

July 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.

"As long as the music is playing, you've got to get up and dance."

— Chuck Prince, ex Citigroup CEO

The Numbers:

<u>Index:</u>	<u>2025 YTD:</u>	
S&P/TSX:	8.61%	
NASDAQ:	4.62%	
Dow Jones:	4.59%	
S&P500:	5.38%	
<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	2.7%	4.4%
5-Year Bond:	2.9%	4.0%
10-Year Bond:	3.4%	4.4%
30-Year Bond:	3.7%	4.9%
<u>Economic Data:</u>		
<ul style="list-style-type: none"> Global equities higher at the midway point of 2025 Oil and natural gas lower year-to-date Gold and various metals and materials much higher during the first half of 2025 CADUSD higher by 5.3% YTD '25 BITCOIN up 12% YTD '25 Bank of Canada holds rates at June policy meeting Trump's BBB passes 		

Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	30	27
P/B: Price-to-Book	5.3	4.9
P/S: Price-to-Sales	3.2	2.7
Yield: Dividend Yield	1.2%	1.4%

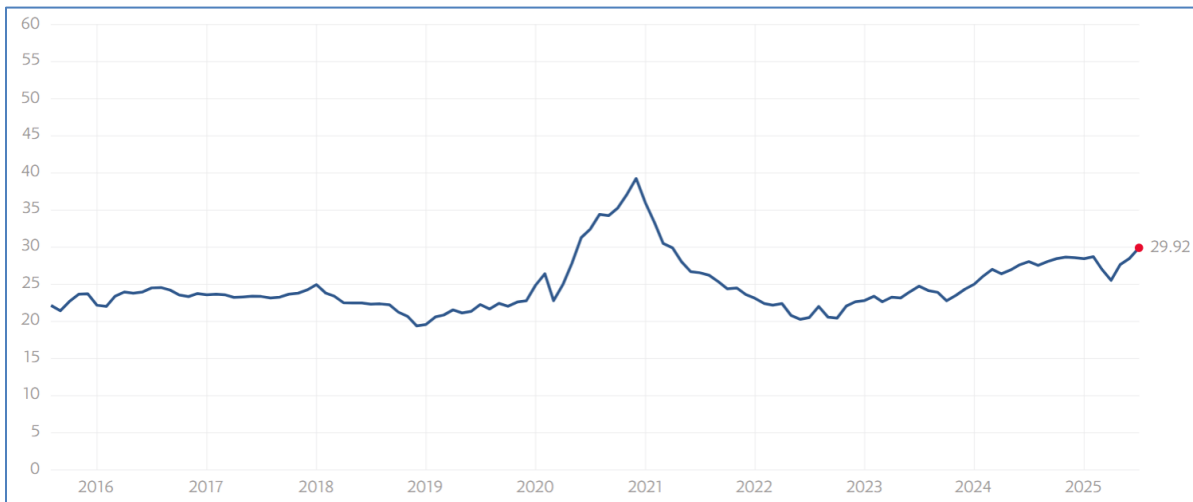
2025 Year-to-Date by Sector:

S&P/TSX Composite	8.61%
NASDAQ	4.62%
Dow Jones Industrials	4.59%
S&P 500	5.38%
Russell 2000 (Small Caps)	-2.4%
MSCI ACWI ex-USA	9.5%
Crude Oil Spot (WTI)	-2.9%
Gold Bullion (\$US/Troy Ounce)	23.5%
SOX Semiconductor Index	11.4%
VIX Volatility Index	-3.6%
Source: Canaccord Genuity Capital Markets & Thomson Reuters	

Foreign Exchange - FX

As of July 9, 2025 9:00 AM EST	\$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3812	\$3,620	\$(34)	-0.9%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4016	\$3,567	\$(87)	-2.4%
Raymond James	1.3899	\$3,597	\$(57)	-1.6%
Royal Bank	1.3974	\$3,578	\$(76)	-2.1%
Scotia	1.4017	\$3,567	\$(87)	-2.4%
TD	1.4063	\$3,555	\$(99)	-2.8%
Canadian Snowbird	1.3754	\$3,635	\$(19)	-0.5%

Valuations: not that important, until they suddenly are...



The S&P500 price-to-earnings ratio [P/E ratio] signals to us that investors should place more value on valuations. It also signals to us that investors should consider what their downside protection is. These are not typically questions that investors ponder during a healthy stock market however we believe that asking these questions today might help investors tomorrow. The P/E ratio of the S&P500 has been even higher before. For example, during COVID, the ratio was notably higher than it is today, but that was entirely due to a collapse in earnings from pandemic era closures. The simple fact is most businesses cannot make money if they are closed, and another simple fact is when the denominator in a ratio tanks, the ratio increases sharply. So COVID was more a case of the “denominator effect” rather than irrational exuberance on the part of investors. As 2025 reaches its midway point however, we feel a little trip down memory lane is a worthwhile exercise for investors to have even if it does amount to spoiling some of the fun. The last time investors bid up shares in technology companies to excessive levels [the Dot.com bubble] the ensuing collapse in stocks was prolonged and painful. Stocks back then spent nearly the entire fourth quarter of 2000, all of 2001 and the first three quarters of 2002 in decline. After clipping an all-time high of 1,527 points, the S&P500 lost *half* of its value by October 2002.

Now, they say that in the business of making predictions it is best to opine on the dimension of time [the when] or the dimension of price [the how badly stocks could tank?] but not both. This advice came to us from the renowned value investor Charles Brandes. We believe stocks, tech ones especially, are pricey and that investors should continue to enjoy the ride for however long it continues, but we will admit to having no inkling on exactly when the next correction is set to hit. We do however have some historical experience that stems from our time in the industry though. At the start of every bull market when momentum and systematic strategies are most rewarded, the average investor will fear being the first one to make an investment. This fear will lead them to emphasize investments in things like long-term government bonds and lower beta equity names in sleepy pockets of the marketplace like utilities and telecommunications. Later, in the bull market however, when government paper can be your friend and when those punitive payments known as dividends from lower beta stocks suddenly become more attractive, the average investor will extrapolate the past into the risk-taking and momentum investing strategies of the future.

Profits are just okay, but hardly on fire...

We are certainly not at the beginning of a bull market. In fact, the profits cycle is beginning to decelerate. And that is why dividend paying stocks could represent better value than high-flying stocks.

"You can have your pie in the sky or your pie on the table. You choose."

Tom Dorsey co-founded Dorsey, Wright & Associates in 1987 and joined Nasdaq Global Information Services with Nasdaq's acquisition of his company in 2015.

Shares in utilities companies are no brainers when it comes to issuing dividends. But so too are financials, industrials and telecommunications names. Dividend paying stocks might seem like a yester-year investment strategy, but they hold up very well to tech stocks, particularly when the power of compounding kicks in. We are not going to suggest for a moment that you should *only* invest in dividend paying stocks. The strategy comes with pitfalls of its own as any long-term BCE shareholder will know. We instead use dividend paying stocks as but one alternative you may wish to think about as an alternative to bloated shares in many technology companies whose companies now must "shoot the lights out" every quarter. Being initiative-taking about your portfolio is key, but so is downside protection. Many prospective investors we speak with do not have any downside protection or believe that their existing portfolio is insured against sharp sell offs due to a diversity of holdings. Sadly, in big-time sell offs, the only thing that rises when the market falls is correlation. In 2022, even the best "balanced" portfolio had an exceedingly difficult time insuring investors did not sustain a loss.

All traditional balanced portfolios failed to deliver in 2015, 2018 and 2022

Balanced Portfolios Total Returns (%)

Category	Ticker	Stocks/ Bonds	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2009-2022	
																	Cumulative	Annualized
Aggressive Allocation	AOA	80/20	25.8	16.8	-1.7	15.0	22.4	6.7	-1.1	7.8	20.1	-7.8	22.5	12.9	15.4	-16.2	242.6	9.2
Growth Allocation	AOR	60/40	19.0	11.1	1.1	11.4	15.7	7.0	-1.1	6.7	15.8	-5.8	19.0	11.6	11.1	-15.3	165.1	7.2
Moderate Allocation	AOM	40/60	13.2	7.9	2.3	8.4	10.2	5.3	-1.3	5.7	11.6	-3.9	15.5	10.1	6.9	-14.5	104.6	5.2
Conservative Allocation	AOK	30/70	8.0	7.4	4.4	6.4	6.6	4.0	-1.0	5.0	9.7	-2.9	13.8	9.4	4.8	-14.0	77.3	4.2

Source: @CharlieBilello, 2008 – 2022

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Safe Harbour Safe Future
Since 2001



Correlations amongst uncorrelated asset classes suddenly popped up across a wide range of asset classes [red boxes]. Diversity is good and we like it too, but it's a very antiquated approach towards market volatility, and it does not always offer the assurance of insurance.

2022										
January 2022 - December 2022										
	1	2	3	4	5	6	7	8	9	10
1) S&P 500	1.00	0.94	0.97	0.98	0.88	0.56	0.67	0.89	0.91	0.29
2) Russell 2000	0.94	1.00	0.92	0.94	0.78	0.41	0.58	0.87	0.82	0.23
3) Russell 3000 Value	0.97	0.92	1.00	0.90	0.90	0.58	0.63	0.89	0.86	0.42
4) Russell 3000 Growth	0.98	0.94	0.90	1.00	0.82	0.49	0.66	0.87	0.90	0.15
5) MSCI EAFE Index	0.88	0.78	0.90	0.82	1.00	0.80	0.82	0.87	0.83	0.24
6) MSCI EM (Emerging Markets)	0.56	0.41	0.58	0.49	0.80	1.00	0.79	0.54	0.58	0.09
7) Bloomberg U.S. Aggregate	0.67	0.58	0.63	0.66	0.82	0.79	1.00	0.73	0.61	-0.06
8) Bloomberg U.S. Corp High Yield	0.89	0.87	0.89	0.87	0.87	0.54	0.73	1.00	0.78	0.24
9) FTSE Nareit All REITs	0.91	0.82	0.86	0.90	0.83	0.58	0.61	0.78	1.00	0.31
10) S&P GSCI	0.29	0.23	0.42	0.15	0.24	0.09	-0.06	0.24	0.31	1.00

Portfolio insurance, like the kind found in the new MacNicol Safe Harbour Fund (SHF), is designed to protect your portfolio against the sorts of volatile unwinds that cause a spike in correlations [red boxes] because the fund isn't investing in more of what you already have. What's more, the fund does not guard against the slow grind of inflation over time effectively staying in its own risk mitigation lane.

Let the chips fall where they may...

It is no secret that at the midway point of the year, chip stocks have made quick work of the broader S&P500 index. The “SOX” semiconductor index for example is up about 6% thus far in 2025 and that is twice the gain investors in the SPX have seen. Certainly, ones to never throw caution into the wind, we acknowledge that several big chip stocks look poised for more gains on continued artificial-intelligence demand. We do not doubt that artificial intelligence has legs. What we do doubt is whether those legs might fail at some point amidst their sprint to the finish line. Companies like Nvidia can and do make the “Rolls Royce” of graphics processing units [GPUs]. But remember, as an Nvidia investor, you are buying shares in the company and not its GPUs. And secondly, while nice to have, why spend all that money on a Rolls when a Volkswagen will do just fine?

Tariff tantrum?

While we normally allocate an entire section of the MacNicol Alternative Asset Trust’s quarterly commentary exclusively to commercial real estate, we thought we would opine on one aspect of CRE here, and that is understanding [or at least trying to understand] the potential impact of Trump era tariffs on US private real estate.



Hold on, did you just *US* private real estate?

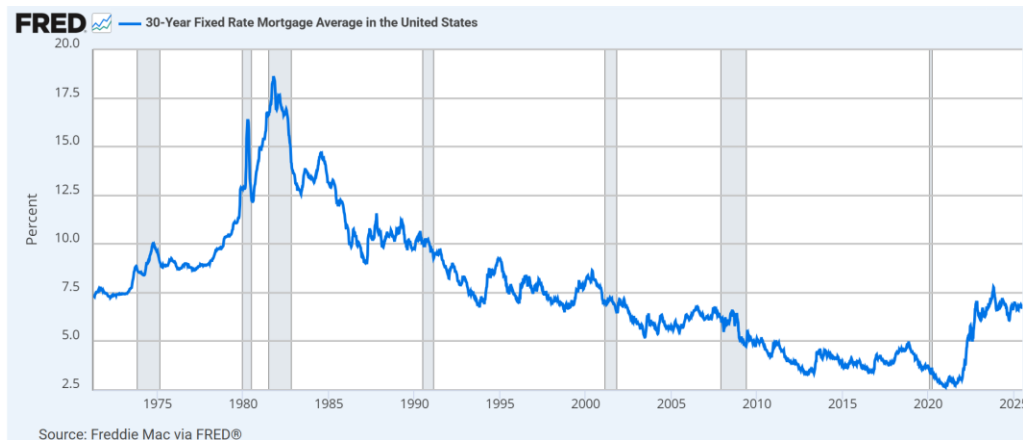
I certainly did, and while it might seem like an interesting paradox to include the terms US private real estate and tariffs in the same article, we’re all about “interesting” here at MacNicol. One of the most immediate [and interesting] things about Trump’s 2.0 tariffs is how they could impact the cost of our current and future real estate investments. While this question almost exclusively relates to development work or more precisely planned development work it is still a very good discussion to have regardless of where we have it.

For our investors, the good news about this “good” discussion is that for developments already under construction, those sponsors have already locked in project costs, and we expect **very little** impact to the small handful of proformas we saw going in. And again, do keep in mind that we aren’t huge risk takers and so development work is not even one fifth of our fund. Now because most of our strategic allocation in real estate is in value-add, there

is some development or re-development in that allocation. What we are seeing there is that our current projects are trending favorably from a cost and schedule perspective, and we have a high degree of confidence in adequate contingency planning around any surprises during construction, which once again we expect to be minimal. For the investments where budgeting and planning are beginning, cost forecasts remain fluid and subject to change. Most of our plan sponsors are experts when it comes to making an accurate decision around initiatives that will enhance leasing velocity and ultimately returns to our investors. In fact, it is more often their work and not necessarily things we read from groups like CBRE, CoStar and JLL that alert us as to the overall “vibe” that CRE subcontractors, suppliers, and peers have with investors. Running our own models is really intended to aggregate data to help us better inform you as to how we should think about things like the impact of Trump’s tariffs on US private real estate to understand the potential impact at the fund level. With that said, groups like John Burns figure that reciprocal tariffs could tack on an additional 2-4% on development work set to get underway in the coming year. Four percent, the top end of the Burns analysis, sounds high to use, and most sponsors we talk to at the ground level shoot around numbers in the range of 2% to 2.5%. One of the biggest industry groups, The National Association of Home Builders, projects tariffs could add up to \$9,000 to the cost of every single new for sale housing unit, but of course much of this depends on project class/type, the scope of work, material composition and things like transportation costs. But be that as it may - a cost increase that could further frustrate for-sale housing affordability probably isn’t something that the Trump administration would want to take the blame for. Still, based on what our sponsors are communicating to us, a projected increase in costs would not *materially* impact project feasibility **in most cases**. Remember carefully underwritten CRE is still a fabulous asset class to include in your investment portfolio. It simply requires more careful consideration following increases in rates coming out of the post pandemic inflationary period, and Trump’s second round of the trade war. Now as you may know, the recently announced tariffs do not go after goods covered by the USMCA, which is the trade agreement that replaced NAFTA and governs most of the stuff going back and forth between Canada, the United States and Mexico. This exemption, which as we understand it, includes lumber among other materials, has helped ease some of the potential cost increases. Lumber of course is a huge input into building costs, and we have known that for years. But what we did not know is that roughly 60% of the lumber used to enhance or build new product is sourced from the southeastern U.S. where pricing has remained stable. We didn’t know that and, in this case, we were thrilled by the enlightenment. Another point worth underscoring is that most of our sponsors have very well laid out supply chains with limited exposure to materials sourced from China. We stop just short of saying absolutely no exposure in the interest of accuracy, but as a result, the current high levels of tariffs on certain Chinese imports into the United States is not expected to impact budgets at all. We mentioned earlier that the Trump administration probably doesn’t want to be on the hook for an ever more supply constrained housing environment.



Therefore, it is our view that additional policy decisions that will impact housing costs may be approached with caution and/or offset by other potential US centric investment incentives. And the markets function as their own cost adjustment mechanism too: a slowdown in new housing starts may ease demand for some materials, like lumber, and this could help stabilize costs further in the near term. But when it comes to cost increase [i.e. inflation] we feel very well positioned. Our largest fund investment when it comes to real estate categories is by far multifamily residential. For multifamily specifically, the ability to adjust rents in real time to reflect supply, demand, and inflation continues to offer our investors an advantage that is as cost conscious as we are. Multifamily has long been considered by us as an effective long-term inflation hedge, and we believe it remains the superior CRE asset class in an inflationary environment. We will discuss multifamily deliveries more extensively in the real estate fund's dedicated section within the Alternative Asset Trust's quarterly commentary. For now, reduced deliveries in several oversaturated submarkets will aid digestion [i.e. absorption] over the next several years and ultimately create an upward pressure on rents and asset valuations.



The current environment in CRE is likely to saddle many prospective investors with considerable uncertainty, but we wouldn't call it a tariff tantrum. Indeed, some areas of the sector remain extremely unclear, such as commercial office space, but there is money yet to be made for investors who look past the headlines and ask deeper questions. For our part, instead of reacting hastily and running for the hills, we are adhering closely to our established investment process of allocating monies to projects and sponsors with their own disciplined strategy.

Behavioral investing: the future will be like the past, *won't it?*



One of the things many Portfolio Managers know is that clients will typically invest only *after* a run in stocks has already occurred. Very few of us are successful at extracting money from each of you during those intentionally “fortuitous” moments when stocks tank. There is the proverbial blood in the street and seductively attractive valuations for equities exist. Perhaps the reassurance of multiple winning days or weeks in the markets makes you feel “safer” about taking the plunge in stocks. Indeed, the markets have staged an impressive rebound from April’s lows, but is now truly the time to dive in with both feet? On the one hand, weekly momentum gauges are now bullish for both the S&P/TSX Composite and S&P 500. Breadth indicators, which measure the quality of a market rally in terms of the number of stocks participating, have improved as well. Many advance-decline lines for the NYSE and S&P500 have recently made new highs. Perhaps that is why sentiment was almost uniformly higher for stocks in June, resulting in another solid uptick in most sentiment indicators. Indeed, there are definitely things that may cause you to think that the coast is clear: tariff “taco” time [i.e. Trump Always Chicken’s Out], dreams of interest rate cuts at the Fed’s September meeting, Q2 ’25 earnings and early warning revisions not materially different from Q1 ’25 [which is to say earnings expectations aren’t being pummeled lower], Trump’s big beautiful bill having passed, the AI trade still hanging in there. So, there is lots to feel good about. But the fact of the matter is this: at 30x earnings the S&P500 is officially in “expensive” territory and now is not the time to take your cash lightly. Investing in great haste is never a good idea, even if psychologically it someone “feels” correct due to a rebound in the stock market. At issue is the fact the stock market is a discount mechanism. A discount mechanism, in finance, refers to the process where stock prices “anticipate” and reflects future events in today’s share prices. This suggests that market participants, like investors, are constantly evaluating information about the future and adjusting prices accordingly. If positive news or expectations are associated with a company or sector, the market will likely bid up the price of related stocks. Conversely, if negative news or expectations are present, prices will be discounted. Now all of this is to say that investing over long periods of time can be a highly effective way to grow your capital and protect it from inflation. But along the way there will be many cycles when not just stocks, but other financial assets experience their own natural sort of ebbs and flows. Rather than submitting to the temptation of “joining the party” after a run up has already happened, why not try talking to us about things first. Portfolio Managers aren’t necessarily investing gurus, but we do this full-time and can approach markets less emotionally than the average investor. Being independent professionals, we can always tell you what we actually think in a constructive, judgement free way.

The MacNicol Investment Team

Firm Wide News:

Schools out for the summer! The MacNicol Investment Team wishes all junior “Portfolio Managers” a very safe and very enjoyable summer.

The MacNicol Investment Team would like to congratulate Portfolio Manager Ken Reid on successfully passing the first level of the Chartered Financial Analyst [CFA] program in May 2025. Great work Ken!

David and Diane MacNicol are thrilled to announce the safe and healthy birth of their second granddaughter, Madeline. She is doing really well, although she is keeping her parents up at night!

We would like to welcome Ruchi’s son Kabir for the summer. He is helping us get caught up on some projects and work. We are lucky to have him!