August 2025

"It is better to travel well than to arrive."

-Buddha-
Philosopher

Chris Ballanger BA, B.Ed, MA
Senior Wealth Advisor
T: 647.798.4075
Chris.ballanger@raymondjames.ca

Intelligent Money
Wealth Management Group
of Raymond James Ltd.
1900 - 200 King Street West

Labour Day often heralds a change of season in southern Ontario, as summer is gradually eroded by shorter days and cooler winds. Hot days can be reluctant to leave, but the shift in weather is inevitable. After many equity markets hit all-time highs in August, investors are reasonably wondering if there is still more upside sunshine on the way as we slide into the normally more unpredictable market months of September and October. **Morgan Stanley's** strategist Lisa Shalett—who has been more cautious than most analysts over the past year—shares her investment opinion on this topic. She points out that some risks are hidden under a bullish cover. The S&P 500 has rallied almost 30 per cent since its April lows. The so-called "Mag 7" technology giants have continued to drive ahead with impressive earnings reports, helped by an economic backdrop of reasonable inflation numbers, a stimulative tax bill, and a widely held expectation of interest rate cuts later this year. However, Shalett argues that all is not as positive below the calm surface. Those same tech giants

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that have attracted so much investor interest have also driven about half of all market returns in the last five years—a level of concentration that is quite rare historically. Additionally, consumers who have the ability to spend in the economy are becoming an increasingly smaller percentage of total consumption, and this narrowness does not suggest broad-based economic strength. Both observations are concerning signals, according to Shalett. One of the interesting facts she raises is that while a handful of companies are experiencing powerful earnings growth this year, most U.S. stocks are not sharing that outcome. A case in point is the returns of the Mag 7 names: they have had earnings growth of more than 25 per cent, compared to the other 493 stocks in the S&P 500 index, which have barely eked out a one per cent average improvement. She suggests that a broad swath of companies are absorbing tariff and inflation costs for now, but if they end up passing these expenses onto consumers, demand will likely fall, and inflation would rise. Since consumer spending is a key driver of the U.S. economy, the combination of lower economic growth and higher inflation could bring the stagflation fear back into the conversation. Many of these same giants are also the ones doing a large portion of the capital spending in the economy to create increased AI capacity. Historically, when you get this type of trend, it's something to pay attention to—because it generally is not sustainable in the longer term. With this in mind, Shalett has several portfolio suggestions. Despite the overwhelming optimism among many investors, some of her recommendations include trimming small-cap stocks, unprofitable technology names, and the so-called meme stocks, which are typically of low quality. Areas of addition, in her view, include gold, real estate investment trusts (REITs), energy infrastructure, and commodities. She also favours investment-grade bonds and international equities.

Last month, we featured an opinion piece arguing for lower personal taxes as an economic necessity for improving Canadian productivity—especially compared to our neighbour to the south. As a follow-up, **Visual Capitalist** examined tax competitiveness among Canada and our OECD peers across several metrics. As always, their charts and graphs offer a quick and useful way to examine data. As per their score, countries that have moderate tax rates, a broad base of taxpayers, and simple rules have been placed higher. Those who lag are usually characterized by high taxation, complex rules, and targeted tax breaks. As they point out, tax competitiveness is only one pillar of a country's policy goals—such as the desire to build a comprehensive welfare state—but it remains an important one, nonetheless. Somewhat surprisingly, the Baltic state of Estonia has earned the top score for the 11th straight year, placing in the top two for personal, corporate, and property tax. Discrepancies are interesting: number three New Zealand does well in personal and property tax but ranks near the bottom in corporate competitiveness. By comparison, number four Switzerland has very punishing property taxes. Italy, France, and Portugal fall into the bottom cohort, with poor rankings across the board. Middle-ranked Canada has below-average tax scores on most measures, with its only top ten rating coming from relatively modest consumption (sales) taxes. While Scandinavian countries like Finland, Sweden, and Norway are perceived as high-tax jurisdictions by many, Canada's personal tax score is actually lower than all three—particularly Sweden.

If discussions about taxation lower your mood, then the annual *World Happiness Report* may offer some inspiration. Each year, countries are surveyed across a wide range of categories, and an annual ranking is announced in March. Taxes aside, Finland is the top finisher in 2024—and has held that spot for eight years in a row. As Canada has slid from a high of number five to its current number 18 ranking, are there lessons to be learned from this European leader? An interesting article from **BBC Travel** explores that question in " What it's like to live in the happiest country on earth ." Traversing a number of aspects of Finnish life, the article highlights easy access to nature, free quality health care and education, and safe, efficient public transport as key contributors to their contented lifestyle. Since the climate is not that different from ours—and the other factors are widely discussed aspirational goals—one must wonder if sauna culture is one of their unique solutions to a cold and grey winter that we might investigate further…

Morgan Stanley: Hidden Risks Beneath the Bullish Narrative

The S&P 500 Index has surged a remarkable 29% from its April lows. Alongside this rally, a bullish narrative has crystallized around headline-level data suggesting manageable inflation, solid economic growth and terrific megacap tech earnings. Add to this the improving odds of Federal Reserve rate cuts and economic stimulus from the U.S. tax bill, and it's easy to see why many investors are feeling so optimistic.

However, below the surface of the headlines, the story is much more complicated. Equity markets are top heavy, with the tech giants accounting for more than 50% of all stock market returns during the last five years. At the same time, the gap between the wealthiest households and everyone else has widened, with the top 20% accounting for more than half of all consumption.

Given these dynamics, Morgan Stanley's Global Investment Committee is less convinced that the bullish narrative is broadly applicable. Instead, we see risks below the surface that investors may be overlooking.

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Visual Capitalist: The Best and Worst Countries for Taxes

When global companies decide where to invest, the quality of a country's tax code can be as important as market size or labor costs.

A simpler, more neutral code helps investors forecast returns and reduces compliance headaches.

The data for this visualization comes from the Tax Foundation's 2024 International Tax Competitiveness Index.

It benchmarks Organisation for Economic Co-operation and Development (OECD) members on how efficiently they raise revenue through individual, corporate, property, and consumption taxes, plus their rules on cross-border profits.

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BBC: What it's like to live in the happiest country on Earth

Finland has topped the World Happiness Rankings .for the eighth year running – but the real appeal for travellers lies in the country's deeply-lived values of balance, nature and

everyday contentment.

Finns tend to accept the accolade of supreme happiness, bestowed on them by the UN's World Happiness Report in March 2025 for the eighth time in a row, with a collective shrug and eye roll. But Finnish travel operators are celebrating as travellers increasingly make the connection between Finland and happiness, hoping to come and experience that Finnish brand of happiness for themselves.

However, don't expect to be greeted with howls of laughter and cheerful quips when you land at Helsinki Airport or disembark from one of the Baltic ferries in the capital's harbour. There is some truth in the perception of Finland being a no-nonsense, down-to-earth kind of nation. Generally, Finns are flattered – *happy*, even – to be honoured by the report's conclusions, but while graciously accepting them, they feel "happiness" isn't really the right word. Instead, "contentment", "fulfilment" or "life satisfaction" are widely considered more appropriate terms. As Finnish President Alexander Stubb recently posted on Facebook: "No one can be happy all the time, and sometimes circumstance makes it difficult. But getting the basics right – security, freedom and equality – is a good start."

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