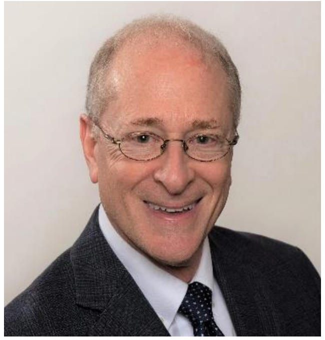
QUARTERLY COMMENTARY



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April Showers …

So far this year the markets have performed relatively well – the TSX is up around 4% and the S&P500 is up approximately 6% - it's been a good start. Can that continue into this second quarter of the year? From a short-term perspective, I would be surprised to see this strength continue, especially since the Iran-Israel conflict has been ignited by Iran's unprecedented attack. The Canadian market had eight straight weeks of gains up until last week in which it lost 1.6%. That was the longest winning streak in almost five years and it was due primarily to the strength in the energy and material sector (inflation is generally good for the Canadian stock markets because of our heavy exposure to commodities). In the US – after a very strong first quarter, last week saw a reversal as well. Markets were down 1.5% and there weren't any sectors that were positive. I believe that this short-term trend will continue and if it does that will set us up for a decent buying opportunity. There is evidence that the huge run for the Magnificent 7 high tech companies is beginning to wane a little as two of the seven (Tesla and Apple) are down so far this year. There is still a lot of good news baked into the valuations of US equities – they trade at a much higher level than international companies. The more highly equities are valued, the more vulnerable they tend to be if negative surprises appear or when bond yields move higher. So far, corporate earnings surprises have been on the positive side, offsetting the potential effect of higher rates.

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Regarding fixed income, bonds were negatively impacted by higher interest rates in the quarter. The bond market has reluctantly moved more in the direction that I've been expecting it to for some time – anticipating only 2 or 3 rate cuts at the most this year instead of the 6 or 7 formerly expected by almost everyone. Unless growth in the US begins to drop off, I believe that short term rates are going to stay higher for a while longer. Canada is a different story – expect rates to start dropping in June since we're experiencing very tepid economic growth.

As mentioned earlier, material sector (commodity) stocks are doing very well. One of the reasons for this is the recent higher demand for copper. Growth in data centers to power AI has boosted its demand for use in cables. Incredibly, Nvidia recently shifted from optical fibers to copper cables for their data centers, as they are more energy efficient, provide better cooling, and are cheaper. Most copper demand traditionally stems from the construction sector, which has been recovering strongly lately, partly spurred by the US subsidies and tax credits for setting up electric vehicle plants. This is producing economic growth that has been lacking elsewhere in traditional manufacturing. At last month's Nvidia technology conference, CEO Jensen Huang envisioned a new industrial revolution taking hold. He said that 'whereas water was the raw material to generate electricity in the original industrial revolution, electricity is the means of generating data tokens in 'AI factories', as Huang calls them, in the 21st century follow-up'. With AI adoption broadening, the International Energy Agency (IEA) expects to see a 15% annual growth rate in these data factories in the coming years and this in turn is raising demand for copper. And it isn't just due to AI – there are signs of a recovering global manufacturing cycle. Up until very recently there was a long (16 months) although modest manufacturing recession. In the past 40 years, after a 'shallow' dip like that commodities have tended to rally by 20% on average in the subsequent year. There are supply constraints as well - continued curbs on oil production from OPEC+ and for metals, mine supply has been lackluster, and continues to see risks due to lower investment, droughts, tough wage negotiations in Latin America, and electricity outages in South Africa.

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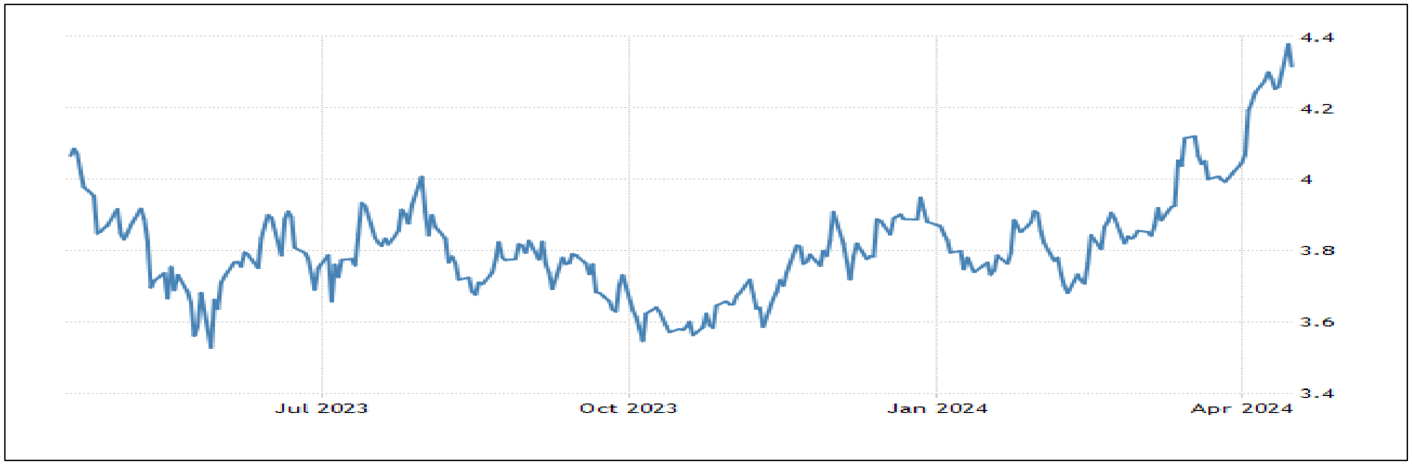

1 Yr Copper Price Chart -Trading Economics

Copper has acquired the nicknames “Dr Copper” and “the metal with a PhD in economics” due to its uncanny ability to diagnose the health of the broader economy. This is largely because copper has a host of industrial uses—including for electrical wiring, roofing, plumbing and industrial machinery—and because its supply is relatively stable, which means that prices are closely correlated with demand. Economists and investors alike thus closely track the price of the commodity to infer how the economy is doing. In a recent interview IMF Chief Kristalina Georgieva talked of the resilience of the world economy fueled by stronger than expected performance in the US and some emerging markets such as India and Indonesia. Estimates of growth vary across countries but its interesting to note that Asia is delivering two thirds of the global economic growth this year. This speaks to the importance of global diversification with investing – there’s almost always a strong economy and bull market in some region of the world.

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So in conclusion there is definitely some angst over higher-for-longer interest rates (in the US) as well as tensions between Israel and Iran with Israel vowing a response to the drone and missile attack. No one knows what form that response might take. The uncertainty surrounding the potential for escalation is moving many market participants to the sidelines.

As always if you have any questions or are interested in a particular investment and you would like me to take a look at it for you please don't hesitate to call. In the meantime, stay warm!

Regards,

Richard