

January 2025

The Quarterly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots of metrics, a section on behavioral investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." — George Soros

The Numbers:

<u>Index:</u>	<u>2024 YTD:</u>
S&P/TSX:	18.0%
NASDAQ:	28.6%
Dow Jones:	12.9%
S&P500:	23.3%

<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	3.1%	4.3%
5-Year Bond:	3.2%	4.5%
10-Year Bond:	3.4%	4.7%
30-Year Bond:	3.5%	4.9%

Economic Data:

- Stocks globally higher in 2024 ex France
- Energy and materials mixed in 2024 depending on category and quality
- Agriculture lower, fertilizer stocks higher in 2024
- Forrest products slightly higher in 2024
- Gold bullion up nearly 30% in 2024
- OECD 2024 economic output at +3.2%
- OECD G-20 inflation in 2024 at 5.4%
- Global monetary policy eased in 2024

Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	30	25
P/B: Price-to-Book	5.3	5.1
P/S: Price-to-Sales	3.2	2.7
Yield: Dividend Yield	1.3%	1.2%

2024 Calendar Year by Sector: 2024 Calendar Year

S&P/TSX Composite	18.0%
NASDAQ	28.6%
Dow Jones Industrials	12.9%
S&P 500	23.3%
Russel 2000 (Small Caps)	10.0%
MSCI World	19.3%
Crude Oil Spot (WTI)	0.8%
Gold Bullion (\$US/Troy Ounce)	27.1%
SOX Semiconductor Index	-5.08%
VIX Volatility Index	-28.9%
Source: Canaccord Genuity Capital Markets & Thomson Reuters	

Foreign Exchange - FX

As of January 16, 2025 10:00 AM EST	\$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.44563	\$3,459	\$(16)	-0.5%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4735	\$3,393	\$(82)	-2.4%
Raymond James	1.4480	\$3,453	\$(22)	-0.6%
Royal Bank	1.4669	\$3,409	\$(67)	-2.0%
Scotia	1.4733	\$3,394	\$(81)	-2.4%
TD	1.4632	\$3,417	\$(58)	-1.7%
Canadian Snowbird	1.4529	\$3,441	\$(34)	-1.0%

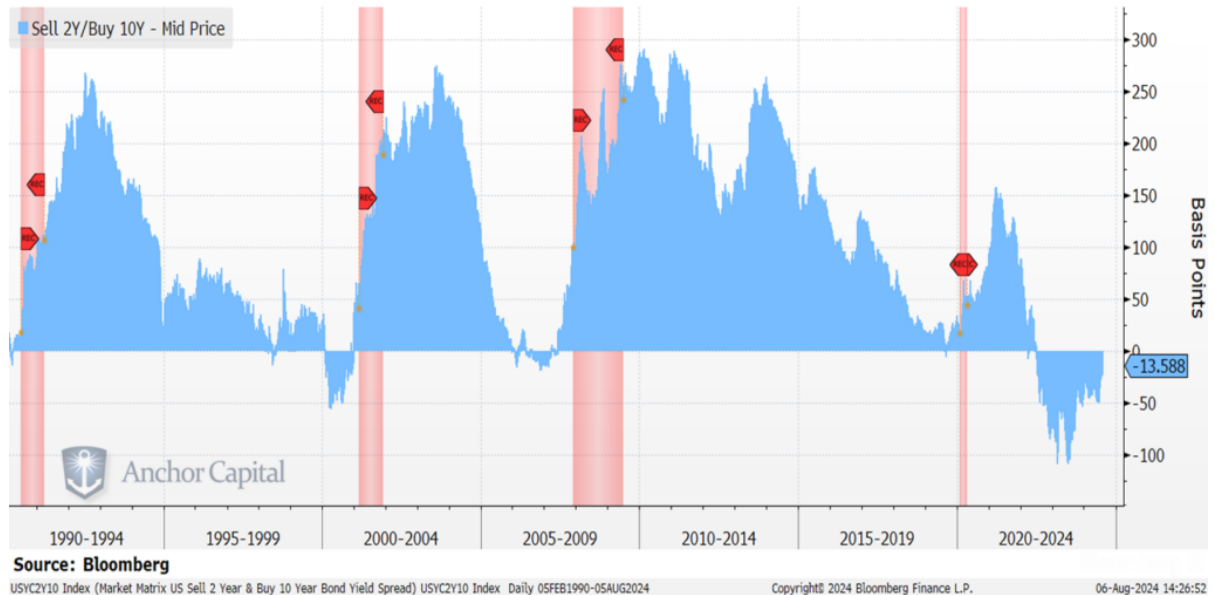
2024 Market Update & 2025 Market Outlook

2024 was a banner year for stocks with most of the world's developed equity markets higher by a good margin. France's CAC40 index was the only major fly in the equity ointment. And French investors healed more slowly than many of us on account of internal political frustrations, a mushy domestic economy and weaker demand from export markets in China and the South Pacific. The French export situation is also of course at further risk from, who else but incoming US President Donald Trump. Trump has threatened tariffs on hundreds of French goods, but then Trump has also suggested internalizing Canada as America's newest state. But for the most part, if you were invested in stocks, you probably did not want 2024 to end. Several indices rose by over 20% in 2024 and a few of them are listed in the numbers table on the previous page. Remembering that we are Portfolio Managers first and promoters a distant second, we believe that the pace of gains and overall trajectory of markets globally is likely to be more muted in 2025. Muted, but broadly positive. And broadly positive, but with the extremely high likelihood of perhaps as many as 3 major drawdowns at some point in 2025. You see our investment has more recently begun taking a closer inspection of valuations in equity markets. While many of the economic conditions that propelled strong performance in 2024 still exist early in 2025 - valuations are now at elevated levels. For example, the S&P500 index today trades at roughly 30 times forward earnings, and this is *double* its long-term post war average. Of course, equity valuations have been higher before, but we get the impression that valuations will be the market's primary Achilles' heel in 2025. Exacerbating this vulnerability will be uncertainty around the new US administration, uncertainty about existing geopolitical risk and uncertainty around the likely trajectory of monetary policy and inflation expectations.



Strength is a strong word, and even though I just told you something you already know, we can certainly make the argument that economic growth is resilient in most G20 countries. But then it ought to be with strong indications from the labor market and accommodative monetary policy. The thing is, everyone at the front end of the yield curve is talking about *easing* monetary conditions while **rising long-term yields** suggest that long-term inflation expectations are once again accelerator not cooling. You can see this in the US 10-year yield at the bottom of the page 2 and if you can it is even better if you study the spread or difference between yields on 2-year and 10-year US treasuries. Research firm Anchor Capital suggests that yield curve disinversion is a harbinger of recession and we would tend to agree to the extent that a policy era could trigger a total calamity in the economy and financial markets. “Disinversion” is not the same as the proper technical term for the bond market’s interpretation of economic health, that would be yield curve *steeping*. Perhaps the economy is being commanded to look good...by executive order...

Yield Curve Turning Positive Is Recession Warning Has been for decades



Donald Trump’s next term as U.S. President of course brings a new wave of paranoia to the table and his executive blend of policy risk and could dampen returns to a degree over the next 12 months. At issue is not the ridiculousness of some of Trump’s statements but the fact that in the areas that he has the most power [trade and immigration] his policies are inflationary. But citizens and lawmakers of certain countries should be more worried than others. For

example, when it comes to Canada, and the: \$132 billion in minerals and oil, \$56 billion in vehicles other than railway equipment, \$32 billion in machinery including nuclear reactors and boilers...Trump's posturing is once again more for entertainment purposes than anything else. Speaking of entertainment, when it comes to electricity, former Prime Minister Jean Chrétien said it best by stating:

"He's apparently said this morning that he does not need our electricity. Fine," Chrétien said in an exclusive broadcast interview with CTV Question Period, airing Sunday. "If he wants us to cut off electricity, he will have to walk up the Trump Tower with candles to go to his office, because the state of New York relies a lot on electricity coming from Canada."

- Former Canadian Prime Minister Jean Chrétien

By the way happy 91st birthday, Mr. Prime Minister.

In any case, what is an investor to do? We think that investors overall, and particularly those with a well-positioned portfolio of stocks, bonds and alternatives, 2025 will experience another positive year though this time accompanied by stiffer setbacks than we saw last July/August in "Soft landing, hard landing...which one is it"? Fortunately, the new MacNicol Safe Harbour Fund is now live and coming to portfolios near you. In the same sense that the Bank of Canada or Federal Reserve are the lenders of last resort, the new Safe Harbour Fund is like a financial risk manager of last resort: you hope to not have to call her but are glad to know she is there.

Here is the latest video that explains our "Fire Insurance" Safe Harbour Fund.

<https://macnicolasset.com/safeharbourfund-video/>

Let us know if you have any questions.

As far as positive returns will be that's truly the big question, and the outcome may largely depend on inflation expectations and the direction of monetary policy. Early on in 2025 the 6,000-point level [again roughly 30x forward earnings] is proving to be a stubborn, but not impossible barrier for the market to break through. Trump's return to the White House takes away investor preoccupation with central bank policy. And this is true in the G7 but mainly applicable to the United States as we know Trump will bully the Fed to more aggressively pursue a soft landing for the U.S. economy even as inflationary pressures return. To be more specific, Jerome Powell's easing cycle and the degree to which he may cut interest rates further in 2025 will have much to say on asset prices. Nothing goes up for ever and our understanding of current US Federal Reserve policy is that futures contracts suggest that as many as 3 twenty-five basis point rate cuts each may be in the cards.

	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES		
MEETING DATE	375-400	400-425	425-450
1/29/2025	0.00 %	3.21 %	96.79 %
3/19/2025	0.00 %	25.21 %	74.79 %
5/7/2025	0.00 %	41.38 %	58.62 %
6/18/2025	0.00 %	70.94 %	29.06 %
7/30/2025	0.00 %	79.21 %	20.79 %
9/17/2025	0.00 %	92.66 %	7.34 %
10/29/2025	1.21 %	98.79 %	0.00 %
12/10/2025	7.11 %	92.89 %	0.00 %

But given America's reasonably durable economy to date and prospects of more stimulus from the new Trump administration, monetary easing isn't a slam dunk. In our last missive, we highlighted that Trump could be a situation having both positive and negative ramifications for investors. For example, Trump's pro-growth agenda, which is anchored in the ideas of less taxes and less regulation seem unequivocally bullish for stocks, US equities. But too much of a good thing could indeed turn into a bad thing and work *against* the market should economic activity become too high and force the Fed to slow the pace of its easing cycle even further in response¹. We've discussed tariffs before but feel the subject merits mentioned here again. Trump's intention to hit his trading partners with tariffs on imported goods in no way can be good for US consumers and businesses. Made in the USA is a great idea, but it doesn't always actually work.

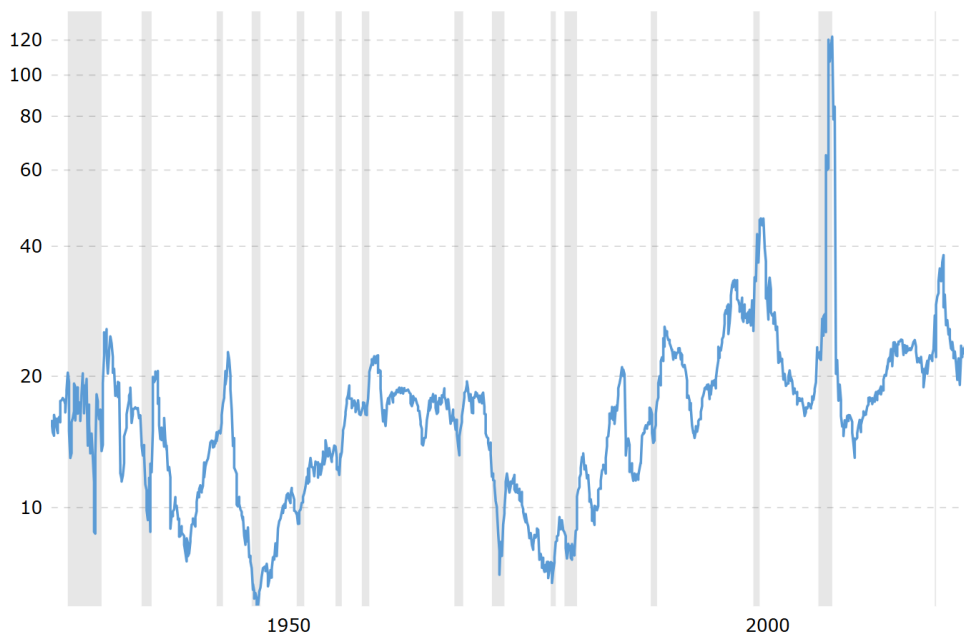
Inflation may back the Fed into a corner where it has no choice but to raise rates that this would grind down U.S. stock performance while also eroding the potential for capital gains from investments in certain bond markets. Clearly, yields on longer-dated treasuries initially climbed after the US election but even if Trump tariffs don't cause Americans to have to pay more for things as we think they will, they might still adversely impact stocks in other parts of the world [France] that trade in jurisdictions found on Trump's "hit list".

China...



Speaking of a “hit list”. China’s trade challenges with the United States place it in a super vulnerable position. The only area of the Chinese markets we believe are for the time being immune to trade isolation are rare minerals, which the United States [badly] needs. As a totally amateur geologist, I can tell you that rare minerals are found in abundance across the earth’s surface – despite what their name suggests – however China controls about 75% of their production and 90% of processing. But other economies with otherwise strengthening fundamentals, such as Canada, Europe and Japan, are likely susceptible, too. Beyond these potential trade dynamics, Trump’s administration could disrupt global markets in other ways. One is his anticipated foreign policy, which could stoke already heightened geopolitical tensions. Another is his potentially inflationary pledge to deport millions of immigrants and force many companies to “pay up” to replace lost workers. While bond returns for capital gains may be limited by the pace of interest rate cuts going forward, we believe yields at current levels remain attractive; credit and EM debt should help bolster overall fixed income performance. We will expand on yields and cap rates in the real estate segment of our upcoming fourth quarter report for the MacNicol Alternative Asset Trust. However, in brief, cap rates on multifamily residential real estate [our favourite alternative asset] slowly increased across the US from an all-time low of 4.66% in July 2022 to 5.67% in May 2024, before falling slightly to 5.61% as of October 2024. From the bottom in cap rates in 2022 to the 2024 high, cap rates on Class A multifamily increased by 95 basis-points (0.95%). In other words, prices have fallen by 17% for NOI [Net Operating Income] neutral assets. The implied 17% value discount means you can now find developers looking to quite simply walk away from assets. Returning to stocks, we don’t believe growth momentum is exhausted; however we do see signs that investors should consider increasing their exposure to large-cap value stocks.

Earnings and valuations together support continued broadening of the market, and the team directs your attention to the fact that corporate profits for the “Magnificent 7” trounced the broader market by 37% in 2023. However, this margin of outperformance shrank throughout 2024, and we see it declining further in 2025. But the valuation differential between these market leaders and the rest remains wide. We believe this implies exciting stock-picking opportunities, particularly amid a little reshuffling of deck chairs. Across styles, sectors and geographies, we believe nimbleness and selectivity will be important to navigate markets in the coming months. If the change is a hallmark of 2025, we expect this will be a pivotal period for active managers with the flexibility and expertise to navigate the vagaries and opportunities ahead.



Concluding with a return to the subject matter of valuations, the average price to earnings ratio for stocks in the S&P500 is about 17x in the post war era. Today, the S&P trades at just below double that level. It is hard to call 30x a “bubble” but here at MacNicol we are at least thinking about, thinking about the market’s as being in striking distance of bubble territory. The U.S. economy appears strong on many measures. Unemployment has inched but remains low at 4.2% as of November; consumers are showing resilience, notwithstanding some stress among the lower-income cohort; and a tight housing market is contributing to historically high home equity values and a related wealth effect.

Stay invested but stay safe...

¹ We state this more quietly in a footnote but there are now credible market observers calling for the Fed to begin raising rates in the swan song quarter of 2025.

What a ~~SMACK~~ SPAC!!!



Back at the 94th annual Academy Awards [an awards show for Hollywood actors and actresses] “Fresh Prince of Bel-Air” star Will Smith walked up on-stage during comedian Chris Rock’s presentation for best documentary feature and basically slapped the sh*t out of him. The incident, which I personally liked, was provoked by an unscripted joke in which Rock made fun of Smith’s wife Jada Pinkett Smith for looking like Demi Moore’s character in the movie “G.I. Jane”. Moore’s natural hair was shaved for the army themed film whereas Pinkett Smith suffers from a dermatological condition called alopecia. It was quite the smack indeed, but nothing compared to the smack many *SPAC* investors were dealt...

Known more formally as **Special Purpose Acquisition Companies**, a **SPAC** raises money from investors, buys out a private company, takes the private company public through a lackadaisical version of an Initial Public Offering [IPO] and then exits the company by dumping the shares it sponsored in the open market. After obtaining capital commitments from investors, SPACs usually have two years to make a purchase, otherwise they must return the money to investors. This setup sure seemed cool because it allowed people with virtual no experience in private equity or the mechanism by which private companies being public ones to speculate on gambling and even launch rockets into...ummm...space. The problem with SPACs though is that apart from an extremely liberal attitude towards financial reporting and projections, no real value was created. Instructing the cleanly shaven CEO of a money losing company to grow a beard does absolutely nothing for the company’s woes. And in the case of a SPAC, instructing a sponsor to price a private company 20x EBITDA when in reality it should be priced at 4-6x EBITDA just so that the previously illiquid private company’s shares could now be traded by you and me did little to change the fact that the company’s shares were inexpensive and not that highly sought after by investors.

And they got almost as popular as Will Smith...

SPACs really took off around 2020, with tremendous momentum and nearly 250 IPOs. By 2021, momentum was reached its peak with over 600 SPAC IPOs, amounting to more funds raised than the previous 17 years combined. However, for whatever reason, the momentum suddenly stopped. By 2022, the number of SPACs had dwindled to around 85, and in 2023, even fewer just 30. Along the way, many investors had their capital knocked out cold.



The dramatic drop-in SPAC activity exposed the investment world to a basic tenant of modern finance, which is that as alluring as the *perceived* value of an asset can be, sooner or later, it reverts back to its intrinsic value. We have said repeatedly that we don't really care how an investment opportunity is started or packaged, we care about whether our investors are reasonably likely to realize a return on it. SPACs began as a clever way around the pricey and time consuming Initial Public Offering (IPO) route thanks mainly to loopholes that nudged expensive bankers and layers out of the way so that they couldn't carefully review a private company's business model, financials, people, legal articles and operations *before* it was unleashed on the public. No customers, no money, no problem! With a SPAC, your company could trade right alongside companies like Ford, Thomson Reuters and Starbucks. The fact that Starbucks sold more coffee in two seconds than your company did all year was simply brushed to the side as an inconvenient truth that sullied the overall "vibe" and excitement that came with going public.

How did this happen?



Once again, at issue was the leniency or loopholes that SPAC mergers afforded the sponsoring entity in terms of how it valued or projected to value the target company [i.e. the private one]. In the regulatory loopholes of SPAC mergers, the target company is allowed to present comparably stronger forward-looking projections through the permissible use of *pro forma* calculations. Pro forma is Latin for "as a matter of form" or "for the sake of form" and it is most often used to describe a practice or document that is provided as a courtesy or that satisfies minimum requirements. In other words, pro forma calculations, financial models or projections are whatever the sponsoring company would like them to be. Although not included in GAAP standards, the pro forma style of calculation in financial statements provides substantial leeway in projections and reporting for new companies.

So, consider this, your new company could use pro forma principles to extrapolate revenues based on highly favourable assumptions surrounding the launch of a product that it might be planning to release, like a lousy tasting coffee that you believe will sell as well as Starbucks. This methodology obviously works in favour of start ups with non-existent historical performance. The IPO process, when viewed as an alternative option to the SPAC mergers, is as we have indicated, onerous in the areas of due diligence, financial reporting and pricing. And that is exactly why most brand-new companies, that barely have a pot to piss in, the SPAC route clearly presented the “superior” path to public capital. Now, one actual example of a SPAC that didn’t fail was DraftKings.



Draft Kings, a sports betting company, came into existence through a merger with Diamond Eagle Acquisition Group during the second quarter of 2020. Diamond Eagle was able to raise \$350 million when it IPO’d Draft Kings stock for \$10/share. After the merger, Diamond Eagle dissolved, leaving DraftKings to grow on its own, quite handsomely I would add [339% in share value to \$43.88 until this time last year in 2024]. Draft King shares were mostly flat in 2024, but look the fact is people do gamble.

A separate case of a company that certainly looked like it was destined for SPAC success was Quantum Scape. Quantum Scape was [and still is] a lithium battery company that received several sources of invested capital. Quantum Scape was brought public through its merger with Kensington Capital Acquisition Corporation, another SPAC that gave Quantum Scape a valuation of \$3.3 billion. The deal became more interesting with the \$1 billion joint investment from Volkswagen and the Qatar Investment Agency. And Quantum Scape shares clipped an all-time high price of around \$130 per share in late 2020 but spent the last four years giving all those gains away as the hype of electric vehicles faded. Thus, what began as a SPAC strength rapidly changed into a huge vulnerability. As we mentioned going public via a SPAC was much looser when it came to financial reporting and projections. This more open-minded approach to the basic principle of you either have a business or you don’t spread into outright fraud.

Take for example, the Stable Road Acquisition Company and Momentum...

Stable Road and Momentum reach SEC settlement over false claims

by Jeff Foust July 13, 2021



Momentum is the latest startup founded by Mikhail Kokorich, a serial entrepreneur whose startups include Dauria Aerospace, Astro Digital, Helios Wire and one of Russia's largest electronics retailers. Credit: Momentum

Momentum [a space company] planned to go public via merger with Stable Road at a valuation of approximately \$1.2 billion. Momentum told investors, and Stable Road backed this up, that its space propulsion technology had cleared testing. Have you any idea how hard it is to launch a rocket into space and then return it back to the earth? Neither did Momentum. And so, what actually happened was Momentum's technology had failed *several* times. In July 2021, the SEC filed charges against **both** the SPAC *and* target company for their roles in misleading the shareholders and negligence in public filings.



[Wile E. Coyote attempts to apprehend the "Roadrunner" using a Momentum rocket.]

So where do investors [and early-stage companies] go from here?

Well, outgoing U.S. Securities and Exchange Commission Chair, Gary Gensler, has introduced new rules that will enhance the investor. To be more specific, loosey goosey approaches to financial modelling and projections will be tightened and enhanced disclosures and obligation standards in individual SPAC transactions will be augmented to avoid an overly ambitious founder from being having an investment firm function as his “Cheerleader”. The MacNicol Investment Team came very close to making a SPAC investment. We are obviously glad that we didn’t, and to this day, we cannot quite pinpoint what made us take a pass. I suppose that taking a pass on a bad investment is much like quitting smoking: any reason, any reason at all is a good one. But as far as the future for SPACs goes, in our view, it remains unclear. This time last year, there were only 26 initial public offerings in the entire United States, and only three (3) were SPACs. This ratio compares to the 631 SPACs that released IPOs out of 2021’s 1035 total IPOs. There are several ways to read into these figures, some may consider it a brief pause in the creation of SPACs to assess SEC’s new regulations. Others may view it as the new status quo for SPACs with the threat of new regulations serving as a filter to illegitimate funds. One thing is certain, though, that the SPAC-mania of 2020-2022 is dead and we were glad to have missed it for whatever reason that happened to be.

Behavioral Investment: New Year’s [Investing] Resolutions...



As an investor, understanding your emotions is the first step toward managing them. Watching your capital go up and down can elicit a wide range of emotions from excitement to fear, to hope and even euphoria. Each one of these emotions are completely natural responses to have as a human but they can each have potentially detrimental impacts on your investing decisions. In fact, such feelings can cloud your judgment, causing impulsive decisions that lead to losses. To make 2025 your most profitable year yet, the MacNicol Investment Team feels that it is vital to recognize when data and common sense are guiding your investing decisions and when emotions are. It is important to learn how to manage things like the fear of missing out or “FOMO”, control overconfidence, and mental account [each of which we wrote about last year]. By training to be more disciplined emotionally, you can

make better, more rational decisions in your investments. One highly beneficial thing to investing is to approach it like a good diet or workout regime. In other words, establishing a routine is essential for maintaining consistency in your investing behavior. And never overlook the importance of staying mentally and physically healthy in your daily life too. Participating in yoga, weightlifting or meditation can directly translate to better investment habits. And what's more, they can make sticking to a disciplined investment program easier. Having a solid routine also involves sticking to your trading plan. By ensuring consistency in your approach, you mitigate the chances of making emotional decisions.

A disciplined routine helps reinforce good trading practices and creates a sense of stability in a fluctuating market. Getting to know yourself comes with age. Every investor has their own individual personality and approach towards risk. Some of you are tolerant of elevated levels of risk, while some of you are more comfortable with a lower risk approach. One of the biggest mistakes we see investors making is attempting to align with investing strategies that quite simply aren't them. And this can lead to stress and poor decision-making. Successful investors know their own style or investing persona and refine their strategies to match their risk profile.

Making resolutions can be challenging whether they relate to your diet, certain substances that you wish to cut back on or even the relationship you have with your pet. Fortunately, when it comes to your finances, the talented and dedicated team here at MacNicol can make sticking to those resolutions much easier. We don't judge, we advise. We don't have customers, we have partners. And our advice comes from a good place, a place that we are also invested in.

Happy New Year.

The MacNicol Investment Team

Firm Wide News:

The 2024 RRSP deadline falls on March 3rd.

The maximum deduction limit for 2024 RRSP room is \$31,560 which would require an annual earned income of \$175,333. Please contact Angela Knapp or Ruchi Aggarwal for the easiest way to top up your RRSP today.

The RRSP maximum contribution limit **for 2025** is \$32,490. Setting aside \$2,700 each month can get you to this goal.

Clients can also add \$7,000 to their Tax-Free Savings Account (TFSA), including any withdrawals made in a previous year.

For families with children under the age of 18, you can also make a \$2,500 contribution per child to your Registered Education Savings Plan (RESP) to maximize the 20% CESG Grant of up to \$500 per beneficiary.

Finally \$8,000 can be contributed to a First Home Savings Account (FHSA).



We would like to congratulate Ken Reid who has attained his Associate Portfolio designation with the Ontario Securities Commission. A great deal of hard work goes into attaining this. Congratulations Ken!

We would also like to let you know that we have moved offices. We are now located at 3080 Yonge Street, Suite 4076, Toronto, Ontario, M4N 3N1 which is at the corner of Yonge and Lawrence.