FEBRUARY 3, 2025

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OWNER OPERATED COMPANIES

Reliance Industries Limited (Reliance) – Reliance Retail Limited (Reliance Retail) has launched an app in India to sell fashionwear from China's Shein Group Ltd. (Shein) under a licensing deal, almost five years since Shein's app was banned in the country after getting caught up in a diplomatic tussle. Reliance Retail launched the app on Saturday morning, said a person with direct knowledge of Reliance Retail's launch plans. The firm did not announce the launch. Neither parent Reliance nor Shein responded to requests for comment outside of business hours. The Shein India Fast Fashion app represents a departure from Reliance Retail's strategy of adding brands to its flagship fashion app Ajio, whose offering includes Superdry plc and The Gap, Inc., as it competes with rivals such as Myntra from Walmart Inc.'s Flipkart. Shein, founded in China in 2012 and later headquartered in Singapore, offers a vast selection of low-priced Western clothes. Its app was banned in India in 2020 alongside other Chinese apps such as ByteDance's TikTok due to data security concerns, after a border dispute soured Indo-Chinese relations. Last year, India's government disclosed to parliament, that Reliance Retail had entered an agreement with Shein under which Indian manufacturers would supply products under the Shein brand. It did not make any other details public. Reliance Retail will pay a licence fee for using Shein's brand name, said the person with direct knowledge of the matter. There is no equity investment in the partnership, the person said, without elaborating on financial arrangements. All Shein-branded products sold through the app are designed and made in India, said a second person with direct knowledge of the matter. The clothing will later be made available on Ajio, the person said, without providing a time frame. Shein aims to list in London in the first half of the year. It ended its attempt to list in the U.S. following objections from lawmakers who questioned China's requirement for businesses to seek approval to list abroad, Reuters has reported.

Reliance - the parent company of Mumbai Indians, has emerged victorious in a high-stakes auction, securing a 49% stake in the Oval Invincibles (Invincibles). The deal, which took place Thursday, January 30, afternoon via a virtual auction, marks a significant expansion for Reliance in the cricketing world. Reliance will enter an exclusive negotiation phase with Surrey County Cricket Club, the England and Wales Cricket Board (ECB), and their financial advisors before finalising the purchase. The transaction is expected to conclude soon, pending these discussions. In a fiercely competitive bidding process, Reliance outbid a consortium of top Silicon Valley Chief Executive Officers (CEOs), including Google LLC's Sundar Pichai, Microsoft Corporation's Satya Nadella, Adobe Inc.'s Shantanu Narayen, and Palo Alto Networks, Inc.'s Nikesh Arora. As per reports, the consortium had bid more than £80 million (approximately US$97 million) for a stake in The Hundred cricket league team. Reliance's winning bid is believed to value the entire franchise at £123 million, which means the Indian conglomerate will pay over £60 million for its 49% stake. The ECB is anticipated to release official confirmation of the successful bidders and franchise valuations next week.

According to ESPN, Reliance's bid saw off stiff competition from not only the tech consortium but also private equity firm CVC Capital Partners. The Invincibles, reigning champions of the men's Hundred, are the first team to be sold in the final round of the ECB's ongoing sales process. For Reliance, this deal is part of a broader strategy to cement its dominance in global cricket. The Mumbai Indians are widely regarded as the most

powerful franchise in the Indian Premier League (IPL), and Reliance now operates teams in multiple leagues. The acquisition of a stake in the Invincibles will make them involved with six teams across various formats and geographies. Surrey, known as the wealthiest county club in English cricket, has retained the majority stake in the Invincibles, with Reliance taking a minority share. Surrey's chairman, Oli Slipper, has made it clear that the club intends to retain control over the Invincibles, asserting that any investor must accept this red line. Although discussions of potential rebranding have surfaced, Surrey's influence over the franchise's future remains dominant. The sale of stakes in The Hundred franchises is part of the ECB's larger strategy to ensure the financial stability and growth of county cricket for the next 20-25 years. Revenue from these sales will be distributed across England and Wales' first-class counties, the Marylebone Cricket Club (MCC), and the recreational game.

Brookfield Asset Management – has closed two real estate investments in Japan worth a total of US$1.6 billion. The investments include a stake in Tokyo's Gajoen complex, a mixed-use office, retail, and luxury hotel property, as well as a 1 million square-foot site near Nagoya that will be developed into a logistics warehouse. The move aligns with a broader trend of increased foreign investment in Japanese real estate, driven by a weaker yen and favourable financing conditions. Gajoen, located in Tokyo's Meguro district, is currently owned by China Investment Corporation (CIC), which acquired it in 2015.

Brookfield Corporation (Brookfield) – Brookfield Business Partners L.P. (Brookfield Business Partners) reported a net loss of US$109 million for 2024, compared to a net income of $1.4 billion in 2023, primarily due to a one-time non-cash expense in healthcare services and provisions at its construction operations. Despite the loss, adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) increased to $2.57 billion from $2.49 billion, reflecting stronger operational performance and tax benefits in advanced energy storage. Brookfield Business Partners continued capital recycling, generating $2 billion through asset sales, including its road fuels and Canadian aggregates businesses. It also raised $5 billion in new debt for its advanced energy storage operation, using $1.2 billion for a special distribution to owners. The company sold its offshore oil services' shuttle tanker business, netting $250 million, and acquired a 25% stake in Chemelex Thermal Management Systems, a leading electric heat tracing systems manufacturer, for $212 million.

Brookfield – Brookfield Renewable Partners L.P. (Brookfield Renewable) reported record financial results for 2024, with Funds from Operations reaching US$1.2 billion ($1.83 per unit), up 10% year-over-year (y/y). This growth was driven by inflation-linked and contracted cash flows, acquisitions, and organic value creation initiatives. Despite this strong performance, the company reported a net loss of $464 million ($0.89 per unit) due to non-cash depreciation and other expenses. Brookfield Renewable secured contracts for an additional 19,000 gigawatt-hour (GWh) of annual generation, including a landmark renewable energy framework agreement with Microsoft. The company deployed or committed $12.5 billion to expand its renewable energy portfolio, marking its largest investment year to date. It also commissioned 7,000 megawatts (MW) of new capacity, with a target of 10,000 MW annually by 2027. To support growth, the company recycled $2.8 billion in assets, generating a 2.5x multiple on invested capital and an IRR (internal rate of return) of approximately 25%.

Brookfield – Brookfield Infrastructure Partners L.P. (Brookfield Infrastructure) reported strong financial results for 2024, generating US$391 million in net income and $2.5 billion in Funds from Operations, up 8% y/y. The company's 7% organic growth was driven by high inflation-linked revenue, increased volumes across infrastructure networks, and over $1 billion in newly commissioned capital projects. However, higher borrowing costs and foreign exchange impacts offset some of these gains. CEO Sam Pollock highlighted 2025 as a strong start, with inflation-driven revenue growth, asset sales, and expansion into digital infrastructure positioning Brookfield Infrastructure for continued success. The company remains confident in its ability to capitalize on global infrastructure demand, particularly as investor appetite for high-quality assets increases.

Carnival Corporation & plc (Carnival) – has launched a US$2 billion private offering of senior unsecured notes due in 2033. The funds will be used to refinance $2.03 billion in senior priority notes due in 2028, aiming to lower interest costs, simplify its capital structure, and manage debt maturities. Carnival Bermuda Limited has issued a conditional notice of redemption for the 2028 notes, with repayment scheduled for February 7, 2025, subject to the successful completion of the new notes offering. The redemption will be funded through the proceeds from the offering and available cash. The new notes will feature investment-grade-style covenants and will be available only to qualified institutional buyers under U.S. securities regulations.

LVMH Moët Hennessy Louis Vuitton SE (LVMH) – reported €84.7 billion in revenue for 2024, achieving 1% organic growth despite economic and geopolitical challenges. Japan saw double-digit growth, while Europe and the U.S. posted steady gains. The group's profit from recurring operations reached €19.6 billion, with a strong 23.1% operating margin, though exchange rate fluctuations negatively impacted its Fashion & Leather Goods and Wines & Spirits divisions. Net profit totaled €12.6 billion, with free cash flow increasing by 29% to €10.5 billion. CEO Bernard Arnault emphasized LVMH's resilience amid uncertainty, crediting its brand desirability, innovation, and adaptability. Looking ahead to 2025, LVMH will focus on cost discipline while continuing to expand its global dominance in high-end markets.

DIVIDEND PAYERS

The Cigna Group (Cigna) - Global health company Cigna reported 2024 results, reflecting continued strength in Evernorth Health Services Inc., (Evernorth Health) while Cigna Healthcare results were impacted by higher stop loss medical costs. "While higher medical costs in our stop loss product impacted fourth quarter (Q4) earnings, we are taking corrective actions to address these near-term pressures and we are simultaneously taking steps to further advance our long-term growth strategy," said David M. Cordani, chairman and CEO of Cigna. "Through

a dynamic environment, we are continuing to focus on building a sustainable model for healthcare by addressing the areas that matter most to our patients and clients, including greater transparency, support, and value." Shareholders' net income for Q4 2024 was US$1.4 billion, or $5.13 per share, compared with $1.0 billion, or $3.49 per share, for Q4 2023. Cigna's adjusted income from operations for Q4 2024 was $1.8 billion, or $6.64 per share, compared with $2.0 billion, or $6.79 per share, for Q4 2023. The decrease was primarily driven by lower contributions from Cigna Healthcare due to higher stop loss medical costs, partially offset by strong contributions from Evernorth Health, particularly within Specialty and Care Services. Shareholders' net income for 2024 was $3.4 billion, or $12.12 per share, including a non-cash after tax investment loss of $2.7 billion, or $9.53 per share related to the impairment of Village Practice Management Company, LLC (VillageMD) equity securities. This compares with $5.2 billion, or $17.39 per share, for 2023. Cigna's adjusted income from operations for 2024 was $7.7 billion, or $27.33 per share, compared with $7.4 billion, or $25.09 per share, for 2023. The previously announced divestiture of the Company's Medicare businesses to Health Care Service Corporation (HCSC) is expected to close in the first quarter of 2025.

Total revenues for Q4 and full year 2024 increased 28% and 27%, respectively, relative to Q4 and full year 2023, primarily driven by significant growth in Evernorth Health, reflecting large client wins and strong specialty volume growth. Adjusted income from operations for Q4 2024 decreased 8% from fourth quarter 2023, primarily driven by lower contributions from Cigna Healthcare due to higher stop loss medical costs, partially offset by strong contributions from Evernorth Health, particularly within Specialty and Care Services. Adjusted income from operations for 2024 increased 4% from 2023, primarily reflecting strong contributions from Evernorth Health. The Selling, General, and Administrative expense (SG&A) expense ratio and adjusted SG&A expense ratio were 5.9% and 5.7%, respectively, for Q4 2024, compared to 7.9% and 7.4%, respectively, in Q4 2023, reflecting business mix shift, strong revenue growth, and continued operating efficiency. The SG&A expense ratio and adjusted SG&A expense ratio were 6.0% and 5.9%, respectively, for 2024, compared to 7.6% and 7.3%, respectively, in 2023. In 2024, the Company repurchased 20.9 million shares of common stock for approximately $7.0 billion. In addition, the Board of Directors has approved an increase of $6.0 billion in incremental share repurchase authorization, bringing the company's total share repurchase authority to $10.3 billion as of December 31, 2024. On January 30, 2025, the Company's Board of Directors declared a cash quarterly dividend of $1.51 per share of Cigna common stock to be paid on March 20, 2025, to shareholders of record as of the close of trading on March 5, 2025. This reflects an 8% increase from the 2024 cash quarterly dividend of $1.40 per share.

LIFE SCIENCES

Amgen Inc. (Amgen)- announced that the European Commission has approved Amgen's BLINCYTO® (blinatumomab) for use as monotherapy in the treatment of adult patients with a specific type of leukemia. This approval is based on positive results from the Phase 3 E1910 trial, which highlight that BLINCYTO has the potential to advance frontline consolidation treatment.

Danaher Corporation (Danaher) – reported results for Q4 and full year 2024. In Q4, net earnings were US$1.1 billion with revenues increasing 2.0% y/y to $6.5 billion. For the full year, net earnings totaled $3.9 billion, and revenues remained flat at $23.9 billion. Looking ahead, Danaher expects low-single-digit core revenue decline in Q1 2025 but projects a 3% increase in non-GAAP (Generally Accepted Accounting Principles) core revenue for the full year.

Lantheus Holdings, Inc. (Lantheus) – has announced the acquisition of Evergreen Theragnostics, Inc. for an upfront payment of US$250 million, with up to $752.5 million in potential milestone payments. This strategic acquisition strengthens Lantheus' position as a fully integrated radiopharmaceutical company by adding scalable manufacturing infrastructure and clinical development capabilities. It also expands Lantheus' oncology pipeline with OCTEVY, a diagnostic agent for neuroendocrine tumors, and additional theranostic pairs.

NUCLEAR ENERGY

BWX Technologies, Inc. (BWX) – has secured over CA$1 billion in contracts to support two major nuclear energy projects in Ontario. The first involves manufacturing 48 steam generators for the Pickering Nuclear Generating Station's life extension program, creating over 250 skilled jobs. The second contract is for producing the reactor pressure vessel for the BWRX-300 small modular reactor (SMR) at Darlington, marking a key milestone in SMR technology. These projects support Ontario Power Generation's efforts to meet growing electricity demand with low-carbon nuclear energy and strengthen Ontario's nuclear supply chain.

ITM Power plc (ITM) – reported progress in its interim results, with revenue rising to £15.5 million, up from £8.9 million in the previous year. The company's adjusted EBITDA loss decreased to £16.8 million, compared to £18.1 million in the same period last year. ITM also achieved a record order backlog of £135.3 million, up significantly from £43.7 million two years ago. Key developments include signing contracts for major projects with Shell plc, RWE AG, and Yara International ASA, as well as securing additional capacity reservations. The company has reaffirmed its full-year revenue guidance of £18 million to £22 million, with an improved cash position of £185 million to £195 million.

ECONOMIC CONDITIONS

U.S. Durable Goods Orders - U.S. durable goods orders unexpectedly fell 2.2% in December, extending declines for a second straight month. Aircraft bookings lost altitude, while autos halted yet again, bringing the transportation component down 7.4%. Orders excluding transportation managed to eke out a 0.3% gain. Core capital goods orders ex-defense and aircraft—a gauge for business investment—climbed for a second month in a row, up 0.5%. Meanwhile, the control measure of core shipments (incl. aircraft)—an input for Gross Domestic Product (GDP)—jumped for the first time in five months, up 3.5%. While this would suggest firmer capital spending momentum heading into 2025, Q4 still contracted 17.5% a.r. (annual rate), putting some downside risk to our equipment investment call of -7% in the quarter.

U.S. GDP - According to the Bureau of Economic analysis, the U.S. economy expanded 2.3% annualized in the fourth quarter, slightly less than the median economist forecast calling for a +2.6% print. As this was a touch stronger than potential, the output gap widened from +2.6% to +2.7%, the widest it has been since 1973. Year on year (YoY), real GDP was up 2.5%. Domestic demand grew at a very healthy clip in the three months to December, supported by household consumption (+4.2% quarter over quarter (q/q) annualized., the best showing in nearly two years), as well as intellectual property spending (+2.6%), residential investment (+5.3%) and government spending (+2.5%). Structure (-1.1%) and equipment (-7.8%) investment, on the other hand, showed contractions. Spending on goods (+6.6%) jumped the most since 2023 first quarter (Q1), buoyed by a 12.1% gain for durables. Outlays on services (+3.1%) increased as well, albeit to a lesser extent. Trade did not have much impact on growth (+0.04 percentage point) as exports (-0.8%) contracted at the same pace as imports (-0.8%). Inventories, for their part, subtracted no less than 0.93 percentage point to the headline GDP figure, the most since 2023 Q1.

Canada GDP - Canada's real GDP declined by 0.2% in November following a 0.3% advance in October (no revision). This was one tick below consensus estimations and Statistics Canada's preliminary estimate. Production dropped in goods-producing industries (-0.6%), while service-producing industries registered a slight pullback (-0.1%) in the month. On the goods side, utilities (-3.6%), mining/oil/gas (-1.6%), manufacturing (-0.3%) and agriculture (-0.2%) sectors were down during the month while construction (+0.7%) posted strong growth. On the services side, the top-performing sectors were accommodation/food (+1.4%), and arts/recreation (+0.8%) while transportation/warehousing (-1.3%), management (-3.0%), finance/insurance (-0.4%) and retail trade (-0.3%) were the worst performers. Overall, only 5 sectors of the 20 sectors followed recorded an increase in the month. Industrial production dropped 1.1% in the month, its sharpest drop in 10 months. Finally, Statistics Canada's preliminary estimate showed that GDP could have decreased 0.2% in December.

U.S. Personal Income and Consumption - American consumer spending ended 2024 on a high note, while underlying inflation remained calm. Personal spending jumped 0.7% in December on broad-based gains, topping market expectations, following an upwardly revised 0.6% sprint in November. Spending volumes rose 0.4%, stepping back only slightly from the hefty 0.5% advance the prior month. For the entire quarter, real spending jumped 4.2% annualized, the most in nearly two years. The forward momentum suggests spending will have a three-handle in Q1. Personal income rose an expected 0.4%, picking up a bit from the prior pace. The saving rate slid to a two-year low of 3.8%, reflecting consumer optimism. Despite the burst of spending, prices were well-behaved, apart from a spike in fuel costs. Headline prices rose 0.3%, lifting the yearly rate to 2.6% from 2.4%. However, core prices rose a light 0.16% following a slower advance the prior month. This dropped the 3-month annualized rate to 2.2% and the 6-month rate to 2.3%, both below the yearly pace which held steady at 2.8%. The year-ago comparisons turn friendlier in the first four months of the year. That said, tariffs could add some upward pressure. Meantime, wage growth remained moderate despite a dip in the jobless rate. The employment cost index rose an expected 0.9% in Q4, a slightly higher pace than the prior quarter but still consistent with price stability as long as labour productivity continues to grow around 2% y/y. The yearly ECI (Employment Cost Index) rate of 3.8% was the slowest in more than three years. However, deportations could add some pressure.

BMO Economics' Views on the US – Canada Trade Tariffs - On February 1, U.S. President Trump signed an executive order imposing a 25% tariff on all non-energy imports from Canada and a 10% tariff on energy imports (effective February 4). In separate executive orders, a 25% tariff was levied on all imports from Mexico and a 10% tariff was put on all imports from China. These rates are in addition to any tariffs or duties already charged. He invoked the International Emergency Economic Powers Act (IEEPA) to apply these tariffs. After declaring a national emergency at the southern border (January 20) due to "the influx of illegal aliens and illicit drugs", the President expanded this to cover "the public health crisis of deaths due to the use of fentanyl and other illicit drugs". And, specifically, "the failure of Canada to do more to arrest, seize, detain, or otherwise intercept DTOs (drug trafficking organizations), other drug and human traffickers, criminals at large, and drugs". Furthermore, this failure by Canada "constitutes an unusual and extraordinary threat… to the national security and foreign policy of the United States". The order also said: "Should Canada retaliate… the President may increase or expand in scope the duties imposed under this order". Canada subsequently announced 25% retaliatory tariffs on CA$155 billion worth of imports from the U.S.: $30 billion effective February 4 and the remaining $125 billion after 21 days. Several provinces have also announced non-tariff measures. It's uncertain whether: 1) the U.S. will retaliate for Canada's retaliation; 2) the Administration will heed the calls from U.S. businesses for exemptions (the aluminum industry is already on record); and 3) if the executive order will survive legal challenges, or when the President will be satisfied that Canada's 'failure' has been remedied. However, by April 1, there will be three reports delivered to the President (under the America First Trade Policy memorandum) that should be full of tariff recommendations backed by investigations (or soon-to-be), setting the stage for more Section 201 (safeguard), Section 232 (national security) and Section 301

(unfair trade practices) tariffs. In consequence, tariffs on Canada and other countries could be around for a while.

Trump's tariff hammer will come down hard on Canada's economy. If the announced tariffs remain in place for one year, the economy will face the risk of a modest recession. A couple quarters of contraction are well within the realm of possibility. With little confidence given the lack of historical precedent, we estimate that the tariffs will reduce real GDP growth by about 2 percentage points (ppts) to roughly zero in 2025. This reflects reduced demand for Canadian exports to the U.S. (which account for about a fifth of GDP), disrupted supply chains impeding business activity and consumption, and heightened uncertainty that reduces business investment. It also reflects a reduction in domestic demand due to higher prices stemming from retaliatory tariffs and a weaker Canadian dollar. The estimated growth hit is a bit lighter than the Bank of Canada's recent scenario (it called for about a 2.5 ppts reduction in GDP growth for the first year), due to the lesser 10% tariff on energy products, as well as the fact that Canada's retaliation is measured. However, we recognize the difficulty in modelling such an extreme event, and certain sectors may not behave in a predictable pattern—e.g., the highly integrated auto industry. Consumer Price Index (CPI) inflation is expected to rise less than one ppt this year from the current 1.8% rate in December. But given growing slack in the economy and a likely more-than-one ppt increase in the unemployment rate to around 8%, inflation pressures should remain subdued, allowing for some moderation in 2026. Partly limiting the economic pain will be a weaker currency, lower interest rates, and an expected government relief program for jobless workers and affected businesses. These supports, along with the assumed revoking of tariffs after one year, should lead to a modest recovery in real GDP growth to about 1% in 2026. From a sectoral lens, a wide range of Canadian industries derive at least half of their revenue from U.S. exports. Near the top of the list is motor vehicles, but others with high exposure include auto parts, clothing, wood products, chemicals, medicines, rubber, iron and steel, aluminum, machinery, computers, and electrical equipment. In agriculture, tobacco, greenhouses, sugar, and seafood stand out. While the oil industry has very high exposure, we assume the 10% tariff will have little dampening effect on U.S. demand given a combination of a weaker loonie, Canadian producer price cuts, and U.S. refinery cost absorption. The housing market recovery in Canada, as gradual as we expected it to be in the absence of tariffs, could be dampened this year by the confidence-sapping trade war, before resuming in 2026 on lower mortgage rates. It is somewhat encouraging that the U.S. executive order keeps the door open for revoking the tariffs if the said national emergency "crisis is alleviated". In the event the tariffs prove short-lived, we would unwind the downward revisions to growth. However, the order also warns that the President could increase tariffs further in response to retaliatory actions, which would raise the risk of a deeper economic downturn. The potential long-term damage to Canada's economy cannot be dismissed, either. Many businesses will increase production on the other side of the border to avoid tariffs. The uncertainty alone about further protectionism could put a chill on business investment for years, which is why the government's response should also be directed at encouraging productivity-enhancing investment. This was already a necessity before tariffs given the new U.S. administration's planned pro-business policies, including corporate tax cuts and lighter regulations.

Direct exposure to U.S. trade varies across the country, and so will the impact. B.C. carries a relatively low share of goods exports in its economy, and roughly half of those are destined for markets outside the U.S, but some industries (e.g., forestry) will come under duress. Alberta, Saskatchewan and New Brunswick, because of hefty energy exports, carry the largest exposure (exports to the U.S. are 25%-to-36% of GDP); but, the lighter 10% tariff on such products, and the assumption that a portion will be passed to the U.S. consumer, leaves the impact to run smaller in these provinces—at least in the short run. Non-energy U.S. export exposure is highest throughout Central Canada. In Ontario, for example, U.S. goods exports top 17% of GDP with a wide range of industries exposed (e.g., autos, machinery, metals and consumer goods). Quebec's industrial metals and manufactured goods will be vulnerable, as will Manitoba's diverse manufacturing base. Atlantic Canada is susceptible because of a few highly-concentrated industries, even if the broad economic impact appears smaller—think the Newfoundland & Labrador fishery, and Prince Edward Island (PEI) packaged food goods. All told, we expect the economic impact to hit hardest in Ontario and the rest of Central Canada; significantly impacting some concentrated industries in Atlantic Canada and B.C., while dealing a lesser immediate blow in oil-producing provinces.

Unfortunately, the tariffs announced on Canada, Mexico, and China proved as broad-based and comprehensive as we feared (approximately 43% of all U.S. goods imports). This will likely cause near-immediate supply chain disruptions in a number of industries (motor vehicles and parts the most obvious sector to watch), shortages of some products in stores, and a near-term price spike for many imported goods from America's three largest trading partners. We also expect an upswing in financial market volatility as market pricing resets to the newly evolving macroeconomic landscape, and increased policy uncertainty. Incorporating the U.S. tariff increases and retaliation from Canada and Mexico announced so far, and assuming these higher tariffs remain in place a full year, we are marking down our baseline U.S. GDP growth forecast for full-year 2025 by 0.3 points (ppts) to 2.1% and the 2026 call by 0.2 ppts to 1.8%, while lifting our core Personal Consumption Expenditures (PCE) inflation estimates by 0.3 ppts in each year to 2.8% and 2.4%. On a Q4/Q4 basis for 2025, we see growth at 1.7%, down from 2.2% previously, and core PCE inflation at a higher 3.0% instead of 2.4%. Note, these forecast changes are preliminary and could move considerably in the weeks and months ahead due to financial market behaviour, as well as monetary and fiscal reactions, and if the new tariffs prove shorter-lived than assumed, or additional tariffs and retaliations are announced. Should the U.S. administration broaden the trade war to other nations, including much of Europe, as it has threatened, the economic harm will escalate, and we will need to revisit our forecast. On the other hand, a possible early withdrawal of tariffs would set the U.S. economy back on course for another solid year of growth.

FINANCIAL CONDITIONS

Bank of Canada - As widely expected, the Bank of Canada lowered its target for the overnight rate by 25 basis points to 3.0%. This sixth consecutive cut brings cumulative rate relief to 200 basis points since June 2024 and pushes the Bank of Canada's overnight target 150 basis points (bps) below the US Federal Reserve's. The last time this gap was larger was way back in 1997. Note that the Bank of Canada will also be setting the deposit rate 5 bps below the target, a move designed to relieve some of the upward pressure on Canadian Overnight Repo Rate Average (CORRA). The Bank of Canada announced an end to Quantitative Tightening (QT) with asset purchases (term repos) starting in early March. Initial term repo sizes with range between $2 billion and $5 billion. Driving the decision to cut 25 bps was inflation around 2% and an economy in excess supply. As for forward rate guidance, you really won't find any. The opening statement to the press release simply acknowledges the tightrope they'll be walking: "We will need to carefully assess the downward pressure on inflation from weakness in the economy, and weigh that against the upward pressure on inflation from higher input prices and supply chain disruptions". Absent tariff action, the Bank of Canada expects GDP growth to strengthen in 2025 (versus. 2024) with growth a bit above potential this year. Again, ignoring tariff threats, upside and downside risks are "reasonably balanced". As for the labour market, the statement reiterates that "Canada's labour market remains soft" although they acknowledge job growth is picking up. On wage growth, they see "some signs of easing". The Bank of Canada highlights that inflation is close to 2% with some volatility associated with the GST/HST holiday. Highlighting a "broad range of indicators" they note that underlying inflation is also close to 2% and is forecast to stay there over the next two years (absent tariffs). Note that the relatively hotter CPI-Median and -Trim weren't mentioned. As for recent Canadian dollar weakness, the rate statement attributes it mostly to trade uncertainty and broader strength in the USD. In other words, it's less to do with Bank of Canada-U.S. Federal Reserve 'divergence'.

U.S. Federal Reserve - As universally expected, the Federal Open Market Committee voted to leave the target range for the federal funds unchanged at 4.25% to 4.50%. Unlike December's 25 basis point cut, this decision was unanimous. When it comes to balance sheet policy, the U.S. Federal Reserve will continue reducing its Treasury holdings by up to $25 billion/month and its agency Mortgage-Backed Securities (MBS)holdings by up to US$35 billion/month (with principal payments exceeding the MBS cap being invested into Treasuries). There were no changes made to the statement's assessment of economic activity but adjustments to the labour market and inflation assessments read hawkish.

European Central Bank (ECB) - The press conferences from some central bank heads over the past week gave a clear indication of how unclear the impact of tariffs will be. Bank of Canada Governor Macklem perhaps said it best ... that "the scope and duration of a possible trade conflict are impossible to predict....". ECB President Lagarde today described the inflationary impact of tariffs as being "complicated" and that it depends on "rerouting of trade, whether there is retaliation or not.... All we know for sure is that it will have a global negative impact - a global negative impact." In the meantime, you just need to keep going. And the ECB did just that today when it cut the deposit rate 25 bps to 2.75%, the lowest since 2023. That was fully expected. Note that is a total of 125 bps of easing so far (vs 100 from the U.S. Federal Reserve and 200 from the Bank of Canada). The economy is expected to "remain weak in the near term". The risks to growth are tilted to the downside. There is concern that "additional trade frictions" will weigh (since their base case scenario is that exports will contribute to the recovery) and have an impact on inflation. And households aren't confident enough yet from their rise in real incomes to increase spending. On the inflation front, even though "the disinflation process is well on track", President Lagarde pointed out that services CPI is still "resisting" or, to use an oft-used word, sticky. And again.... tariffs. Whether it is inflationary or not, it is "complicated".

The U.S. 2 year/10 year treasury spread is now 0.12% and the U.K.'s 2 year/10 year treasury spread is 0.32%. A narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 6.95%. Existing U.S. housing inventory is at 3.3 months supply of existing houses as of January 24, 2025 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 18.03 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: *"A tariff is the safest way to keep competition from destroying monopolies." ~Franklin D. Roosevelt*

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'GAAP' Generally Accepted Accounting Principles, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'Conjugate' a substance formed by the reversible combination of two or more others, 'SG&A' Selling, General, and Administrative expense ratio.

1.Not all of the funds shown are necessarily invested in the companies listed

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