



NCM Core Global/Core International

Equity Strategies

NCM Monthly Commentary for July 2025



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Cumberland Investment Counsel Inc., affiliate of NCM Asset Management Ltd.

Q2 2025 Review

Global stock markets began the second quarter of 2025 with a sharp sell-off. The losses were triggered by the tariff-related shock that resulted from Donald Trump's Liberation Day announcement, which was made on April 2 when most global stocks markets were closed. President Trump's announcement included a series of tariffs that were materially higher than most analyst estimates. This led to a significant spike in market volatility the following day as the S&P 500 fell by nearly 5% while the Nasdaq plunged by close to 6%. International markets were also hit by the tariff announcements with the Euro Stoxx 600 index falling 2.7% and the Tokyo Stock Exchange falling 3.1% in the trading session that followed Liberation Day. Stock market losses accelerated the following week with global indices plunging on Monday April 7th. The Euro Stoxx 600 index fell 4.5% while the Tokyo Stock Exchange fell nearly 8%. The heightened volatility was driven by several concerns including the potential for trade wars, rising geopolitical tensions, and tighter financial conditions triggered by rising bond yields. However, the global stock market rout was very short lived because on April 9th, President Trump announced a 90-day pause on most tariffs.

This pivot by President Trump set the stage for a huge rally in global equity markets in the months that followed. This allowed most of the major developed world stock markets to finish the second quarter in positive territory as seen in Chart 1 on the left.

As global stock markets experienced an abrupt decline in the week following Liberation Day, consumer and business confidence took a big hit. In the U.S., consumer confidence slumped to a nearly five-year low, to levels not seen since the onset of the COVID pandemic. The steep decline in confidence on the back of the tariff announcement led to renewed concerns about a global recession. Despite these fears, we somehow experienced a very robust and broad-based recovery in global stock markets that has surprised many investors. The rebound that materialized was driven by a combination of macroeconomic resilience, a shift in policy expectations as Trump softened his tone on tariffs, and a solid first quarter earnings season in Europe and the United States. Another key factor behind the rally was a growing belief that President Trump's tariff threats were more of a negotiating tactic than an actual threat.

CHART 1

Index	Geog. Region	Currency	Price change	Total return with dividends
MSCI World	Global	US\$	+11.0%	+11.6%
S&P 500	US	US\$	+10.6%	+10.9%
Stoxx Europe 600	Europe	Euro	+1.4%	+3.3%
Tokyo Stock Exchange	Japan	Yen	+7.3%	+7.4%
TSX	Canada	CAD\$	+7.8%	+8.5%

Source: Bloomberg

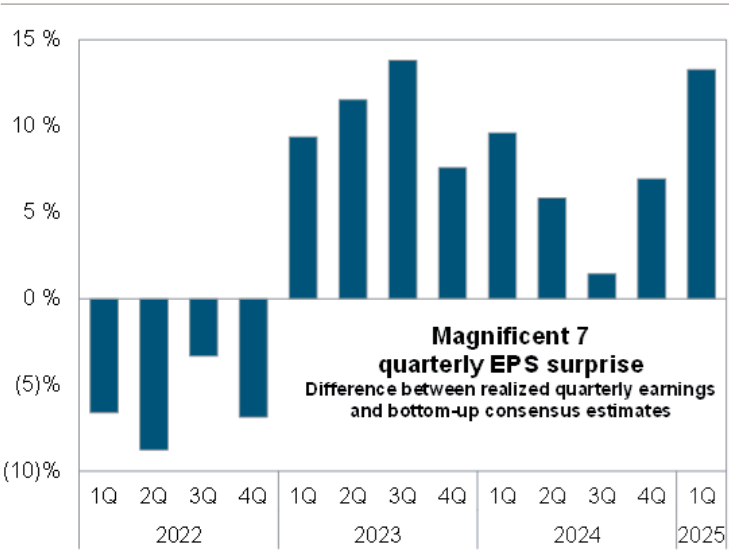
In terms of macroeconomic data, the month of May provided some stronger than expected macro data both in the United States and Europe. US labour data showed that the U.S. economy remained resilient showing that companies are still hiring and that consumers keep on spending. Meanwhile in Europe, manufacturing and services data was better relative to consensus expectations.

With regards to tariffs, Trump softened his stance due to mounting pressure from large U.S. companies who raised concerns about the damage that his aggressive tariff policy could cause to the U.S. economy. These concerns were compounded by rapidly rising U.S. Treasury yields which signalled that borrowing costs were spiking. As the Trump administration's reciprocal tariffs went into effect on Wednesday April 9th, the yield on 2-year Treasury notes rose by as

much as 30 basis points. This marked the biggest intraday move since 2009, according to FactSet. As these pressures mounted, Trump was forced to back down from his proposed tariff policy.

Moving on to earnings, first quarter earnings season was strong and was another contributing factor to the rebound in global equity markets. Earnings in the U.S. were particularly strong with S&P 500 profits up 12.5% from a year earlier. Prior to the start of the quarter, Bloomberg's bottom-up estimates had estimated that yearover- year earnings growth would be 6.8%. The key driver of the upside surprise in earnings came from the Magnificent Seven. On March 31, the estimated earnings growth rate for the Magnificent 7 companies for Q1 2025 was 16.0%. However, when the Magnificent 7 companies reported actual earnings, growth came in at 27.7% so they exceed expectations by a very wide margin. In fact, the Magnificent 7 produced their largest quarterly earnings surprise since the 3rd quarter of 2023 as seen in the Chart 2 below.

CHART 2



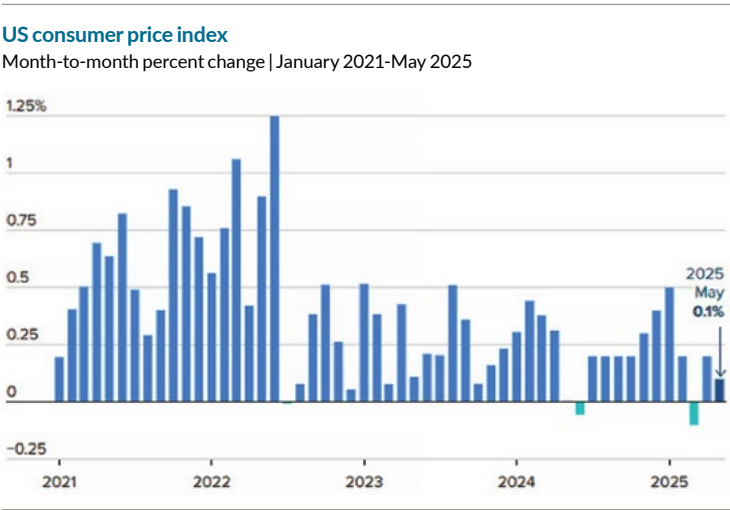
Source: Goldman Sachs. Magnificent 7 Includes: Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, Tesla.

Looking ahead, we believe the tariff situation is moving in the right direction. There appears to be an increased willingness by the U.S. to negotiate trade deals and there are further signs of de-escalation. Recent examples include a trade deal with Vietnam, a decision to back off restrictions on chip-design software, and the removal of Bill 899 from the Big Beautiful Bill. In terms of Vietnam, President Trump announced a trade deal that will apply a 20% duty on imports from Vietnam. This is significantly below the 46% rate Trump had imposed in early April. In addition, the U.S. government recently announced a decision to rescind its export restrictions on chipdesign software sold to China. Furthermore, the Treasury Department removed a so-called revenge tax

that was formally called Bill 899. The revenge tax was set to raise taxes on foreign investment and it had spooked Wall Street and global business leaders. Taken together, it does appear that the tariff situation is headed in the right direction. Despite the progress being made, a lot of attention is focused on the upcoming trade deadline on July 9th. U.S. officials are in deep talks with major trading partners in Europe and Asia as this deadline approaches. On the subject of the deadline, U.S. Treasury Secretary Scott Bessent recently indicated that the July 9th deadline might be extended for certain countries that are deemed to be negotiating in good faith.

Although we are seeing a de-escalation in the tariff situation, one of the risks that remains is whether the new tariffs will be inflationary for the U.S. economy. It is widely believed that tariff-driven price increases may not feed into the consumer price index (CPI) data for a few more months, so it is too early to declare victory on this front. This is something we will monitor closely in the months ahead. On a positive note, recent data shows that inflation continues to move in the right direction. During the month of May, the consumer price index increased by 0.1% as shown in Chart 3 below. This was below consensus expectations at 0.2%.

CHART 3



Note: Seasonally adjusted.
Source: U.S. Bureau of Labor Statistics via FRED. Data as of June 11, 2025.

In terms of our research efforts, we have been dedicating more time to Europe given our optimism about this part of the world. From 2014 to 2024, Europe was a laggard in terms of stock market performance but this started to change in 2025 and we believe there are a number of positive catalysts on the horizon. Looking forward, the region is set to benefit from lower interest rates, fiscal stimulus, and earnings growth estimates that are almost on par with the United States.

In terms of monetary policy, the European Central Bank (ECB) cut interest rates by 25 basis points to 2.0% in June. This was the eighth interest rate cut in the current cycle. Cutting interest rates should provide a tailwind to economic growth, which could potentially boost stock market returns.

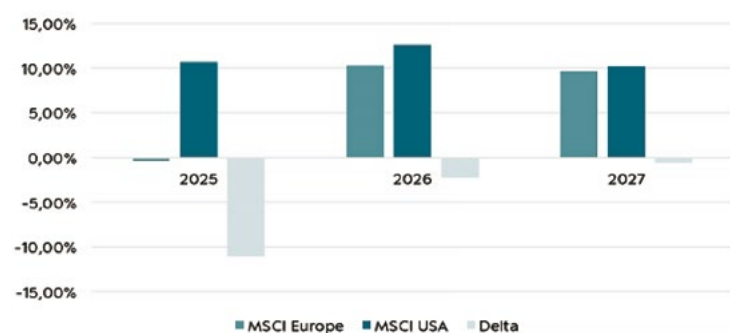
When it comes to fiscal policy, a significant announcement was made in Germany a few months ago. On March 18, 2025, Germany's Federal Parliament voted in favour of a landmark bill that plans to unlock hundreds of billions of euros for defence and infrastructure projects. The passing of this bill represents one of the largest fiscal policy shifts in postwar Germany given its decision to relax the debt brake. The debt brake was a constitutional fiscal rule put in place in the aftermath of the Great Financial Crisis (GFC). The debt brake limited government borrowing to 0.35% of GDP, which has acted as a headwind towards capital expenditures since the GFC in 2008-09. As a result of the debt brake, Germany has debt levels far below other countries around the world. Germany's debt-to-GDP ratio is 62%, which compares with the United States at 124%. Given its low debt level, Germany has considerable room to manoeuvre with fiscal policy. From our perspective, Germany's new-found commitment to fiscal stimulus should mark the beginning of a renewed cycle of capital and infrastructure investment. This is significant given that Germany is the largest country in the Eurozone. We believe that its spending in the years ahead should have positive flow-through impacts to other countries throughout Europe.

With a significant decline in interest rates and a large fiscal stimulus on the horizon, earnings growth in Europe is expected to accelerate in the years ahead. After several years of significantly lagging the U.S., Europe's earnings per share (EPS) growth in 2026 and 2027 will be in a similar range to the United States as seen in Chart 4 below.

CHART 4

The EPS Growth Spread is narrowing

EPS Growth outlook in %

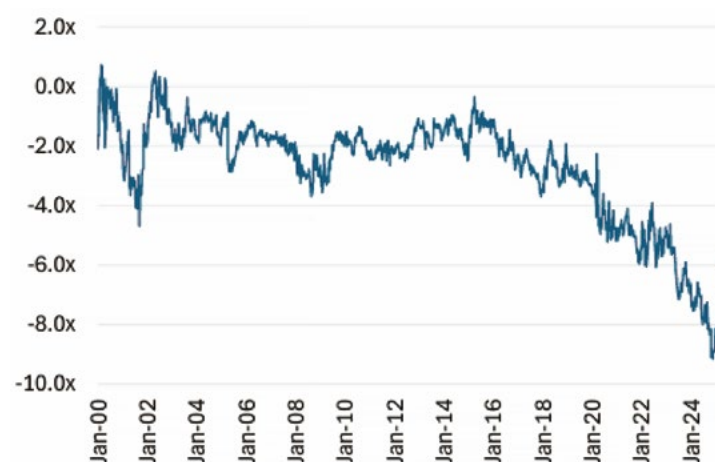


Source: Berenberg, Bloomberg, June 2025

In addition to the catalysts outlined above, European stocks also trade at a significant discount relative to the United States based on historical levels as seen in Chart 5 on the right.

The valuation discrepancy illustrated in Chart 5 is based on the price-to-earnings (P/E) ratio. From 2000 to 2016, Europe traded an approximate 2 P/E multiple point discount to the

Forward P/E Multiple Differential: Europe (Stoxx 600) vs. US (S&P 500)



Source: Refinitiv, UBS Analysis

United States. But starting in 2020, the European discount widened significantly and reached a high of 9 P/E multiple points during 2024. Given the strong rally in European stocks during Q1 2025, the discount has recently narrowed. However, the discount on European stocks remains well above the historical average.

Portfolio Review:

During the first quarter, we established several new positions in our Global and International portfolios. In our Global strategy, we established new positions in Deutsche Boerse, SAP, and TJX Companies. In the International strategy, we initiated new positions in Allianz, Coca-Cola Europacific Partners, Erste Bank Group, and Galderma. A brief description of each new holding can be found in the **Appendix**.

Outlook for 2025

Bringing it all together, we have a cautiously optimistic outlook for global equities. Corporate earnings are rising, interest rates have declined in the U.S. and Europe with the potential for further cuts, and energy prices have declined. In terms of the risks, we would highlight U.S. tariff policy, geopolitics, and above average valuations in the United States. Although the situation with U.S. tariffs is yet to be resolved, progress is being made in terms of ongoing discussions between the U.S. and its trading partners. In addition, there has been a significant de-escalation in terms of the level of tariffs being discussed today relative to what was announced on Liberation Day. While U.S. valuations are above historical levels, the return on equity (ROE) for U.S. corporates is well above the historical average. Investors are willing to pay more for companies with higher ROE's, so a higher valuation multiple is justified. Outside of the United States, we see encouraging signs in Europe as we expect accelerating economic and earnings growth in the years ahead on the back of Germany's fiscal announcement.

APPENDIX A

Company descriptions for new positions added to the Global Strategy

Deutsche Boerse is a diversified exchange operator that offers a large suite of products and services. The company operates through 4 segments including 1) Data & Analytics; 2) Trading and Clearing; 3) Fund Services; and 4) Securities Services. Data & Analytics offers stock market index-based products (STOXX® and DAX®) as well as ESG and governance research for institutional investors and companies. Trading & Clearing offers trade execution and clearing capabilities across several verticals including equities, commodities, currencies, and derivatives. Fund Services provides fund processing and fund distribution solutions for global banks, wealth managers, and custodians. Securities Services offers post-trade services like settlement, custody, collateral, and liquidity management. Deutsche Boerse is a very cash generative business and has been a strong allocator of capital over the years. The company should be a key beneficiary of Europe's economic renaissance on the back of new fiscal spending by Germany. This should have positive implications for its franchises across cash equities and fixed income.

SAP is the largest software player in Europe and offers the broadest portfolio of cloud assets in the enterprise software ecosystem. Its Enterprise Resource Planning systems are an essential technology that companies need for their day-to-day operations. This creates very high switching costs for its products. Approximately 80% of SAP's clients that are currently on legacy versions have committed to migrating to its latest cloud-based version (S/4HANA). This will help sustain growth for at least the next several years. Given that SAP sits at the core of their clients' operations, SAP is well positioned to benefit from its artificial intelligence (AI) initiatives. Its recent new offering of Business Data Cloud and its collaboration with DataBricks will enable customers to integrate non-SAP data into their AI models, which will further enhance growth.

TJX Companies is the leading off-price retailer of apparel and home fashions in the United States and worldwide. The company's mission is to deliver great value to its customers every day. TJX accomplishes this by offering a rapidly changing assortment of fashionable, brand name, and designer merchandise at prices that are generally 20% to 60% below regular prices on comparable merchandise. The company operates more than 5,000 stores around the world with a presence in the United States, Canada, Europe, and Australia. TJX's largest store banners include TJ Maxx, Marshalls, HomeGoods, Homesense, and Winners.

APPENDIX B

Company descriptions for new positions added to the International Strategy

Allianz Group is one of the world's leading insurers and asset managers with 128 million private and corporate customers in nearly 70 countries around the world. The company operates through 3 segments. The Property & Casualty segment includes auto, accident, property, general liability, travel insurances, and assistance services. The Life & Health segment offers savings and investment-oriented products in addition to life & health insurance products. The asset management segment is one of the world's largest with third-party assets of more than 1,920 billion euros under management. The key asset management entities include PIMCO and Allianz Global Investors. These entities offer a wide range of equity, fixed income, cash, and multi-assets products, as well as a strongly growing number of alternative investment products. The company is well positioned to benefit from a number of secular trends including compounding pressure on public pensions, a growing demand for higher returning products, and accelerating generational wealth transfers.

Coca Cola Europacific Partners is the largest Coca-Cola bottler in the world with operations across Western Europe, Australia, New Zealand, Indonesia, and Philippines. Growth in Western Europe is primarily driven by the no/low sugar trend, optimization through pack sizes, as well as price & mix. Volume growth is stronger in emerging markets where penetration for its products is still low. Certain categories such as Energy & Sports drinks, tea & coffee, and alcoholic mixers are experiencing strong growth, although this is happening from a smaller base. Looking forward profit growth will be enhanced by ongoing efficiency measures with management currently ahead of its fiscal year 2024-2028 savings plan of €350-400 million. Overall the company offers consistent growth, improving margins, strong free cash flow generation, and steady cash returns to shareholders along with the potential for acquisitions of more Coca-Cola bottlers.

Spun out from Nestlé in 2019, Galderma offers a science-based portfolio of brands and services for the global skin care industry. The company has a global presence, a strong innovation focus, and has exposure to structurally growing markets. The company operates through 3 segments. Dermatological Skincare provides moisturizing creams, lotions, and various skincare products. The company's flagship brand is Cetaphil, which generates more than \$1 billion in annual revenue. Cetaphil is a trusted global brand across retail and pharmacy channels. Within Injectable Aesthetics, Galderma is the number two global player behind AbbVie, which manufactures Botox, the market leading product. The Therapeutic

Dermatology segment provides products in areas with unmet needs including acne, atopic dermatitis (eczema) and prurigo nodularis. Prurigo is a chronic skin condition characterized by intensely itchy skin and raised bumps (nodules) on the skin. With above average market growth, opportunities to expand its operating margins, and new product launches, Galderma is well positioned for growth in the years ahead.

Erste Bank was founded in 1819 as the first Austrian savings bank. Erste Group went public in 1997 with a strategy to expand its retail business into Central and Eastern Europe. Since then, Erste Group has grown to become one of the largest financial services providers in the Eastern part of Europe in terms of clients and total assets. The bank is very well capitalized and is generating attractive earnings growth. Erste Bank is well positioned to grow in the years ahead given that it has significant exposure to countries with above average economic growth and low penetration for banking products. Erste Bank should be a key beneficiary of Europe's economic renaissance on the back of new fiscal spending by Germany given its Pan-European footprint.

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