

May 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.

"You had an opinion, sir."

— Brian Mulroney, Former Prime Minister of Canada

The Numbers:

<u>Index:</u>	<u>2025 YTD:</u>	
S&P/TSX:	1.75 %	
NASDAQ:	- 8.14%	
Dow Jones:	- 3.36%	
S&P500:	- 4.26%	
<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	2.6%	4.3%
5-Year Bond:	2.8%	4.0%
10-Year Bond:	3.1%	4.4%
30-Year Bond:	3.5%	4.8%
<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	27	26
P/B: Price-to-Book	4.8	4.8
P/S: Price-to-Sales	2.9	2.8
Yield: Dividend Yield	1.23%	1.5%

2025 Year-to-Date by Sector:

S&P/TSX Composite	1.75%
NASDAQ	-8.14%
Dow Jones Industrials	-3.36%
S&P500	-4.26%
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

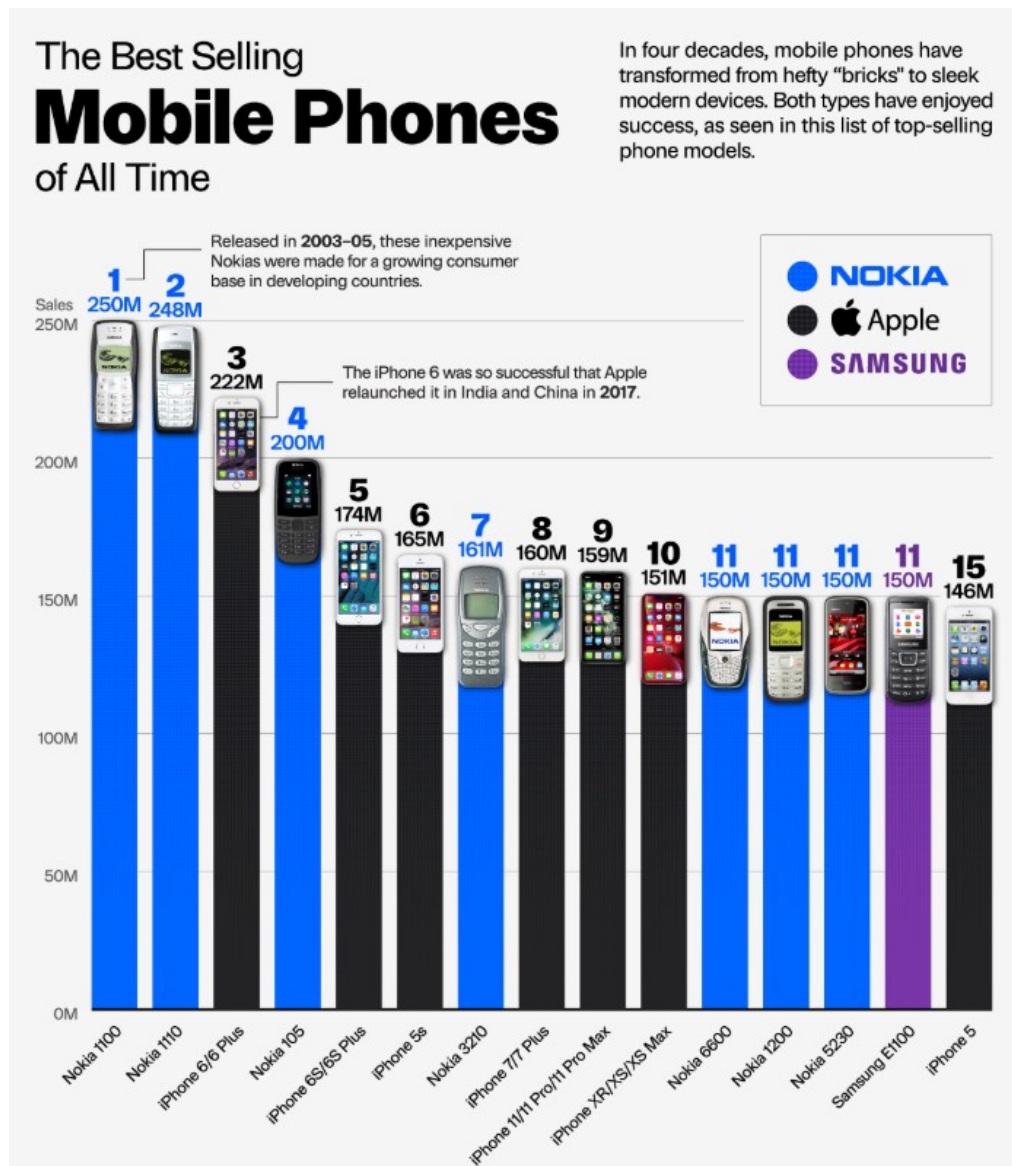
As of May 12, 2025 4:00 PM EST	\$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.4056	\$3,557	\$(21)	-0.6%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4343	\$3,486	\$(92)	-2.6%
Raymond James	1.4099	\$3,546	\$(31)	-0.9%
Royal Bank	1.4263	\$3,506	\$(72)	-2.1%
Scotia	1.4357	\$3,483	\$(95)	-2.7%
TD	1.4349	\$3,485	\$(93)	-2.7%
Canadian Snowbird	1.3912	\$3,594	\$16	0.5%

Bad Apple?



Apple CEO Tim Cook is the sort of poker-faced executive you'd expect to be at the helm of one of the world's biggest consumer technology companies. Serious, steadfast and sturdy, one cannot imagine Cook being impressed with something like let's say a whoopee cushion. But Cooke's disappointment with the current state of Trump Tariffs was visible last Thursday as he updated investors on what they could expect from the iPhone maker in the coming year. Tariffs were by far the number one topic of interest to investors, and analysts' figure that assuming current tariffs remain in place [we term this the "no change" position] Apple's June hit to profit margins could equate to 100 basis points or 5 cents per share of earnings. While the situation with tariffs remains a "fluid" situation, Cooke told investors that he expects them to add \$900 million to Apple's costs this quarter. \$900 million is a big, big number, even for the likes of Apple and that is why Cook announced that he was shifting production of the company's mission critical device, the iPhone from China to India. Long-time Apple shareholders were not particularly surprised by the announcement; iPhone production has gradually shifted to India over the past number of years, and the increase will mean that even more iPhone's have India as their country of origin. Apple shares are down 18% in the YTD '25 period, but long-term shareholders have nonetheless still made a pile of money with shares higher by over 180% for the 5-years since May of 2020.

Still, the news that Apple is further diversifying its global supply chain beyond China punctuates not only the impact of sky-high Trump era tariffs of 145% on China, but the reality that – barring a miracle – these tariffs are highly unlikely to come off any time soon. Giant companies like Apple or Ford cannot just click a button to rejig their supply chains. Last month we shared with you the fact that the “Made in the USA” Ford F-150 pick up truck has parts made in 24 different countries, including the transmission with is comprised of 800 components alone and crisscrosses the Canada/USA border six times prior to being bolted to the bottom of your F-150. With Apple though, 90% of iPhone production (its most profitable product by a mile) **continues** to reside in China. Of course, vehicles are complex machines with thousands of individual parts, but today’s generation of smart phones are incredibly complicated too. Trump’s administration exempts smartphones, as well as other, electronics containing semiconductors from reciprocal tariffs and this has spared iPhones from the steepest penalties, but products made in China still face a *minimum* 20% tax which is material. Apple shares gave back about 4% after Cooke’s update and closed last Friday’s trading session at USD \$205. Apple investors haven’t had the best experience in 2025, but this is still a \$3 trillion market cap company that produces arguably the single greatest tech device.



To be exact, Nokia's 1100 series of "smart phones" officially hold the title as best-selling smartphone of all times, but that's because production of those phones date back to 2003. In those days, everyone had a Nokia, but then they really were "just" phones. Comparing the Nokia 1100 to any modern Apple iPhone is a lot like comparing an abattoir to Pusateri's meat and deli counter. But in technology, comparisons separated by many years aren't fair comparisons. Besides, these days, Apple has their sights set on more than just getting you to buy their latest must have smartphone. Eddy Cue, Apple's Senior VP of services, recently disclosed that the company is exploring adding AI search engines such as Perplexity to its default Safari web browser.



Eddy Cue is nowhere near as famous as Tim Cooke, and nowhere close to being as famous as company founder Steve Jobs. Throughout his career at Apple, Cue was more the under-the-radar dealmaker, and really one of Jobs' key lieutenants of the business. As iPhone sales have slowed, Cue wisely rallied-the-troops [Apple has 164,000 of them] to concentrate on media: particularly music and sports. Even the mere mention by Cue that Apple is thinking about entering the search engine business was enough to badly bruise Google's share price on the date Bloomberg announced Cue's message. Cue's comments are timely because, if you will recall, late last year, a federal judge ruled that Google maintained an illegal monopoly through its search business, which grew to the point where people no longer conduct "internet searches" they instead conduct **Google searches**. But during Google's trial, it was revealed that Google pays Apple \$20 billion a year to use its search engine as the default search option in Safari. Perhaps the higher ups at Apple now believe that money is better spent elsewhere. Money is important, but so are the dragnets that capture it. Apple saw a drop in searches in Safari for the first time last month, attributing the move to customers increasingly opting for AI-based search options. Apple already offers ChatGPT as a search option as part of its Apple Intelligence platform. Safari as some of you might already know is the default web browser for macOS, iOS, iPadOS, and vision OS. I have a Mac in my home, but I hardly use it. I don't have anything against Mac's or the whole macOS way of doing things, rather I grew up on the Windows operating systems and, as they say, it's tough to change a bad habit. In any case, I cannot tell you that last time I used Safari for anything. While Cue said Apple won't replace Google as its default option out of fear of losing the revenue its deal generates, he said he believes AI search apps will eventually replace standard search engines.

Apple relies on Google's deal for revenue as part of its services business. The relationship is much like that of a supercharger on a high-performance engine: the supercharger requires the engine's own mechanical power to operate but produces a multiple of that back in terms of net new power. Apple's services revenue clocked in at just over \$96 billion last year, and that makes the \$20 billion it pays to Google important when it comes to helping accelerate Apple ahead of its peers...



So, what about Apple stock?

As per Finviz.com's excellent visual depiction of market capitalization above, on any given day, Apple is [easily] one of the world's biggest stocks, and you can see it from ten feet away. But hey, we do not hold any. Apple stock is expensive, period. With that said, it is hard to look at Apple's financials and not be awestruck. During the second quarter – and just the 2nd quarter alone - Apple's sales were up 5% to not far short of \$100 billion. As much as I love writing to you each month, if I could do something that produced that sort of revenue, I would never do anything else. Apple's financial performance was certainly gargantuan on an absolute basis, but the company's performance also topped analyst estimates of \$94.26 billion. Not surprisingly Apple saw strong performances across Apple Music, Apple TV+, and iCloud, among other subscription-based services so again that \$20 billion payable to Google might not be such a bad expense. Remember, anyway you slice it, this is still one of the world's top technology brands and the company's second quarter earnings-per-share figure of \$1.65 were higher by 8% compared to the previous quarter, and 2% higher than analyst estimates. Apple has exceeded its top and bottom-line expectations for nine consecutive quarters, but as we saw at the beginning, Trump era tariffs could potentially create a \$900 million problem for the world's most famous fruit/stock. On top of that, fiscal year 2025 and 2026 earnings projections have come down for the company, and the simple fact of the matter is that the average consumer might be suffering from a bit of an Apple "hangover". Few companies in the world can claim to produce the sort of iconic, must-have products and services that Apple does. But this iconic valuation, higher costs, and potentially contracting earnings mean that to us Apple shares are a must-NOT-have in our discretionary accounts and our pooled funds.

The MacNicol Investment Team

Mark his words...



Mark Carney's resume is impressive no matter which side of the political house you are on. Even before Carney became Canada's Prime Minister, he had already held governing positions with the Bank of England, the Bank of Canada and the Ministry of Finance. Carney also has connections high up from his time at Goldman Sachs and Brookfield Asset Management. And in case you thought Carney got to where he is today by nepotism or pulling strings with buddies in his wedding party, he didn't. Carney completed a bachelor's degree in economics from Harvard, and master's and Ph.D., degrees in economics from Oxford. So, it is certainly not a misnomer to say that Carney was eminently qualified for the offices he has held in the past. But now that April 28th has come and gone, what I want to know is what will Carney's leadership mean for your portfolio?

As an investment firm, we are often warned not to make contentious political statements. However, as an investment firm, we are often asked to help investors solve contentious *investment* votes, and that is indeed our goal here. You see whereas previous attempts to ascertain the impact of Prime Minister Carney's leadership have been preoccupied with **how** Carney may respond to or retaliate against President Trump's trade war with Canada, we believe that a better idea would be to look at market-based indicators of the liberals' victory [i.e. stock prices] and go from there. It's a little-known part of our investment process here at the company called "*Start with the facts and make inferences from there, but never the reverse...*"

By far the three largest sectors impacted by Trump era tariffs are: a) Canada's automotive sector b) Canada's resources sector in general and c) Canada's energy sector. To put it in context, energy, materials and the auto sector (a carve out of the broader industrial sector) represent one **third** of the entire S&P/TSX Composite Index. About thirty cents of each dollar of market capitalization sloshing around Canadian stock exchanges is directly (and critically) related to trade. So, let's aim to tackle these three sectors in reverse chronological order to determine the opportunity set.



[That is a huge “LNG” (Liquified Natural Gas) ship making its way through the Douglas Chanel on its way to the Kitimat River in Kitimat, British Columbia. Canada has four LNG liquefaction plants, and the one in Kitimat is the biggest export terminal in the country.]

Shares in Canada’s largest energy producers are in our minds the trickiest riddle to get right here. For starters, shares in Suncor [SU.TO], Canadian Natural Resources [CNQ.TO], Cenovus [CVE.TO], Tourmaline [TOU.TO] and Arc Resources [ARX.TO] have been mostly flat for the better part of 3 years now. The pandemic era collapse in oil prices saw energy producers become lean and mean, and that meant strong returns from late 2020 until May of 2022. More recently the space has struggled but a lot of that blame can be drilled down to oil prices themselves which have been weak, and the spread between West Texas Intermediate oil and Western Canada Select, the standard Canadians use. Stripping out the impact of oil prices themselves and distilling the situation down to the impact that just Prime Minister Carney and his policies would have would involve further analysis. The Liberal plan would appear to concentrate mainly on growing clean energy via stronger supply chains, building new projects and grids to make clean energy more accessible across Canada, and by reducing reliance on the United States as an export partner. We certainly recommend that all investors take a long-term perspective but the challenge here is that it will take years, if not decades, to develop these kinds of projects, and as wholesome as clean energy sounds, it represents only a small percentage of total energy produced in Canada. We see these programs as inconclusive for investors. Carney has also promised to upgrade and grow Canada’s energy infrastructure, and he has outlined a more efficient process for energy projects to gain permits if they serve national interests. Carney has tossed the hated carbon tax, but it is still being paid for by big polluters. Finally, Carney’s mandate would keep the cap on greenhouse gas emissions from the oil and gas sector because his energy policies retain lots of the Trudeau-era policies intended to reduce the development and export of oil and LNG, even though oil and gas are by far Canada’s largest exports. Your best bets here are to be big and brawny [i.e. avoid small cap oil and gas plays], well balanced [i.e. not “married” to producers or service providers like the pipelines but kind of “dating” both at the same time] and to-the-extent-possible domestic [i.e. with as much pipeline and refining throughput on Canadian soil as you can find]. To be more specific, while Carney’s policies seem like they would favour names like Algonquin Power [AQN.TO], Northland Power [NPI.TO] and Brookfield Renewables [BEP.TO] there are a range of outcomes here with Algonquin up nearly 20% on a YTD ’25 basis following miserable performance in previous years, and Peyto Explorations [PEY.TO] outperforming Northland Power. Also in the mix is pipeline powerhouse Enbridge [ENB.TO] whose CEO Greg Ebel commented positively about Carney’s remarks on infrastructure.

Material event: one project, one review...

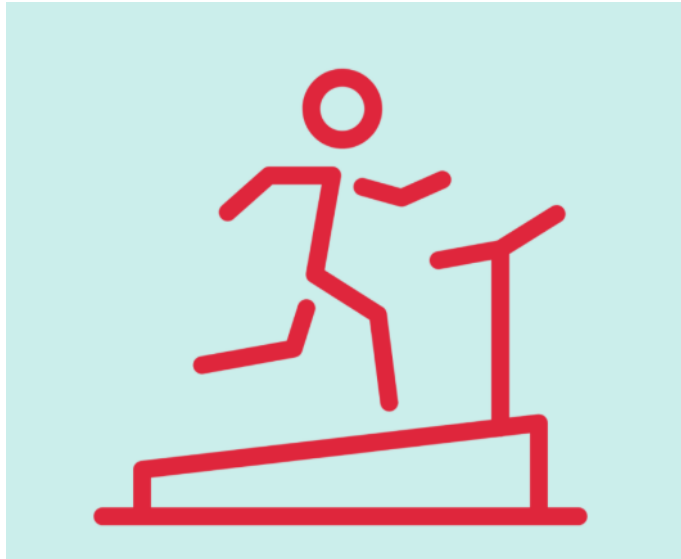
The materials space has performed strongly in Canada this year, and that performance is likely to continue under Carney's leadership. Carney intends to create a major project office in Ottawa that will streamline the application and permitting process for new development. By reducing overlap between federal and provincial government review processes, Carney hopes to speed up the approval of mining projects in Canada and this should be supportive for capital raising in the sector. Looking at share prices of companies like Agnico Eagle Mines [AEM.TO], Barrick Gold [ABX.TO], Franco Nevada Corp [FNV.TO], Nutrien [NTR.TO], Wesdome [WDO.TO] and Wheaton Precious Metals [WPM.TO] investors are likely to conclude that reductions in bureaucratic delays will benefit companies involved in critical mineral extraction, including antimony, cobalt, copper, gold, lithium, nickel, zinc and tungsten. One caveat is that Carney has not provided clarity on how his policies will expedite development and experiences in Western Canada provincial experiences, such as B.C.'s attempts to expedite development under similar consent commitments, suggest that balancing these priorities is fraught with legal and political difficulty. Nonetheless, we view this sector as critical to portfolios given not only the economic significance of mining but also the strategic significance of the western world distancing itself from reliance on eastern supplies, and this of course bodes well for Canadian equity investors given the sheer choice of miners trading on domestic exchanges. For the time being though, Asian investors continue to dominate in the area of precious metals demand, with investors in India and China showing absolutely no reduction in their appetite for gold bullion, silver and platinum.

While Canada's largest export to the United States – by a mile – remains energy products, it may become progressively harder to soak up the miles in your shiny new car given the broken-down relationship between Canada and the USA on the auto front. We do not currently hold shares in Magna International [MG.TO] which has struggled for years or Linamar Corporation [LNR.TO], which has outperformed the broader S&P/TSX Composite index on a year-to-date basis. If anything, we would prefer to play the auto sector through automation companies and technology companies on the private equity side. For Carney's part, he has proposed a \$2 billion auto industry fund which he terms a "strategic response fund". The basic premise of the fund is to increase the auto sector's competitiveness, shore up manufacturing jobs and build a more robust supply chain. We are very much on the fence with respect to the auto sector, and the likelihood of Carney [or anyone else in Ottawa] doing anything major about its challenges. Unfortunately, the auto sector is uber complicated. Last month, we told you that the transmission in a Ford F-150 pickup truck [by itself] is comprised of 800 parts. And, if you speak with anyone at Ford or even Stellantis, both of whom have major operations in Windsor, Ontario, they will tell you that Canada's auto sector is deeply intertwined with America's auto sector so the perception of a "Canadian made" car or truck is really just that: a vision that's far from a reality. To be clear, a strategic response fund for the Canadian auto sector is better than nothing, we just do not see how the sector suddenly becomes attractive to investors. We are big time gear heads, but at the end of the day, we worry that jumping into the auto sector as an investor might make you want to feel like jumping off the Ambassador bridge, which sees thousands of auto parts crossing it daily.

Mark Carney is an intelligent man regardless of whether you voted for or against the Liberals this year. But there are limits to what anyone or political party can do for an economy in a still very globalized world. Protectionist policies in the United States or Asia or anywhere for that matter do impact Canada dramatically. Fortunately, our country's capital markets are replete with opportunities that we will continue to uncover for you and your family.

The MacNicol Investment Team

Behavioral investing: the hedonic [investment] treadmill...



In psychology, the feeling of always wanting “more” is often termed the hedonic treadmill. The hedonic treadmill also outlines our tendency as humans to return to a relatively stable level of happiness, despite experiencing major positive or negative life events. This means that while initial positive events might boost happiness temporarily, people tend to adapt back to their baseline level over time. Conversely, negative events, while initially causing a dip in happiness, also lead to a return to the baseline level. But the implications of the hedonic treadmill concept, on investors, are an important thing to talk about. The hedonic treadmill confirms what too few people already know, which is essentially that money cannot buy you happiness. And if it does, only for a short period of time. In investing, this suggests that while a rise in financial assets might provide temporary joy, the initial excitement may fade as individuals adjust to their increased wealth and set higher goals. Another perspective on the hedonic investment treadmill is the reality of coming off a positive year of investing, like 2024, and transitioning to the more sobering reality of a year like 2022 or in this case 2025. Remember, the actual job of a Portfolio Manager is to always try hard to give their investor the best risk-adjusted return outcomes so that the investor can stay on track for the long-term and ultimately realize the “end goal” of investing, which is to always be able to afford your lifestyle after factoring in inflation. Importantly, the other role of a Portfolio Manager is to counsel investors on whether their own personal rates of return are reasonable given the investor’s investment requirements and ability to handle risk. Speaking with a member of the MacNicol Investment Team on a regular basis will help us help you with not only the technical aspects of investment like rates of return and valuations, but also the psychological aspects of investing like whether feeling down about wanting “more” in any given calendar year is healthy or destructive.

Finally, always remember at MacNicol & Associates Asset Management there are no “stupid questions”, no obligation and no judgement. Our safe harbour approach to investing is here to help make investment for your future easier so you can finally get off that treadmill.

The MacNicol Investment Team



Firm Wide News:

We have settled nicely into our new office at 3080 Yonge Street, at the corner of Yonge and Lawrence. If you would like to drop by to see us, please let us know and we can show you our new space.

The MacNicol Team would like to remind everyone that if you are having issues accessing your account on the Raymond James client portal, please use this link - <https://rjcs.raymondjames.ca/> As a gentle reminder, any password resets expire after 24 hours. You will not find the portal or your account access on the public Raymond James Canada website.

Finally, please remember that it is important to have your Wills and Power of Attorneys up to date. We are here to help if you need anything.