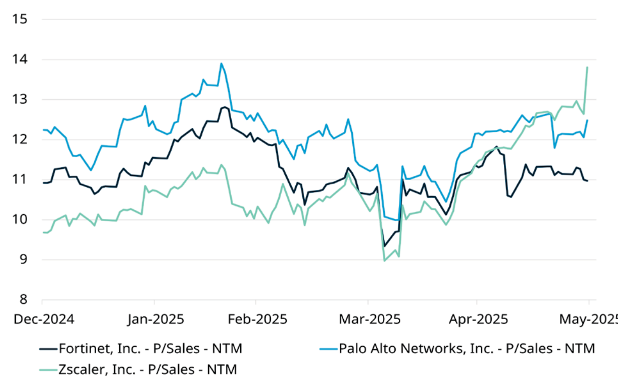


Source: FactSet, Matco Financial Inc. as at May 30, 2025.

Foward Price to Earnings

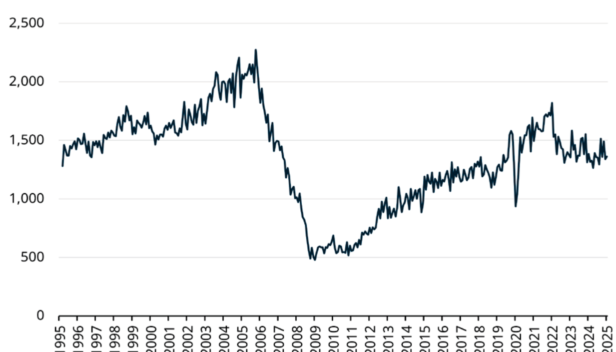
Source: FactSet, Matco Financial Inc. as at May 30, 2025.

Forward Price to Sales



Source: FactSet, Matco Financial Inc. as at May 30, 2025.

U.S. New Home Starts



Source: FactSet, Matco Financial Inc. as at May 30, 2025.

Fixed Income Outlook

Trevor Galon, CFA
Chief Investment Officer

The Glide Path to a Soft Landing

The second half of 2025 presents a constructive backdrop for fixed income investors, following a volatile start to the year driven by geopolitical tensions and policy uncertainty. With inflation stabilizing and global growth moderating, central banks in Canada and the U.S. embarked on gradual rate-cutting cycles beginning in 2024.

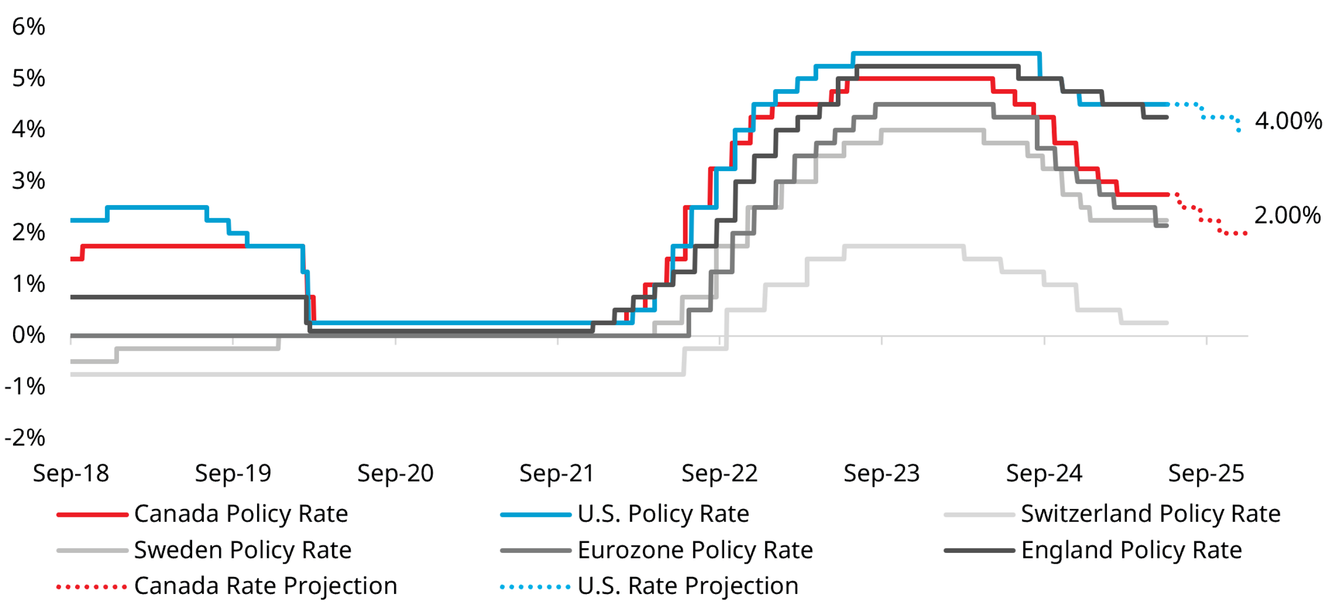
The Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) have diverged in early 2025. The BoC has delivered two rate cuts year-to-date, leaving its overnight rate at 2.75%. In contrast, the Fed has held rates steady at 4.50%. Looking ahead, we anticipate two to three cuts from the BoC, and only one or two from the Fed. The pace of easing for both banks will remain cautious as policymakers monitor the inflationary impact of tariffs.

Government bonds have responded positively to the shift in policy tone, with yields declining since mid-April. We anticipate continued demand for high-quality assets as investors seek stability amid potential policy missteps. A key risk remains: a steepening yield curve—longer-term rates rising relative to shorter-term ones—which could emerge if inflation expectations rise or central banks signal a slower-than-expected pace of cuts.

Credit markets, particularly investment-grade corporate bonds, remain supported by stable fundamentals and positive real yields. While spreads widened earlier in the year, they have retraced and continue to offer attractive income opportunities, especially in sectors less exposed to global trade risks and slowing economic conditions.

In the mortgage market, Canada continues to navigate a significant wave of renewals. In 2025, an estimated 1.2 million residential mortgages are expected to reset at higher rates. While this shift will redirect household spending from discretionary to essential categories, the adjustments have been orderly. Mortgage arrears have

Central Bank Rate Cuts



Source: Bloomberg, Matco Financial Inc. as at June 16, 2025.

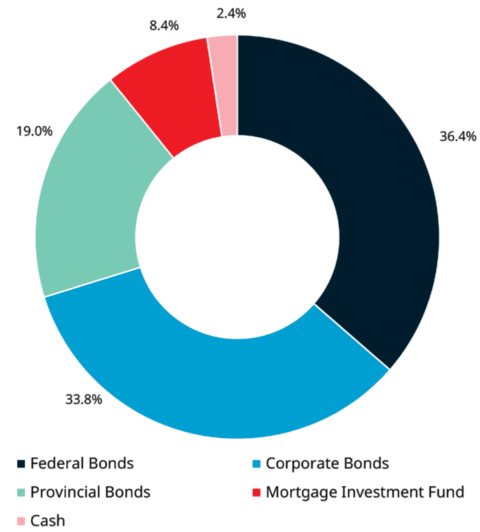
remained in check, allowing carefully selected mortgage investments to offer attractive yields.

As we navigate through the remainder of 2025, our focus remains on the 5-to-7-year segment of the yield curve, where we see the most attractive risk-reward. We're maintaining a neutral duration stance and selectively adding corporate bonds, emphasizing A-rated and high-quality BBB credits. Lower-rated debt doesn't offer sufficient yield to justify the risk. Fixed income is once again serving its core role—providing income, diversification, and downside protection—especially amid ongoing equity market volatility. A balanced, actively managed approach, with attention to duration, credit quality, and sector selection, remains essential.

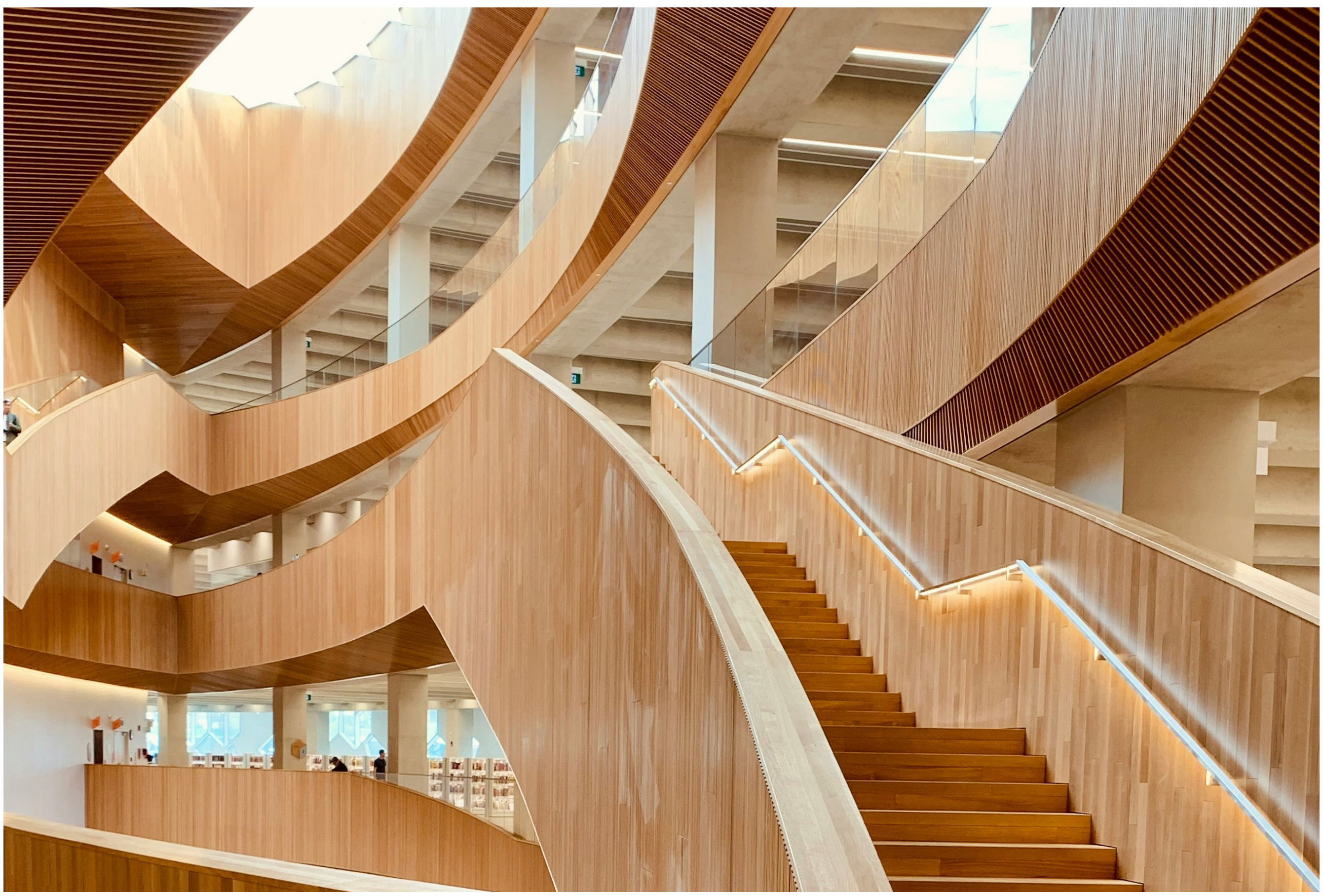
Duration

Source: Matco Financial Inc. as at June 13, 2025.

Diversified Income Fund Sector Allocation



Source: Matco Financial Inc. as at June 13, 2025.



Disclaimer

Matco Financial Inc. is a privately owned and independent wealth management firm. We are the investment manager to the Matco family of mutual funds and provide discretionary investment management and family office services to private clients, institutional investors, trusts, corporations and not-for-profit organizations.

Mutual funds are not guaranteed, their values change frequently, and past performance is not indicative of future performance. Matco Funds are not available for purchase in Quebec, Newfoundland & Labrador, PEI, New Brunswick, or the Territories.

All statements made in this communication are strictly beliefs and points of view held by Matco. Matco has prepared this communication based on information available to it, including information derived from public sources that have not been independently verified. Every effort has been made to ensure the accuracy of its contents, however no representation or warranty, express or implied, is provided in relation to the fairness, accuracy, correctness, completeness or reliability of the information, opinions or conclusions expressed herein. This communication is intended for information purposes only and does not constitute an offer to buy or sell our products or services, nor is this an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such and offer or solicitation.

All statements that look forward in time or include anything other than historical information are subject to risks and uncertainties and are not guarantees of future performance. Investors should not rely on forward looking statements. Actual results, actions or events, could differ materially from those set forth in the forward looking statements.

Matco Financial Inc.
350, 440 - 2nd Avenue SW,
Calgary, AB T2P 5E9
www.matcofinancial.com

877-539-5743
Monday through Friday, 8 am to 4 pm