

April 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.

"You can be a straight talker without being an unpleasant person."

— Jane Fraser, Citigroup CEO

The Numbers:

<u>Index:</u>	<u>2025 YTD:</u>	
S&P/TSX:	- 4.05%	
NASDAQ:	- 11.3%	
Dow Jones:	- 4.6%	
S&P500:	- 7.2%	
<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	2.8%	4.3%
5-Year Bond:	2.6%	4.2%
10-Year Bond:	2.9%	4.5%
30-Year Bond:	3.2%	4.9%
<u>Economic Data:</u>		
<ul style="list-style-type: none"> Global equities broadly lower in Q1 '25 Commodities excluding crude oil higher during the quarter CAD/USD up slightly [1.3%] in Q1 '25 US ISM data slouches lower US Initial jobless claims 224k vs est 223k BITCOIN off 12% in the quarter China Q1 GDP falls to 5.1% Canadian Q1 '25 GDP forecast to grow by 1.6% 		

Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	30.3	26
P/B: Price-to-Book	5.2	4.8
P/S: Price-to-Sales	3.1	2.6
Yield: Dividend Yield	1.23%	1.5%

2025 Year-to-Date by Sector:

S&P/TSX Composite	-4.1%
NASDAQ	-11.3%
Dow Jones Industrials	-4.6%
S&P 500	-7.2%
Russel 2000 (Small Caps)	-18%
MSCI ACWI ex-USA	-8.4%
Crude Oil Spot (WTI)	-11%
Gold Bullion (\$US/Troy Ounce)	14.5%
SOX Semiconductor Index	-21.6%
VIX Volatility Index	53.4%
Source: Canaccord Genuity Capital Markets & Thomson Reuters	

Foreign Exchange - FX

As of April 14, 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	1.3987	\$3,575	\$(29)	-0.8%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4222	\$3,516	\$(88)	-2.5%
Raymond James	1.4099	\$3,546	\$(58)	-1.6%
Royal Bank	1.4170	\$3,529	\$(75)	-2.1%
Scotia	1.4264	\$3,505	\$(99)	-2.8%
TD	1.4252	\$3,508	\$(96)	-2.7%
Canadian Snowbird	1.4483	\$3,452	\$(152)	-4.4%

Can't *Bear* to watch?

Okay let's get down to business: how bad was the sell-off in stocks during the first quarter and just after the first quarter, and should you be worried? So, the declines in the Dow, S&P500, NASDAQ and S&P/TSX as well as other markets during April 3rd, 4th, 7th and 8th were definitely noteworthy but hardly **record setting**. Trump era protectionist policies have roiled stocks because they create uncertainty around one of the central inputs into stock prices: corporate capital spending plans. This uncertainty and the attendant uncertainty regarding corporate profit growth are the main reasons why stocks got slammed. But if anything, it is the first quarter's returns that were the story and not how hard equity investors got slammed last week. Either way, consider this: we have been down this road before and this too shall pass. The taper "tantrum" of 2018, the pandemic of 2020 and the inflationary post pandemic period of 2022 each created drawdowns that scared the living hell out of all of us while they were happening but ultimately went on to become a great big nothing burger in the grander scheme of things. To illustrate my point, if I were to ask you to name just three (3) of the ten **worst** single day percentage corrections in stocks [that's only 30%] do you think you could do it?



Let's find out...

Displayed below is a table of the worst single-day corrections in the history of stocks as defined by the S&P500 from Annie Jennemann of Yahoo Finance. Not only do none of the days of the April annihilation not qualify to make it onto this list of money vaporizing days, but they would not even qualify if this list was twice as long. You read that correctly, the 20th worst day in the history of stocks, May 14th, 1940, was **still worse** than April 3rd, 4th, 7th or 8th.

Rank	Day	Closing level	Percent change
1	Oct. 19, 1987: Black Monday (Stock Market Crash of 1987)	225	-20.5%
2	March 16, 2020: 2020 Stock Market Crash	2,386	-12%
3	March 12, 2020: 2020 Stock Market Crash	2,481	-9.5%
4	Oct. 15, 2008: The Great Recession	908	-9%
5	Dec. 1, 2008: The Great Recession	816	-8.9%
6	Sep 29, 2008: The Great Recession	1,106	-8.8%
7	Oct. 26, 1987: Stock Market Crash of 1987	228	-8.3%
8	Oct. 9, 2008: The Great Recession	910	-7.6%
9	March 9, 2020: 2020 Stock Market Crash	2,747	-7.6%
10	10/27/1997	877	-6.9%

So, should you be worried? I genuinely believe the answer is no. So let us move on to that first quarter I referred to on page 2. Since David recently turned 63 and since my daughter Angelica recently turned 14, I thought it would be appropriate to show you the fourteen worst initial quarters for stocks followed by what happened later in the year. The first quarter had exactly sixty-three trading days and in technical analysis, number 14 is frequently used as the default period for calculating the Relative Strength Index (RSI), a momentum indicator that helps define overbought or oversold conditions in stocks. Stocks are very much oversold, but will they remain that way for the rest of the year?

S&P 500: Worst Performance through First 63 Trading Days (1928 - 2025)				
Rank	Year	Price Return: First 63 Trading Days	Price Return: Day 64 to Year-End	Price Return: Full Calendar Year
1	2020	-23.5%	52.0%	16.3%
2	1938	-19.4%	54.6%	24.5%
3	1939	-14.3%	10.7%	-5.2%
4	2001	-13.2%	0.2%	-13.0%
5	1932	-13.1%	-2.0%	-14.8%
6	1935	-10.5%	58.0%	41.4%
7	1977	-8.4%	-3.4%	-11.5%
8	2025	-8.2%	?	?
9	2009	-7.6%	33.6%	23.5%
10	1960	-7.6%	5.0%	-3.0%
11	1933	-7.4%	55.5%	44.1%
12	1982	-7.1%	23.3%	14.5%
13	1978	-7.0%	8.6%	1.1%
14	2008	-6.9%	-34.9%	-39.3%

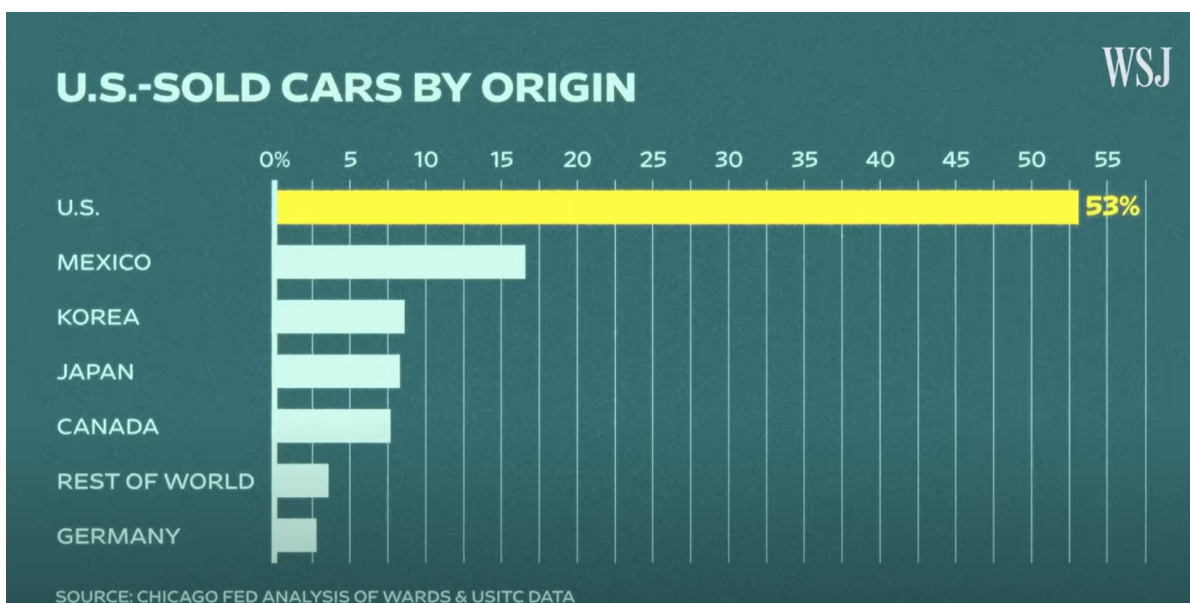
To get a sense of where we could be going, it might be helpful to take your paws from out front of your eyes and get a sense of the two main factors currently influencing markets. First is the room full of sycophants at the White House feeding President Trump's ego and unique blend of patriotism. And second, the truly humongous gyrations seen recently in US treasuries. Most of you know that stocks have their own "fear" index, it's called the VIX volatility index. And yeah, it spiked up a lot in recent sessions, but if you were scared about the recent volatility in stocks, you should be scared sh*tless about the recent volatility in bonds. Michael Coolbaugh, an excellent hedge fund manager we know and have deployed in our own hedge fund the Absolute Return Fund recently made a statement that made me utter a biblical term followed by an expletive. Coolbaugh stated the following, "if US Treasury securities are trading like penny stocks, how can they serve as a reliable reference for other financial assets? **They can't**". And why are erratic movements in long-term government bonds such a concern? Well for starters, the fact that bonds are selling off so rapidly leaves very little protection for traditional balanced portfolios. So, if you have one, or know someone who does. Politely tell them to thank the fellow down at the bank who sold them the said portfolio to take their money and run like hell. Another gargantuan problem with key reference rates behaving like go-go dancers is housing. As most of you know, housing prices in Canada and the United States are just outrageous. How is the average 30-year-old supposed to afford a home in a market where supplies are low, home prices are ridiculously high, mortgage rates are unstable and the portfolio of meme stocks that late-stage millennials got creamed on are now worthless? Simple, they cannot. Not only does the recent backup in long-term rates override any relaxing effect on mortgage rates, but it has drastic implications for those who are even able to buy today.

Some of you may know that my own sister is a top banana in the mortgage insurance industry. Well, when I asked her how things were going, her answer was this: if a bank cannot confidently underwrite a mortgage or corporate credit deal with treasury rates doing the same sort of aerial maneuvers Angelica performs in cheerleading, how am I supposed to know how to price the insurance that protects the lending bank? In only two days, bond investors saw a rise in the 30-year Treasury yield of approximately 50 basis points (0.5%), a spectacular vibration for such a stout security. Credit is the lifeblood of an economy; it's like fuel for your car. When credit expands, the economy expands. When credit contracts, well, you know the rest. Credit expansion or contraction is precisely why the Federal Reserve and Bank of Canada employ interest rates as a **counter-cyclical** tool which is to say they use it to encourage or discourage the growth in credit by means of making it less or more expensive. Michael Coolbaugh also warns that not only are long-term Treasury securities showing signs of strained liquidity but also are widening high yield credit spreads. If the "credit rating" of the US government is being called into question, then the credit rating of individual American consumers and businesses is also unclear. So, to answer the question at the top of this page: **how will the rest of 2025 play out?** I think you have to consider four things. Number 1, for the love of God, be uber diversified. Not big bank diversified where the risk of holding shares of Rogers are "mitigated" with a stake in BCE but actually diversified. Number 2, keep your expectations low, that way you'll not be disappointed. Our new MacNicol Safe Harbour Fund is specifically designed to be that friend in your portfolio that you probably don't truly know that much about but are nevertheless glad to own just in case. Number 3, whether you think Trump blinked with the 90-day moratorium or whether you feel Scott Bessent masterfully applied sycophancy to the art of running a government at some point the brinkmanship and shenanigans stop and the business of running America starts. Lastly, do not rule out some form of quantitative easing by the Federal Reserve and the Bank of Canada. They probably won't call it that, or operation twist, or operation twist-and-shout...but the fact of the matter is this: central bank intervention worked during the dot com bubble, the global financial crisis and during the pandemic. Monetary policy is a powerful tool. With great power comes great responsibility and for the time being, neither Jerome Powell nor Tiff Macklem look particularly flustered just yet.

The world's foremost authority on global trade: a pickup truck...at least it's clean...



Unless you are a diehard gear head, you probably would not know that one of the best-selling passenger vehicles ever made is the Ford F-150 pickup truck. **Assembled** [operative word] in either Dearborn, MI or Claycomo, MO the F-150 is not only a giant vehicle, but a gigantically successful one too. In 2024, Ford sold 2,098 F-150s every single day. The F-150 is also the quintessentially American vehicle...or is it? President Trump's automotive tariffs are now reality, and that means a 25% tariff on all vehicles not **made** [second operative word] in the United States. You see no car, truck or any vehicle is truly 100% made in the USA. You see if you have ever looked at the F-150 closely, you will have found that it is made up of thousands of individual parts. Those parts come from 24 different countries. Countries like Italy, Korea, Mexico, Romania and of course Canada to name just five. Trump wants all these parts to say made in the USA but achieving that will not be simple. It could also be very risky...



The chart at the bottom of page 5 [Source: Chicago Fed, WSJ, Wards] shows that roughly half of all vehicles sold in the United States originate from the United States but that is only loosely correct. Once again, vehicles are complex mechanical machines with thousands of individual parts. All of those parts that come from other countries. To be more clear, in the case of the F-150; the alternator comes from Mexico, the drive shaft assemblies come from Canada, the tires which the F-150 has 5 of come from Korea, and those big fancy wheels that everyone orders these days, those come from Italy. And when it comes to clarity, the Italian wheels are the easy part: those would face a straight 25% tariff along with any reciprocal tariffs in place on Italy as a whole. With the drive shaft assemblies and alternators [Canada and Mexico] that's where the whole concept of Made in the USA gets even looser. Those parts would face the 25% tariffs already mentioned, any reciprocal or general tariff and an additional Canada or Mexico tariff but not if those parts are compliant with the USMCA...or...until such time as there is a process to transmit tariffs to their non-US content. Speaking of transmission, this is where it gets really complicated...



To you, the transmission in your F-150 might just be a lever or a knob with the letters: P, R, D, N and L next to it. Want to move forward? Just shift or twist to "D". But all that freedom is quite complicated. The transmission in your F-150 alone has 800 individual parts and despite being somewhat mechanically inclined, to this day, I have no idea how all those parts come together to move or park your F-150. Gears, shafts, seals, clutch plates and bearings...when disassembled...that transmission might as well be brain surgery to me. And each of those 800 parts could potentially come from anywhere in the world. It is not an exaggeration to say that the mileage all of those parts log before they come together to help you log miles is staggering. Even the manufacturing process of just the transmission itself is a complex exercise in logistics that is best explained by first looking at shares of TSX company Linamar Corporation (LNR.TO) over the past year or so...and then turning to page 7...



Linamar “makes” transmissions for vehicles like the F-150 and believe it or not, it takes 7 border crossings in Detroit/Windsor to completely build the transmission that goes into the F-150. The 3 crossings that the transmission would take *into* the United States face Trump’s 25% tariffs. And even if Linamar’s transmission assembly operations were to move to the United States, 100% of the steel for all those transmissions would [most likely] come from Canada. So, what does this mean for domestic automotive consumers, and investors? Well Cox automotive estimates that on the average US passenger vehicle, these days the F-150 or alternatively an innocuous albeit generic mid-sized SUV, Trump’s automotive tariffs will add \$3,000 to the price of the vehicle purely due to the Canada/Mexico tariffs. Then, a further \$3,000 would be added to account for foreign parts. Then, an additional \$400 in tariffs on Canadian steel and aluminum would have to be factored in **on top of** as yet undetermined reciprocal tariffs.

Auto buyers are price sensitive. No one wants to pay any more for a vehicle than they have to. And so, the demand destruction created by Trump’s plan to move more auto production into the United States could potentially lead to certain models of vehicles being discontinued. You don’t need workers to assemble vehicles you have taken out of production. But something even more menacing is the idea that the North American integrated auto industry is indeed fully integrated because under USMAC and NAFTA before it, Canada, Mexico and the United States were all just one big hunk of land across which engines, transmissions, wheels and doors eventually found their way to your driveway. Even shifting parts suppliers for an electrical component from overseas to America can take a year because the safety and quality control systems used by Bosch might not meet Ford’s requirements in the US.

In any case, if Trump’s plans become a reality long term, the challenges for companies like Linamar [and Magna as another] could only just be getting started. When you transition parts manufacturing to a new location you do so because of cost savings that come in the form of automation. Those cost savings seem now compulsory due to the added costs of tariffs in the production process. Trump’s plans to “restore” the US auto industry might paradoxically punish it with steep job losses, increased hard dollar costs and lost productivity spent wondering what to do about tariffs rather than wondering how to innovate and create the next great vehicle.

The Ford F-150 is a giant vehicle with gigantic sales and a gigantic responsibility to the people who build them and the people who drive them. And for a while, it really was the quintessential America vehicle: strong, proud, hardworking and light years ahead of its competition. But in today’s incredibly competitive auto market, you don’t succeed by being big, you succeed by being fast. Chinese auto makers now export more vehicles than anyone else. President Trump should quit listening to so called experts on global trade when it comes to his nation’s policies toward automotive imports. Instead, Trump should buy himself a F-150 pickup truck. It’s no Mercedes, but it can teach you more than just how to tow a trailer.

Behavioral investing: schadenfreude, executive style...



In psychology, schadenfreude is the term used to describe the pleasure derived from the misfortune of others. Schadenfreude is a complex emotion rooted in social dynamics, envy, and a desire for equality. It's often linked to feelings of inadequacy, rivalry, and a need to feel superior. While it can feel satisfying in the moment, excessive schadenfreude can erode empathy and harm relationships and even impact the way you invest.

Citigroup's top banana, Jane Fraser, decided that it would be a good idea to **cut** decades old trading desks in areas like equity capital markets, fixed income and commodities trading. Those cuts plus many, many more led to roughly 5,000 hardworking men and woman being given pink slips by Fraser or her deputies. Fraser's I-can-still-fire-you-in-a-wholesome-and-positive-way brand of leadership along with her cut-our-way-to-prosperity approach to accounting failed to consider that with the orange American President shredding decades old trade relationships, other countries might not be keen on doing business with the United States, thus negating the effectiveness of the hoard of new Managing Directors Fraser graduates from her company's investment banking division. There probably won't be much M&A going on at Citi because there won't be much M&A going on period. We believe Citigroup stock is doomed, and Fraser will eventually be shown the door.

If you have ever felt bad about an investment decision you have made, don't worry, Citigroup's Jane Fraser will soon be shown to have made a horrendous one. And if you derive pleasure in Fraser's forthcoming failures, I think that on a certain level that's healthy. Just remember that Fraser makes \$34 million a year and you don't. So, after whatever therapy you need to get you out of that I-lost-my-shirt-on-that-one funk that you are in following a bad trade. Use your cleansed mind to get more educated about investing wisely. You can check out our commentaries and Podcasts or even come in and see us. We're told we can sometimes have complex social dynamics too, but so far it hasn't impacted the way we invest.



The MacNicol Investment Team

Firm Wide News:

The deadline to file your personal income tax returns is April 30th, 2025.

If you are self-employed or have a self-employed spouse or common law partner, your tax filing deadline is June 16th, 2025.