March 2025

The Monthly

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.

"Inflation is like toothpaste. Once it's out, you can hardly get it back in again. So, the best thing is not to squeeze too hard on the tube."

— Karl Otto Pöhl, former President of the Bundesbank

The Numbers:

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Index:		**2025 YTD:**
S&P/TSX:		2.7%
NASDAQ:		-2.4%
Dow Jones:		3.0%
S&P500:		1.2%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	2.7%	4.3%
5-Year Bond:	2.7%	4.0%
10-Year Bond:	3.0%	4.2%
30-Year Bond:	3.3%	4.6%

Economic Data:

- Stocks mixed in February with most US markets lower
- Commodities ex-Oil higher in February
- BITCOIN falls 16% in the month
- Government long bonds rally late in the month on trade woes
- The Canadian dollar gains [some] stability in February but continues to trade below $0.70
- US Economic data [i.e. ISM Index] softer

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	28.8	27
P/B: Price-to-Book	4.9	4.9
P/S: Price-to-Sales	2.9	2.7
Yield: Dividend Yield	1.3%	1.4%

2025 Year-to-Date by Sector:

S&P/TSX Composite	2.7%
NASDAQ	-2.4%
Dow Jones Industrials	3.0%
S&P 500	1.2%
Russel 2000 (Small Caps)	-8.0%
MSCI ACWI ex-USA	-0.1%
Crude Oil Spot (WTI)	-.8%
Gold Bullion ($US/Troy Ounce)	6.9%
SOX Semiconductor Index	-5.1%
VIX Volatility Index	-7.0%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

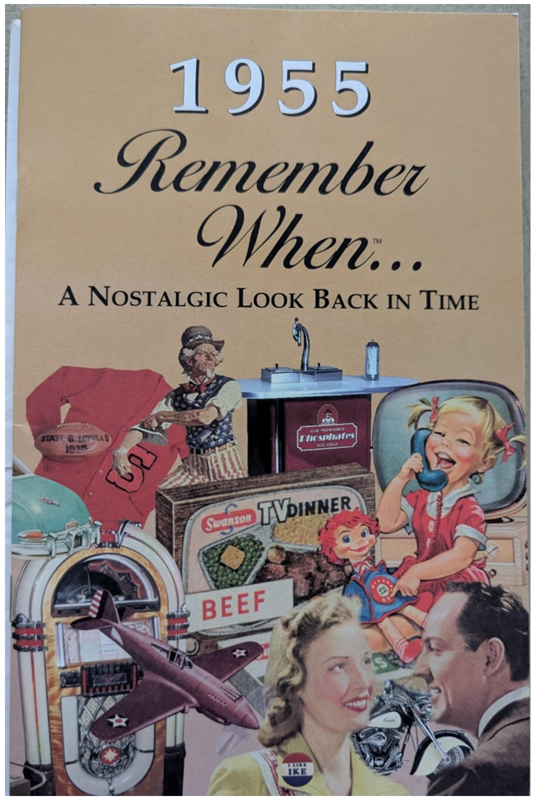
Foreign Exchange - FX

As of March 12, 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	1.4489	$3,451	$(16)	-0.5%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4775	$3,384	$(83)	-2.4%
Raymond James	1.4518	$3,444	$(23)	-0.7%
Royal Bank	1.4714	$3,398	$(69)	-2.0%
Scotia	1.4760	$3,388	$(79)	-2.3%
TD	1.4689	$3,404	$(63)	-1.9%
Canadian Snowbird	1.4517	$3,444	$(23)	-0.7%

Forget the toothpaste Karl, the *New Yorker* died, and a new one is going to be how much!?!?!?!

This past Family Day Weekend, I had the opportunity to read ***1955 Remember When: A nostalgic look back in time***. *Remember When* was published by Seek Publishing though the exact name of an author was strangely nowhere to be found. If you know who wrote *Remember When* or if you were around in 1955 please reach out to me. For the time being let me explain to you why I elected to adorn this month's edition of *The Monthly* with a quote from founder Bundesbank President Karl Otto Pöhl and Pöhl's connection to *Remember When*. It all started with a speaking event I was invited to by one of our newest financial planning partners. "John" who specializes in complex financial planning for doctors, and he had asked me to a room full of them in my hometown of Mississauga, Ontario. Naturally, I was glad to help. During the session, several Doctors asked me for my thoughts on what I felt was the single *biggest* threat facing investors. Despite the ornery state of global affairs and elevated valuations in the stock market what I said was the single biggest threat facing investors today was **inflation**. Of course, my response seemed to resonate far better with the more mature physicians who had already been practicing for many years. On the other hand, the younger Doctors in the room [and there were a few] seemed to be almost caught-off-guard by my response.

"Why do you say inflation"?



Because inflation is like the carbon monoxide of investment capital: silent, but deadly. And even though it lacks the kind of infamy that trade wars, a collapse in oil prices, the implosion of a nefarious hedge fund or a completely random stock market crash…inflation is as bad if not worse. You see while trade wars, deflation, systemic risk or tail risk can certainly be detrimental the value of your investments, with inflation, once the purchasing power of your money is gone…it's pretty much gone for good. I went on to educate the doctors about just how bad inflation can be if allowed to run roughshod over their capital. Rumor has it that since the Ming Dynasty, global inflation has run at a rate of about 3%. Most of you will agree that a 3% anything is hardly a big thing. That is until I frame things little "thing" in a bigger context. Suppose you have $500,000 today that you keep hidden under your mattress. Then suppose that inflation does indeed run at 3% over the next ten years. This day, in 2035, the $500,000 you have under your bed will hopefully still be there, but it will only buy the equivalent of $372,046 worth of "stuff" in today's terms. Yup, that's right, by doing absolutely nothing with your money for a decade, it will lose over 30% of its purchasing power. But enough of the inflation calculators, let's jump into some specific examples pulled right from *Remember When*. Let's start off with vehicles [by the way my uncle, who lived in Mississauga, actually owned a Chrysler New Yorker similar to the one at the beginning of this article]. According to *Remember When*, the cost of a new car in 1955 was $1,910. Fast forward to today, the price of a brand-new version of the vehicle I drive daily is $57,750 and that is *before* taxes and fees. And what would a shiny new car be without a full tank of fuel? Back in 1955, a **gallon** of gas was just $0.23 a bargain compared to today's price of $1.50 per liter ($5.68/gallon). Next up, housing. *Remember When* pegged the cost of a new home in 1955 at $11,000 [can you just imagine!]. My house today has a fair market value of approximately $1.3 million, which is three times what I paid in 2009 and of course many, many times more than $11,000. Next up, a good education. *Remember When* states that the cost of undergraduate tuition at Harvard University in 1955 was just $800 per semester.

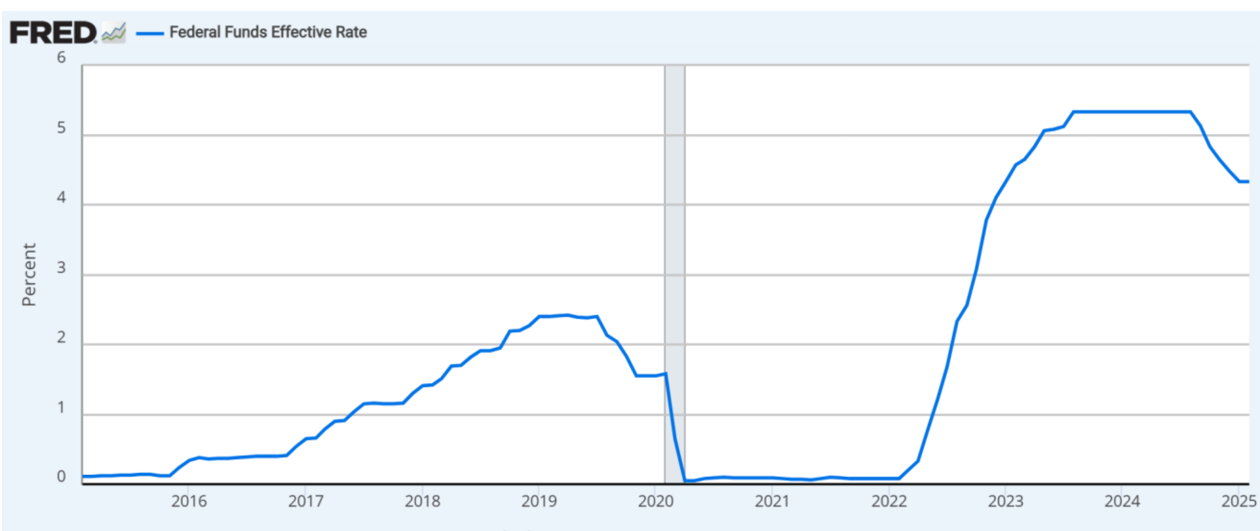
Assuming that a four-year Harvard degree was comprised of eight sequential semesters, you'd be looking at roughly $6,400 US dollars to place the world's *2nd best* diploma on your wall [the University of Toronto's obviously being 1st]. But that U of T degree wasn't cheap: my four years at the University of Toronto cost me $28,000 but by today's standards that's chump change. My nephew currently attends Wilfred Laurier University, and lives on campus. The cost of higher education in today's terms and on those conditions stickers for $16,000 all-in to attend Wilfred Laurier each semester. Let's move on to food. I will select the four basic food groups as I see them and then share with you the pricing that *Remember When* quotes: coffee [$0.80 per pound], bacon [$0.60 per pound], ground beef [$0.58 per pound] and eggs [$0.30 for one dozen eggs]. Harping on coffee, my all-time favorite beverage, the Lavazza brand of coffee I drink at home comes in 250-gram bricks that cost $8 each. If you convert grams into pounds, you will know that slightly less than two 250-gram bricks of Lavazza coffee equate to one pound and today costs [$16]. My own personal coffee mug [age 17] along with my beloved Lavazza are pictured below.

Karl Otto Pöhl was a German economist, President of the Bundesbank and Chairman of its governing council. During the 1970s and 1980s, Pöhl was the driving force behind German efforts to get Europe's rampant inflation under control and to lay the framework for broad monetary cooperation among industrialized countries. Governments like Germany's have several fiscal and monetary tools at their disposal to control inflation. More and more, it is the view of our company that the one policy tool missing is a healthy dose of honesty. Until governments and central banks can come to terms with the true cost of inflation, it will continue to be a ubiquitous and deleterious presence for those with savings to contend with.

Physicians have always had a special place in my heart. The great lengths they go to make our lives their life's work were made even more clear during the pandemic and in the post-pandemic period. In answering the Doctors' questions about financial market threats, I brought things home with some good advice: work hard, save your money but as Karl Otto Pöhl tells us don't squeeze too hard.

The Trump slump…

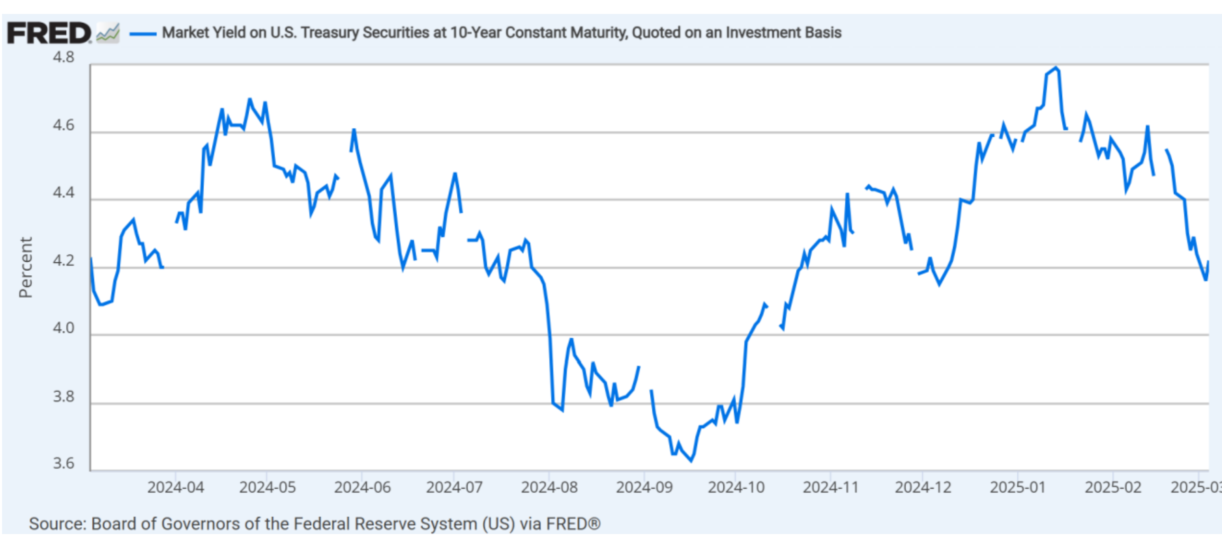
Last year, from roughly mid-July until about mid-September, the S&P500 index was more volatile than usual. The world's main stock market index eclipsed 5,600 points on July 16th but by August 5th it had given back nearly 500 points. By the time investors had a chance to make sense of what happened, the S&P500 had soared back to the 5,600-point mark on August 19th just two weeks later. As August transitioned into September, the battle between the bulls and the bears ragged on, and the S&P500 peaked and troughed along the way. At issue was the growing debate over whether central banks around the world, but mainly in the United States, had won the war on inflation. An important and inextricably linked mystery was whether a victory on the inflation front would be accompanied by an economic hard landing or a soft landing. But despite ever expanding valuations for stocks, the S&P500 continued higher for most of last year. It seems that at some point, investors lost sight of inflation and the economy and instead focused their attention on something thought to be much grander, a possible 2nd Presidency for Donald Trump. Stocks continued their ascent higher because investors came to believe that Trump would reduce costly regulations, lower taxes, ensure illegal immigrants were kicked out and apply tariffs to thousands of foreign goods that were undermining the ferocious true potential of the US economy.



What happened?

Well, what has happened thus far in 2025 is that stocks as measured by the S&P500 are actually *down* not up. Now equity investors are a rugged lot. Declines of 10%, 20% and even 30% are par for the course in the stock market and what has transpired thus far in 2025 is hardly newsworthy. At issue though is that most investors really didn't expect stocks to sell off once President Trump was sworn in.

Trump's now full-blown trade war has sparked fears of slow economic growth and inflation. Softer economic data in recent weeks, such as a lower ISM [Institute of Supply Management] survey, has spooked investors and made the relationship between stocks and the economy more parallel: bad news for the economy is once again bad news for stocks. Most of the primary trends in financial markets during the run-up to the US election last November have either stalled or reversed since Trump took office. The S&P500, the NASDAQ [lower by 5% in 2025] and the Dow Jones Industrial Average [barely flat in 2025] are all signaling a pivot away from the euphoria of a slam dunk with for Trump and the Republicans. And on the other side of the house, US Treasuries signal a more skeptical tone towards the ability of the US economy to continue expanding. Yields on the US 10-year note have fallen most of 2025 and now sit at a precarious 4.23% - a level felt by some to be key from a technical standpoint in that 4.23% should hold. But if the flight-to-quality persists it will not.



Lower yields on long-term government bonds suggest that Trump's policy particularly in regard to tariffs could stoke the very inflation that his central bank only recently suggested was returning to a target judged to be appropriate for price stability and the labor market. There's no question about it: they haven't "won" yet.

["I thought you said we *won* the battle against inflation". "I said no such thing…what I said (at Jackson Hole) was that further cooling in the job market would be unwelcome and that inflation was within reach of my 2% target…but that was *before* you said fentanyl came from Canada". "By the way, the Canadians beat us in the Four Nations hockey tournament."]

That elusive "win" is also impacting the value of the US dollar. Since inauguration, the US dollar index, which measures the US dollar's value relative to a basket of trade weighted currencies (Euro, Yen, Pound, Loonie, Krona, and the Swiss Franc), has fallen over 2%. The culprit is clearly expectations for future interest rates. For the first time in 2025 the CME FedWatch tool now predicts three rate cuts to the Fed Funds rate. Currency futures traders now predict a 50% chance the Fed lowers rates at its May meeting compared to a 75% chance the central bank holds rates steady only the week prior.

Slump, bump or guessing game?

With the trade war a very long way from being over, consumers, businesses and investors are forced to guess what the trade environment may look like down the road. Whereas last month we advised you to stay put, this month we encourage you to evaluate any investments you might have from other managers. Do they have the right mix of risk assets that will help you power through inflation? Do they offer you the opportunity to allocate capital to portfolio insurance? Do they invest extensively in alternative assets such as cold storage facilities for foods and drugs, or information technology companies that help enable the healthcare industry?

Stocks made their views on trade war known the last time President Trump held office. Trade war rhetoric elevated volatility in financial markets and made a diversified approach to asset allocation key. Trump's recent doubling down on trade rhetoric has further blurred projections for the US economy which was already showing signs of decelerating from peak growth. Diversified portfolios involve a diversified investment analysis. Many firms can fall prey to the habit of relying on a single approach towards analyzing financial markets be it fundamental, technical or quantitative. At our firm, we combine all three levels of analysis to build portfolios that look different from the mainstream but work well in unstable environments. Assuming the S&P500 remains above its 200-day moving average, financial markets should remain volatile but eventually stabilize over time. Should the decline worsen, hard assets such as gold bullion and mortgage free land positions in South Texas should increase in value. One thing is clear, markets as oversold as this frequently mark lows and make for good entry points even if making the entry "feels" a bit scary.

Behavioral Investment: a constant companion and a formidable adversary

The escalation of the trade wars has created even more uncertainty at a time when there were already signs that the economy was slowing, leading many investors to just bail out of stocks and run to cash and U.S. Treasuries. Since early December, the S&P 500 has fallen over 5%, risen over 6%, and then fallen almost 7% to leave the index where it was in early November prior to the U.S. election result. Other measures such as the NASDAQ 100 and Russell 2000 have done even worse. In the world of investing, volatility is a reality of life. On the one hand, volatility is a constant companion and on the other hand it is a formidable adversary. Volatility shapes market sentiment and influences investment decision-making. Elevated levels of volatility test even the most seasoned investors. However, according to an Ernst and Young report called the Global Wealth Research report, younger investors are more likely to switch into active investments during volatility, with 50% of respondents increasing allocations compared to 22% of baby boomers. Another finding of the study was that 40% of wealth management clients think that managing their wealth has become more complex over the last two years, and 57% of high-net-worth individuals (HNW) who feel unprepared to meet their financial goals cite market volatility as a primary reason. Indeed, financial market volatility can be a formidable adversary. In a previous edition of this publication, we cited over 20 specific reasons why not to invest. But had you chosen to stop investing for any one of those reasons, particularly in the early 2000s, you'd have foregone a considerable amount of appreciation in your capital.

Volatility is really a measure of uncertainty. Often volatility spikes occur when markets are down. Investors will try to anticipate what the markets will do next without having the benefit of knowing what will happen for certain. Currently, the Trump era trade wars are the main factor causing uncertainty. It is unclear when a more stable environment for global trade will return, and we believe that stocks may be volatile for the foreseeable future. With that said, several comforting points merit mention. First, throughout history, markets have always recovered after a decline. In the aftermath of the Great Depression in the early 1930s, the markets recovered within 25 months. The recession that followed World War II ended in 20 months. More recently, there was the Black Monday market collapse in 1987, with markets recovering in four months. And after the COVID-19 stock market crash, markets recovered after one month. Second, you can always speak to us anytime you believe that volatility's seeming constant presence is causing you to behave adversely towards your investments. Remember, the MacNicol Investment Team is here for you when things run smoothly and during periods of turbulence.

The MacNicol Investment Team

Firm Wide News:

The deadline to file your personal income taxes in Canada is April 30th.