



REVIEW AND COMMENTARY

3rd QUARTER – 2025

North American stock markets ended the third quarter of 2025 at historic highs. This was a welcome relief to many investors who only months ago were worried that the tariffs imposed by the U.S. Administration would not only derail the US economy but also the economies of their larger trading partners, including Canada. Both the S&P 500 and the Nasdaq Composite had the third best third quarter since 2020. The S&P/TSX gained 12.5% in the quarter with Technology and Materials leading the way. As mentioned in our previous quarterly commentary, odds of a correction in the equity markets are increasing, especially if there is a protracted shut down of the U.S. Government. However, as we concluded our last quarterly, our portfolios have significant weightings in the more defensive sectors such as Financials and Utilities so investors will be relatively well positioned to deal with a pause or temporary pull back in prices.

Technology continues to dominate the performance in the equity indexes particularly in the U.S. As we have frequently discussed in our past quarterly reviews, tech weightings in the indexes are increasingly influential, particularly the Nasdaq and S&P 500. However, smaller cap stocks performed better in the US markets last quarter, as lower interest rates boosted growth projections. Technology companies, particularly those with businesses related to AI continue to dominate the news and the indexes. Importantly, one of the key issues confronting all AI related companies is the power sources required to run the programs. The amount of power required to operate this technology is enormous and one sector that will benefit is those companies that provide the power directly, among them are Utilities. The S&P/TSX Utility sector gained 6.9% in the last quarter.

In September, the U.S. Federal Reserve and Canada's Central Bank lowered interest rates despite inflation persisting above target. The U.S. economy remained resilient last quarter while Canada's manufacturing sector data suggests our economy is struggling which has leading to expectations that further interest rate cuts are forthcoming.

The U.S. consumer is showing signs of strain. Home equity loans (HELOC) in the U.S. increased by \$ 9 billion dollars in the second quarter for the 13th consecutive quarter. The N.Y. Federal Reserve reported that credit card balances increased by 6% to over \$1.21 trillion and 4.4% of all outstanding U.S. consumer debt is in some stage of delinquency. This is the highest level in over 5 years.

...../2

A bright spot for Canada has been the rally in many commodities such as gold, rare earths, copper and uranium. Oil prices are the exception and remain under pressure due to production increases from large foreign producers. Canada is a resource rich country and with a weakening U.S. dollar, investors worldwide may consider Canada an attractive alternative. Anglo America's interest in merging with Teck Resources may be a harbinger of things to come.

Historically, the fourth quarter tends to be the strongest quarter for stock prices. Albeit, October has had some dark days, dating back to 1928 it is a historically net positive month. However, the ongoing unpredictability of the U.S. Administration's trade policies, along with the strains from a prolonged US government shut down, could set the stage for a market correction. An important note to all Canadian investors is Canadian markets have quietly posted some of the best relative returns globally this quarter and year to date. (How typically Canadian 😊). We expect this to continue. Given we are defensive investors by nature, we should continue to perform well regardless of how equity prices finish 2025.