

QUARTERLY COMMENTARY



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It's a Beautiful Thing

Who knew that Trump's Beautiful Tariffs would eventually lead to today's Beautiful Markets? The equity markets continue to be incredibly resilient despite everything being up in the air regarding future trade between the U.S. and the rest of the world. Or is it that with Trump's backsliding and setting of new deadlines, investors are not taking his rhetoric seriously and have become a little more complacent about his approach and thus question whether corporate profitability will be that negatively affected? Yes, companies will absorb some of the hit but much of it will be passed onto consumers and so far the inflationary aspect of the increases hasn't been overwhelming. Will this change? Price increases (other than food) take a while to filter down to the consumer and it is expected to become more noticeable in the next six months or so.

In the meantime, despite all the uncertainty, we've enjoyed a nice increase in both the bond and equity markets in the last quarter. The S&P500 was up 10.9% and the S&P/TSX Composite increased 8.5%. That was after experiencing a large drop of -12.1% and -11.1% during the quarter – it was a huge rebound in a very short period of time. US corporate bonds were up 1.8% and Canadian corporate bonds 0.5%. We are now about to enter a time when the markets historically have put up poor numbers though – August and September, so despite the recent momentum I'm keeping some ammunition available in case there is a pullback before the fall. There is no question though that Canada is in an economic crisis. So far our

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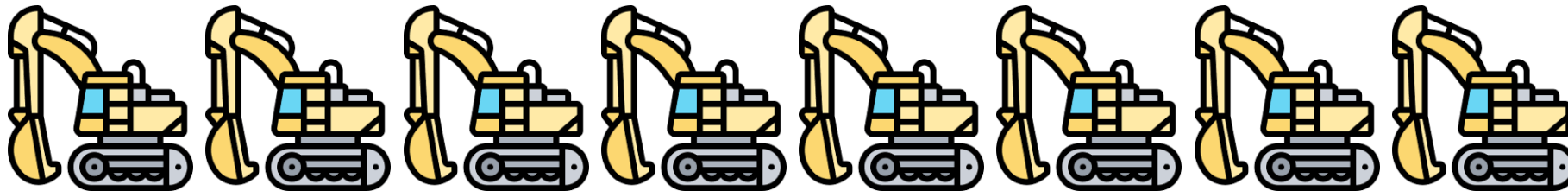
new PM, Mark Carney is doing a great job at pulling the country together to deal with it head on with the One Canadian Economy Act which was passed by Parliament in June. It's a critical weapon in Canada's arsenal to fight Trump's crippling tariffs, protect our economy and even improve our independence. It has already helped remove internal trade and employment barriers and it aims to increase international investment, streamline and expedite approvals for designated major resource and infrastructure projects from coast to coast to coast. However, in speeding things up, critics fear it will also compromise and denigrate environmental considerations and community input, regulatory controls and set aside the Crown's legal duty to "to consult and, where appropriate, accommodate" Indigenous groups and concerns over major projects that may impact Treaty rights or obligations. Those are legitimate concerns, but in a time of war (and this is an economic war) some compromises need to be made – after all, every jurisdiction and community across Canada has ongoing problems that need to be addressed. As long as Bill 5 still protects the environment, respects local communities and meets the governments' duty to consult and accommodate Indigenous nations where appropriate, the red tape that has slowed down major projects in this country needs to be cut. Fortunately, there are now many First Nations which do support resource development, extraction, pipelines and offshore exports as a key to Canada's economic future and they welcome the jobs and revenue/royalties sharing that could benefit their bands.

But with more than 634 First Nations across the land (200 in BC) there's no doubt some will challenge the fast-tracking law over the principles of consultation and accommodation, which is their right, but, sadly, others will simply try to cash in by blocking and extorting every project they can. Several First Nations in Ontario have already launched a constitutional challenge against the Bill. The courts will decide but the possibility of appeals etc... could really slow down the whole process handicapping the efforts to grow our resource-based economy. Hopefully most First Nations leaders and communities will agree that our collective prosperity through the development and export of our resources can be accomplished while respecting the duty to

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consult and accommodate where necessary.

A side effect to higher price pressures and capital costs that are caused by trade wars is sometimes a greater degree of positive correlation between traditional assets (namely, stocks and bonds). That is every portfolio manager's nightmare — because diversification between asset classes is used to lower portfolio risks. If both stocks and bonds head in the same direction then where can one find a good diversifier? Enter alternatives and non-traditional investments. As an example, the inclusion of gold within a portfolio can mitigate the overall volatility. And while one could make the case that the yellow metal is overbought at this point, the underlying demand from central banks, investors, and end-users remains strong.



Another example are funds that track infrastructure. Besides the benefits of diversification for a portfolio, these funds and companies in the sector are set up to perform in the coming years as countries turn to infrastructure spending as an offset to trade-related drags on economic growth. Certain Canadian engineering and construction firms will be big benefactors especially since the government will be unlikely to accept bids on large projects from American companies in the space. According to Scotiabank, the short-term impact of public investment expenditures is expected to raise GDP (the country's economic growth) by 0.8% and longer term by about 0.6%. That's pretty significant. It should mitigate to a degree any economic downturn.

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In conclusion, the Trump Tariff end game remains impossible to figure out since the “Decider-In-Chief” can decide on anything at any time. It’s difficult to price in the uncertainty into an investment which is why we continue to employ a higher than usual level of cash in portfolios. At some point it will be deployed when we have more confidence in where things are headed. For now, it doesn’t hurt to be a little cautious and then take advantage of opportunities as they arise.

As always if you have any questions, are interested in a particular investment or you would like to have a comprehensive financial plan created for you please don’t hesitate to call. In the meantime, enjoy the rest of the summer!

Regards,



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