Monthly Market Monitor

NEI

Data and opinions as of March 31, 2025

NEI perspectives

Inflation expectations rising: Inflation is reaccelerating in the face of tariff-related pressures and strong wage growth. Market-based expectations and consumer sentiment indicators are aligning toward the possibility of more persistent inflation. **Bottom line:** Investors should prepare for prolonged inflation uncertainty, with diversification and inflation-hedging strategies increasingly valuable.

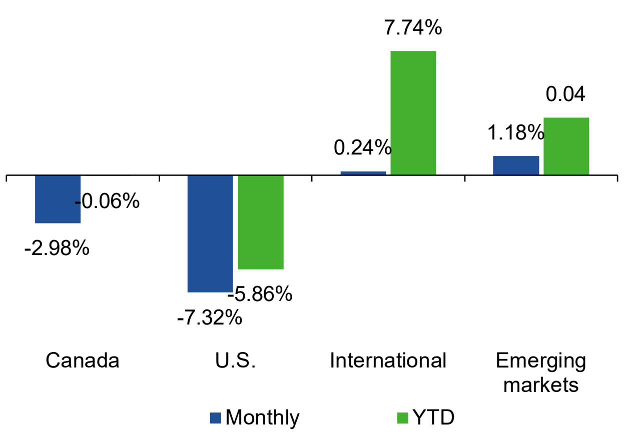
Gold's resurgence: Gold has reasserted its role as a strategic asset, benefiting from safe-haven flows, central bank demand, and inflation concerns. **Bottom line:** Gold may continue to offer relative strength amid macro uncertainty, serving both as a hedge and performance contributor.

Europe's policy pivot: A historic surge in German defense spending has broader implications for European equities and policy independence. **Bottom line:** Structural policy shifts in Europe are supporting equity strength and may continue to drive capital rotation into the region.

Inflation concerns, gold's surge, and Europe's strategic shift

March 2025 was a month defined by diverging central bank actions, escalating inflation expectations, and a massive shift in European defense policy. Inflation continues to loom large in investor sentiment, fueled in part by tariff policies and geopolitical uncertainties. Meanwhile, gold emerged as a standout performer, benefiting from its traditional safe-haven status as well as increasing institutional and retail interest. Europe took center stage with a landmark defense budget approval, signaling a deeper decoupling from the U.S. and offering fresh momentum to regional equities. Central banks around the world—namely the U.S. Federal Reserve (Fed), European Central Bank (ECB), Bank of England (BoE), and Bank of Canada (BoC)—issued key policy updates, keeping investors focused on interest rate paths and inflation outlooks through year-end.

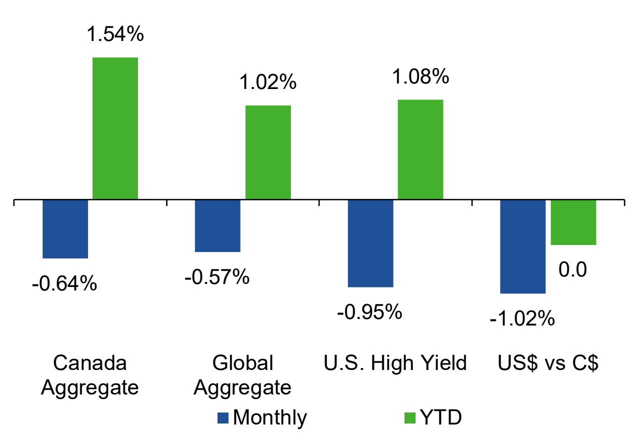
Equity returns (in C$)



Canada: MSCI Canada Index TR; **U.S.:** MSCI USA Index TR **International:** MSCI EAFE Index TR; **Emerging markets**: MSCI Emerging Markets Index TR.

Source: Morningstar Direct.

Fixed income and currency returns (in C$)



Canada Aggregate: Bloomberg Barclays Canada Aggregate Bond Index; **Global Aggregate:** Bloomberg Barclays Global Aggregate Bond Index; **U.S. High Yield:** Bloomberg Barclays U.S. High Yield Index.

Source: Morningstar Direct.

Inflation concerns resurface across global markets

March saw a renewed focus on inflation as fresh economic data and forward guidance from major central banks pointed to a potentially more entrenched price environment. For example, University of Michigan's consumer sentiment survey showed a notable downturn, and the Conference Board Inflation Expectation index sharply ticked up. Meanwhile, market-based indicators such as breakeven inflation rates and rate futures have adjusted accordingly, with the probability of higher global interest rates into December 2025 increasing.

Tariffs, especially those impacting energy, agricultural goods, and semiconductors, have introduced new upward pressure on prices. Supply chain friction and geopolitical uncertainty are also exacerbating inflation dynamics, making it increasingly likely that central banks will need to remain vigilant—despite prior easing signals.

Central banks diverged in March: the Fed held rates steady but warned that further action may be needed if inflation accelerates. The ECB and BoE both signalled caution, with the ECB notably pointing to tariff-related risks. The BoC delivered a modest rate cut, citing domestic economic resilience and softer core inflation—but even they acknowledged that external inflation pressures complicate the path forward.

Bottom line: Investors face a higher-for-longer inflation scenario, with implications for both fixed income and equity positioning. Tactically, inflation-hedging assets and active management may outperform in this regime.

Chart 1: Inflation expectations surge to highest levels since Covid

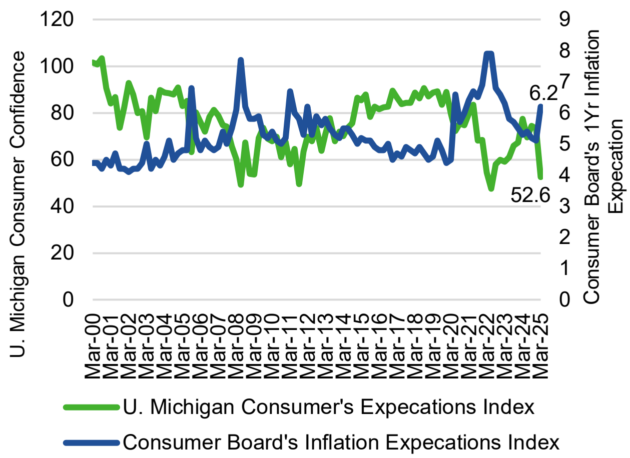
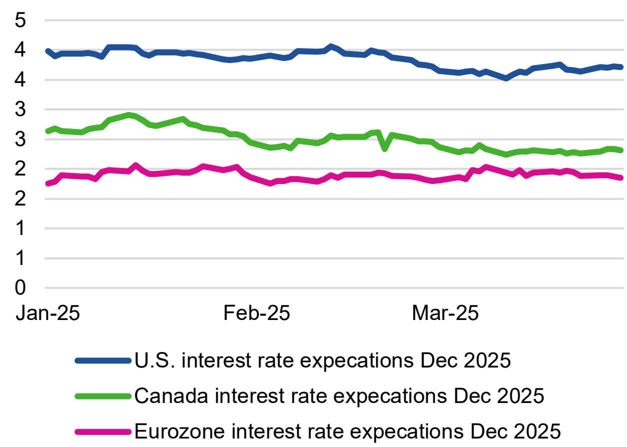


Chart 2: U.S. interest rate expectations tick up, while Europe ticks down



Source: Bloomberg.

Gold's multi-faceted rally continues

Gold extended its strong year-to-date performance in March, breaking through key technical resistance levels and posting double-digit gains. A combination of factors contributed to this surge: increasing inflation expectations, rising geopolitical risks, and sustained central bank purchases globally. Notably, several emerging market central banks added to reserves, citing a desire for diversification away from U.S. dollar-denominated assets.

Gold's traditional role as a safe haven asset has also been amplified in today's environment. Retail and institutional flows into gold ETFs rose significantly over the month, with investors seeking protection against both macroeconomic volatility and equity market pullbacks.

In addition, as real yields began to level off, the opportunity cost of holding gold became less punitive, further enhancing its relative attractiveness. With uncertainty looming over both inflation and monetary policy, gold appears to be regaining its strategic allure.

Bottom line: With a backdrop of sticky inflation, geopolitical volatility, and robust central bank demand, gold remains a valuable diversifier and a potential outperformer in multi-asset portfolios.

Chart 3: Gold's demand is strong through 2025

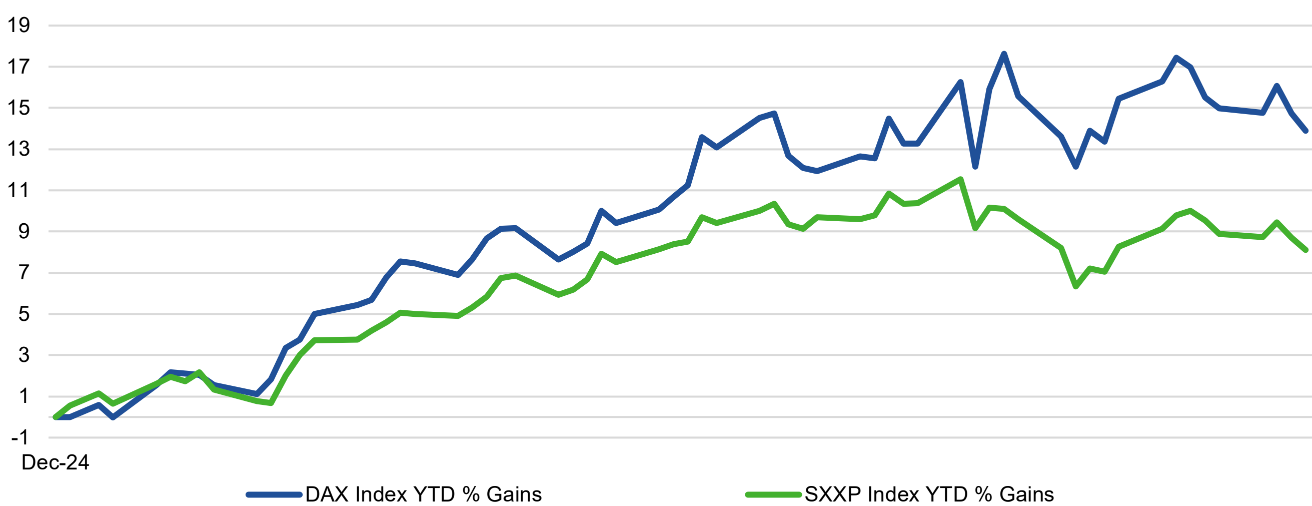
Source: Bloomberg.

Europe's strategic breakaway: defense spending lifts markets

European markets outperformed in March, with Germany's landmark €1 trillion defense budget announcement acting as a key catalyst. This unprecedented fiscal commitment marks a major policy shift, signaling a stronger, more independent European security posture. The move is widely seen as a response to growing geopolitical tensions and a desire to reduce dependency on U.S. defense guarantees.

Equity markets responded positively. Germany's DAX index rallied sharply, lifting broader European equities as investors interpreted the budget as both a near-term stimulus and a long-term structural shift. Sectors likely to benefit include defense, aerospace, infrastructure, and industrials.

Chart 4: European stocks continue 2025 rally, led by German stocks



The announcement also adds new dimensions to the transatlantic relationship, as Europe increasingly charts its own economic and geopolitical path. Combined with improving earnings and continued ECB support, the defense pivot reinforces the investment case for European equities relative to their North American counterparts.

Bottom line: Europe's evolving policy landscape and improving equity fundamentals make it an increasingly attractive destination for global capital. Structural tailwinds may support sustained outperformance, especially in strategically aligned sectors

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