

QUARTERLY COMMENTARY



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A Summer To Remember

What a terrific three months we just experienced last quarter. Despite ongoing geopolitical tensions and trade uncertainties, global markets rebounded, led by strong gains in U.S. and Canadian equities. The S&P/TSX advanced 8.6%, the S&P 500 Index was up 10.9%, and the technology-heavy Nasdaq Composite Index surged by 17.9%. Eight of the 11 sectors in the S&P 500 Index produced positive returns, with (you guessed it) the information technology sector leading the way. Large-cap stocks outperformed small-cap stocks, while growth stocks outpaced their value counterparts. In addition, the international, developed and emerging markets generally outperformed their U.S. peers, driven by U.S. dollar weakness.

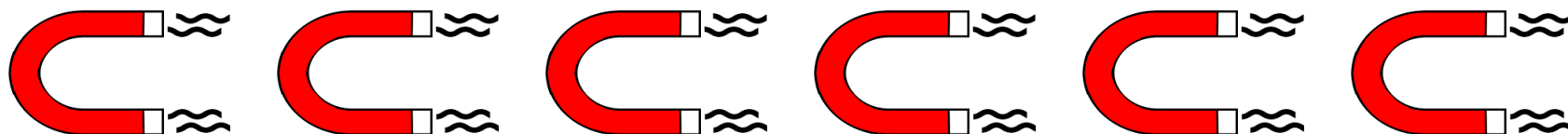
Now, I don't mean to be a wet blanket but, by all measures, North American equity market valuations are very, very stretched, despite their continuing to remain in an uptrend. Central banks around the world are lowering interest rates at a fast pace and, in today's environment, with huge government spending and supportive central banks, stock market valuations could continue high for a while longer. Earnings have also been good, helping to support them – Q2 earnings have been coming in at a solid 13.8% growth. But after one of the calmest quarters in almost six years, we are now seeing increased market gyrations, so October is living up to its reputation as the most volatile month of the year. Returns have been very strong, yet at some point, the party will end. After every prolonged rally with minimal downside, everyone begins to feel like a genius. I've noticed evidence of this all over the place recently, from some conversations I've had to the videos that pop up in my YouTube feed,

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recommending "can't lose" strategies involving buying LEAPs and 3x leveraged ETFs. The CNN Fear & Greed Index might claim that there is "Extreme Fear" right now, but I certainly don't see it. If anything, it seems most have either forgotten that the stock market can also go down or have only come to the markets in the past few years, when any pullbacks have been almost immediately recovered within a relatively short amount of time, such as what happened this spring. Other such periods of ebullient sentiment have not historically ended well, and I don't think this time will be any different, even if the current environment could very well last for months or even years.

Areas of the market that are having an exceptionally strong run are the precious metals, rare earths and uranium. Gold and silver were on a real tear last quarter, with gold prices hitting an all-time high of \$4392/oz. The sector became very overbought; so, the pullback I am witnessing now for the group, as I write, was not unexpected but with central bank buying gold and the U.S. dollar weakening versus most other currencies, gold and silver prices could remain relatively strong. It reminds me very much of the period between 2009 and 2011, when gold had a major run, during the period of quantitative easing and a weakening USD. As far as uranium prices are concerned, they have reacted to the expectation of higher demand from AI and data centres as well as a renewed interest in nuclear power and a decade of underinvestment post-Fukushima.

Companies developing mines for rare-earth metals have skyrocketed too, as China announced it is imposing export curbs on these vital metals, which are used for a wide range of industrial and high-tech applications including vehicles, consumer



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electronics and medical and defence technologies. Days after President Trump threatened 100% tariffs on Chinese goods, thereby inflaming the trade war, the President wrote on social media, "It will all be fine!" and "The USA wants to help China, not hurt it!!!" The contradictory messages followed Beijing's announcement of the new export restrictions on rare-earth metals.

The vast majority of the world's processed rare-earth elements and key finished products that use them, such as magnets, are produced by China and, in recent years, it's truly weaponized that advantage. Beijing has worked hard to gain its dominance of the global rare-earth processing capacity, said critical minerals researcher Marina Zhang from the University of Technology Sydney. "Even if the U.S. and all its allies make processing rare earths a national project, I would say that it will take at least five years to catch up with China," she says. This is truly the West's Achilles heel.

America is doing everything it can to counteract this imbalance, by investing in public companies in the sector as well as making arrangements with other countries to become reliable suppliers of critical metals to the U.S. Under the most recent deal with Australia, the countries intend to invest more than \$3 billion in the next six months in critical minerals projects. It is unclear when production from the new projects will begin though, as it takes years for a major mining project to move forward from the development stage to production. As part of the agreement, the Pentagon will also invest in the construction of a 100 metric ton-per-year advanced gallium refinery in Western Australia. And the Export-Import Bank of the United States is issuing letters of interest for over \$2.2 billion in financing for critical minerals projects. Other countries are seeing the potential of helping the U.S. with their rare-earths sourcing – Pakistan has pitched itself as an alternative hub for critical materials, with its leaders last month signing memorandums of understanding with Trump as well. If you've got what the U.S. needs, you become Trump's best friend very quickly. Investments in this area have had a huge move and are just now correcting back to slightly more reasonable levels.

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As anything else, it's always best to consider companies that already have revenues and the potential for high growth and increasing profitability.

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

Regards,



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