HARBOURFRONT
WEALTH MANAGEMENT

WATERMARK
PRIVATE PORTFOLIOS

FEBRUARY 2025 COMMENTARY

Market Review in Minutes

Equities

- February was marked by ongoing volatility as equity markets reacted to geopolitical tensions, corporate earnings releases, and headlines around President Trump's plans on cutting government jobs and implementing tariffs. Both US and Canadian equity markets closed the month lower, with the S&P 500 (in CAD) declining by 1.83%, and the S&P/TSX Composite posted a modest loss of 0.40% for the month.
- On the flip side, international equities (outside US) posted its second monthly gain in February.
- **Leaders:** The tech-focused S&P 500 underperformed the commodity-heavy S&P/TSX Composite in February.
  - In the US, consumer staples, real estate and energy were the top performers for the month.
  - In Canada, utilities was the top performing sector.
- **Laggards:**
  - In the US, the consumer discretionary and communication services were the worst performers for the month.
  - In Canada, the information technology sector was the largest underperformer.

Fixed Income

- The fixed income market was volatile throughout the month, but bonds ended higher for the month as interest rates dropped. As uncertainty continues with tariffs and economic data coming in weaker than expected, investors moved to government bonds.
- The Canadian Universe Bond ended February slightly higher by +1.10%.

As at February 28, 2025	Monthly % Total Return	YTD % Total Return
Canadian Bonds *FTSE Canada Universe Bond Index*	+1.10%	+2.31%
Canadian Equities *S&P/TSX Composite Index*	-0.40%	+3.06%
US Equities S&P 500, in C$	-1.83%	+1.61%
Intl Equities (ex USA) iShares MSCI ACWI ex US	+2.48%	+6.06%
Gold	+0.48%	+7.86%
Oil *West Texas Intermediate Crude*	-3.82%	-2.73%
Canadian Dollar	+0.52%	-0.35%

Market Review in Minutes (Continued)

Commodities

- Oil (WTIC) fell this month by 3.82% due to several factors:
  - Ongoing developments between Russia and Ukraine raised speculation that sanctions on Russian oil could potentially be eased and therefore, increase global supply.
  - Trump's tariff announcements raise the prospect of escalating trade tensions, which could dampen global economic growth and thereby slow demand for oil.
  - Lastly, economic data came in weaker than expected during the month, also signaling that global growth could be slowing.
- Gold gained +0.48% in February, ending the month just below $2,900. As uncertainty looms and inflation remains sticky due to threats of tariffs, investors flocked to gold as a safe-haven asset.
- The US Dollar fell against the Canadian Dollar by 0.52%.

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Notable Monthly Highlights

USA – President Trump continued to dominate headlines with tariff announcements on major global trading partners

- President Trump announced this month:
  - 25% levies on steel and aluminum imports into the US.
  - Plans to implement 25% tariffs on imports from Canada and Mexico starting March 4, 2025.
  - At least 20% tariffs on imports coming from China.
  - A termination of former President Biden's deal that allowed Chevron to expand oil production in Venezuela to bring to the US.
- Earnings season continued but some notable announcements during the month were Nvidia's and Walmart's results:
  - Nvidia exceeded both revenue and earnings expectations; however, the stock dropped 8% the following day. The latest results were viewed as less impressive compared to prior quarters. Additionally, concerns arose over future demand for their chips as Chinese AI start-up DeepSeek was able to show impressive AI results with older Nvidia chips.
  - Walmart also reported earnings during the month, surpassing analyst forecasts. However, the company issued weak guidance on future revenue growth, citing expectations for slower consumer spending in the year ahead. This cautious outlook contributed to broader concerns about the global economic outlook.
- US economic data showed consumer spending slowed, inflation remains sticky and elevated and a labour market that is solid:
  - Retail sales fell 0.9% MoM in January, which was the first monthly decline since August 2024 and the largest decline since March 2023.
  - Both the annual inflation rate and core inflation rate (removes more volatile components) came in higher in January, and above expectations. The annual inflation rate rose to 3% YoY, while the core inflation rate rose to 3.3% YoY.
  - The unemployment rate eased to 4% YoY in January, which was lower than December.

Notable Monthly Highlights (Continued)

Canada – Prime Minister Trudeau plans to impose 25% retaliatory tariffs on the US if President Trump implements the tariffs on Canadian imports

- Inflation in Canada also moved higher in January to 1.9% YoY and Core inflation jumped to 2.1% YoY from 1.8% YoY, which is its highest level since February 2024.
- Retail sales grew 2.5% MoM in December, coming in much higher than the expected rise of 1.6% MoM gain.
- Canada's unemployment rate decreased to 6.6% in January, beating expectations of a 6.8% rate, with unemployment continuing to trend lower.

World – Chinese startup AI company, DeepSeek, sparked market interest as investors rotate away from India stocks and over to Chinese stocks

- Chinese equity markets continued to perform well in February as DeepSeek AI bolstered investor sentiment. However, Chinese equity markets remain volatile as the underlying fundamental concerns, such as the real estate bubble, uncertainty around government stimulus and an ongoing trade war, are still in play.
    - The People's Bank of China held its benchmark lending rates steady this month.
    - The Manufacturing PMI (Purchasing Manager's Index) came in below expectations decreasing to 50.1 in January (anything below 50.0 is indicative of a recession).

Watermark Private Portfolios Outlook and Positioning

With tariffs on everyone's minds, we would like to highlight that we made changes to the portfolios in November as we expected President Trump to win the election and we've made changes again this month.

	Underweight	Target	Overweight	January 2025 Highlights

Equities			●	• With market uncertainty around tariffs and the resulting volatility, we have taken some risk off and focused on income generation and capital preservation:
				  • In Conservative and Balanced profiles, we have taken equity holdings lower and added to fixed income.
				  • In Growth and Maximum Growth profiles, we have maintained equity exposure but repositioned it to income-generating alternative equity that is expected to perform better in market drawdowns.
				• We continue to hold equity investments that are high quality (i.e., Strong balance sheets and growing cash flows) across all sectors has benefitted your portfolios this month as high valuation technology companies led the sell-off.

Fixed Income	●			• We remain underweight fixed income, but increased the weight this month, buying the RBC US Discount Bond ETF in the more conservative portfolios, which provides investors with high quality short-term fixed income bonds issued predominantly by the US government.
Private Credit		●		• No changes. Maintain our long-term allocation to private credit as it adds asset class diversification and reduced volatility to your portfolios..
Private Real Estate		●		• No changes. Long-term structural supply and demand fundamentals continue to favour private real estate as an asset class.

Changes in Portfolio Positioning Over the Past Month

In the Enhanced Conservative Plus & Balanced Plus:

- Sold Fidelity US Value ETF in Enhanced Conservative Plus and Balanced Plus portfolios.
- Trimmed Dynamic Active Enhanced Yield ETF in Enhanced Conservative Plus and Balanced Plus portfolios.
- Added to Brandsen Global Income Opportunities Pool in Enhanced Balanced Plus portfolios.
- Bought RBC US Discount Bond ETF in Enhanced Conservative Plus and Balanced Plus portfolios.

In the Enhanced Growth Plus & Maximum Growth Plus:

- Sold Invesco S&P 500 Equal Weight Index ETF – CAD Hedged in Enhanced Growth Plus and Maximum Growth Plus portfolios.
- Bought Dynamic Active Enhanced Yield ETF in Enhanced Growth Plus and Maximum Growth Plus portfolios.

In the Enhanced Balanced Core:

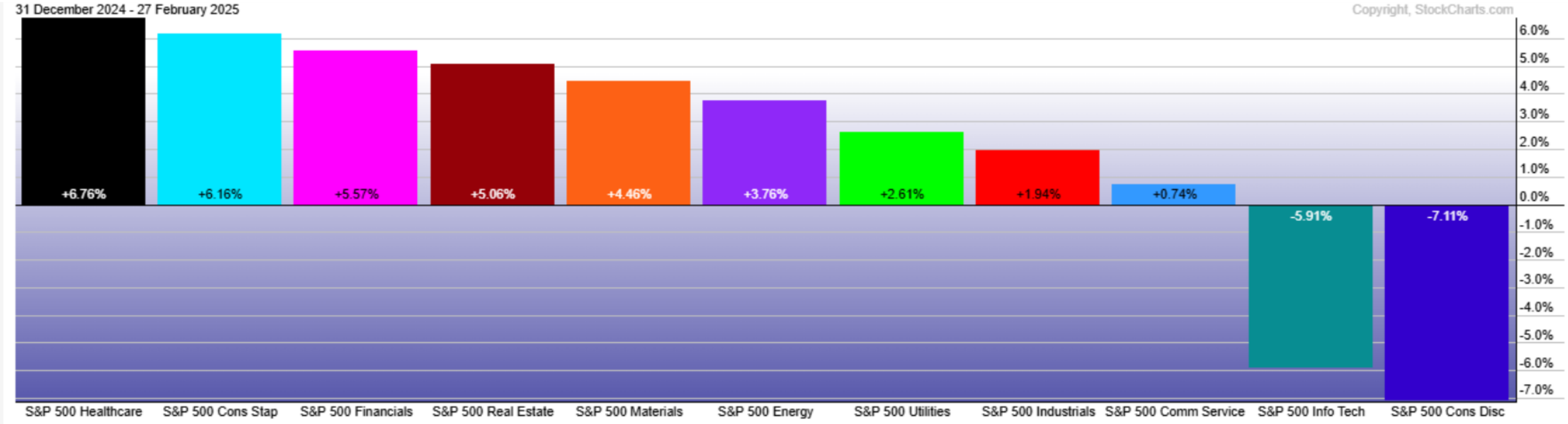
- Trimmed Dynamic Active Enhanced Yield ETF in Enhanced Balanced Core portfolios.
- Bought Brandsen Global Income Opportunities Pool in Enhanced Balanced Core portfolios.

Did You Know?

As shown in the chart, the consumer discretionary sector, information technology and communication services, have been the largest laggards year-to-date until February 27, 2025, while all other sectors climbed. As at February 27, 2025, these three worst performing sectors are exposed to the Magnificent 7 stocks (Meta, Amazon, Apple, Microsoft, Nvidia, Alphabet, and Tesla). Except for Meta, all these stocks ended negative for the month of February.

Our opinion:

In previous monthly commentaries, we highlighted the importance of diversifying away from richly valued megacap technology stocks, noting that any catalyst triggering investor concerns could spark a sharp correction. Last month provided a clear example, with Nvidia losing nearly $594 billion in market value in a single day. Year-to-date through February 27, 2025, the Magnificent 7 stocks have collectively declined by nearly 8%. We reiterate our preference to hold securities that have more attractive company valuations across different sectors and that have solid balance sheets



Key Economic Indicators

	Inflation Rate		Interest Rate		Unemployment Rate		GDP Annual Growth Rate		Stock Market Valuation (Forward P/E)	
	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.	Last	Chg.
USA	3.00%	▲	4.50%	▬	4.00%	▼	2.50%	▼	22	▼
Canada	1.90%	▲	3.00%	▼	6.60%	▼	1.50%	▲	15.5	▼
China	0.50%	▲	3.10%	▬	5.10%	▲	5.40%	▲	11.7	▲
Japan	4.00%	▲	0.50%	▲	2.40%	▼	1.20%	▲	14	▲
United Kingdom	3.00%	▲	4.50%	▼	4.40%	▬	1.40%	▲	12.1	▲

Source: Trading Economics

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