Aug 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.

"Any sufficiently advanced technology is equivalent to magic."

— Arthur C. Clarke

The Numbers:

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Index:		**2025 YTD:**
S&P/TSX:		10.2%
NASDAQ:		9.38%
Dow Jones:		3.73%
S&P500:		7.78%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	2.7%	4.2%
5-Year Bond:	2.9%	3.8%
10-Year Bond:	3.4%	4.3%
30-Year Bond:	3.7%	4.9%

Economic Data:

- Stocks higher in July
- Cooler heads prevail on trade…for now…
- Western economies resilient given challenges in some sectors and the labor market
- Central banks take a seemingly more dovish posture even as policy rates remain for the most part unchanged
- Commodities emerge as leaders late in the month

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	29	30
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	10.2%
NASDAQ	9.38%
Dow Jones Industrials	3.73%
S&P 500	7.78%
Russell 2000 (Small Caps)	-1.4%
MSCI ACWI ex-USA	8.5%
Crude Oil Spot (WTI)	4.56%
Gold Bullion ($US/Troy Ounce)	21.8%
SOX Semiconductor Index	11.4%
VIX Volatility Index	-14.8%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

As of August 18, 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	1.3877	$3,603	$(19)	-0.5%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4155	$3,532	$(89)	-2.5%
Raymond James	1.3940	$3,587	$(35)	-1.0%
Royal Bank	1.4078	$3,552	$(70)	-2.0%
Scotia	1.4279	$3,502	$(120)	-3.4%
TD	1.4181	$3,526	$(96)	-2.7%
Canadian Snowbird	1.3907	$3,595	$(26)	-0.7%

Step aside Royal Bank…

Shopify has a special place in our investing hearts. As pre-seed investors in what is now, officially Canada's largest company by market capitalization, it was thrilling to watch the company grow from high tech start up to an e-commerce juggernaut. Last Wednesday, the company reported yet another trouncing of analyst earnings estimates. The numbers were great, and the guidance was even better. All in, Shopify raked in $2.68 billion during the second quarter of 2025, a solid $130 million ahead of what analysts expected. The second quarter earnings beat, driven by a 30% increase in sales versus the same quarter in 2024, is impressive. But it was even more impressive when one considers that sales also increased by 20% in the second quarter of 2024 versus the same quarter in 2023. Shopify's success has seen the valuation of its stock leapfrog over fellow S&P/STX heavy weights like Brookfield, Bank of Montreal, CIBC, Constellation Software, Enbridge, and Royal Bank. And it does not appear as though those companies will catch Shopify any time soon. Jeff Hoffmeister, company Chief Financial Officer, told investors that they could expect future revenue growth in the mid to high twenties. Mr. Hoffmeister's guidance was ahead of estimates by aggregators like StreetAccount.com and they underpin the idea that despite the big-ticket price tag of Shopify's stock, shares could head higher still…at least in theory.

Tariffs shmariffs…

Shopify's raw numbers are certainly in a league of their own but perhaps the most impressive thing about them are that the strong sales and rosy projections suggest the ability to contend with President Donald Trump's tariffs better than many other companies. Remember, Shopify does not sell you your long underwear…they sell cloud-based software to your long underwear maker who in turn uses Shopify's platform to subsequently get you to buy even more long underwear. E-commerce competitors like Amazon and eBay saw strong sales too but unique to Shopify is that its merchant's shoppers do not appear to be front-end-loading or "stockpiling" merchandise in anticipation of new tariffs or increases to existing ones. Shopify's e-commerce merchants, which number in the tens of thousands, are reporting robust sales. Gross merchandise or the total amount of "stuff" sold across Shopify's platform of merchants clocked in at almost $90 billion which easily out clicked Wall Street estimates of $82 billion. The company has also already spent millions of dollars on AI and recently unveiled its new store builder:

Want to sell your own brand of long underwear online? With Shopify's AI store builder, you can set up your own online store in minutes rather than weeks. And the AI spend appears to be paying off with operating expenses declining in the latest quarter. But transitioning away from quarterly financials the real story of how Shopify got to be Canada's most valuable company is actually quite simple. The company's platform is quick, simple and easy to use. It represents a compelling offering for millions of start-ups and small businesses. Ultimately Shopify's niche is bringing Amazon's size and scale to people just like you without being uber competitive or biting into merchant profit margins...sort of.

Are there *any* negatives?

Of course. First, as we alluded to Shopify stock is expensive. The latest run-up in the stock has the company's shares now trading at over 100x forward earnings. This is high even for an e-commerce stock, and roughly two and a half times the price of Amazon stock on a Canadian dollar equivalent basis. Another problem with Shopify is the reliance – some would say over reliance – on third party applications for much of the functionality. The implication of third-party applications is easy to understand if you are a business owner.

The price you see is not always the *final* price you pay, especially if your store requires other deluxe features to help your long underwear sales head higher. This is not a problem for larger stores, but it can be a formidable challenge for startups.

[Steve Madden is a well-established apparel retailer with a large Shopify presence. We are not quite sure if Steve Madden sells long underwear, but if they do, chances are they sell many, many more sets than you do.]

One final negative about Shopify is that the company occasionally has to say good-bye to merchants. Each year Shopify has to constantly replenish merchants who leave the platform with new ones, which they obviously are doing. And this is not necessarily a shot at the company: time and time again the company has found that most exiting merchants either were not ready for or ill-suited to life on the cloud. So, the right business model for an e-commerce partner is the key here. One final point, and it is an important one, is that signing up with Shopify doesn't guarantee that long underwear sales will go through the roof.

Top of the pile…

Even the most seasoned investor would have to search high and low for signs of trouble in Shopify's latest earnings report. Furthermore, it is nearly impossible to suggest that the company founded by Scott Lake, Tobias Lutke and Daniel Weinland is anything, but a Canadian e-commerce dream scenario come true. So, do we currently have a position in the company? Sort of. Canada's most famous e-commerce company has been efficient and successful even when the company traded privately. In those days, even as a private company Shopify was already soaring above its competitors. Not enough people knew about it in those days as the company was privately held until its initial public offering on May 21st, 2015. In the years following the go public transaction, our biggest challenge was trimming it fast enough to ensure that it did not become an outsized position in client portfolios. Fast forward to today and I can tell you that we definitely have a "position" in Shopify. But the exposure comes courtesy of our relative strength program, which is defined by index composition. Today's composition of the S&P/TSX index has changed. There is a new reigning champion of market capitalization. That company is Shopify. We have absolutely no doubt that Shopify is one of the very best e-commerce companies ever conceived. But we do doubt that paying over 100 times earnings for a direct position in the stock is a great idea.

What the heck do I do around here again?

The best thing about taking two weeks off in the middle of the summer to bask in Muskoka's awesomeness while completely abstaining from; dieting, working out or the regular use of hygiene products is completely "rinsing" yourself of Toronto's soul crushing traffic, nearly constant background noise and constant obsession with money, and never ending discussions about the Toronto Maple Leafs. The *bad* part about being pudgy, sore and smelly in Muskoka for two weeks is that you become a little too disconnected from reality. That reality, when you manage money for a living, involves a keen focus on financial markets and the economy as well as any sort of political b/s that could influence either. It all sets in when you get back to your desk, sit down and suddenly realize you have no idea what's going on…

What the heck do I do around here again?

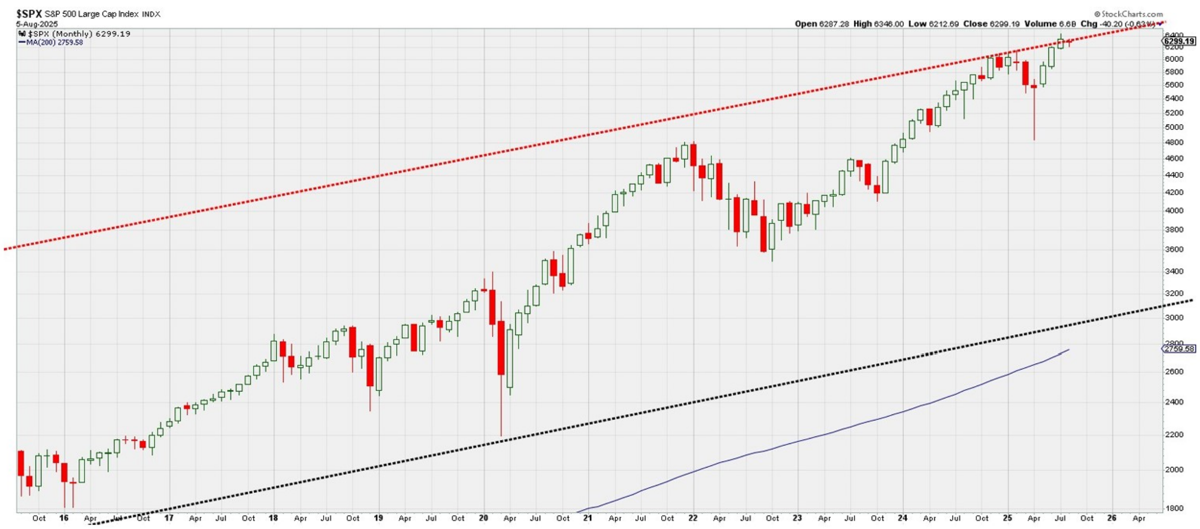
But it comes back pretty quickly, especially when your livelihood involves providing investors with good advice. So since returning to my desk, here is what I have found. Stocks around the world have performed well over the course of July. The gains can be explained by several factors, but the main one seems to be that in general "stuff" has been less bad and better in recent weeks. Since many of you just thought to yourselves, "I love that he doesn't generalize…" allow me to expand on the "stuff" I am referring to. During the first half of this year, the three biggest things investors were concerned about were: a) the economy b) central bank monetary policy stance and c) trade. Fast forwarding to today, the circumstances surrounding each of these items are indeed less bad and more good. Economic growth has remained resilient and that could be putting it mildly given challenges in certain industries and the labor market. Jerome Powell and other central bankers continue to point investors towards a future that includes a greater likelihood of rate cuts than more pauses or hikes. And President Trump's trade policy has become less opaque with several deals having been worked out. As a Portfolio Manager, you always look for things that your investors should be concerned about but I think it is a fair to say the number of concerns have been declining or that the list still has the same concerns, but that they aren't as pressing as they were at the beginning of the year. There are also some things happening out there that are encouraging. For example, we see healthy trends in commodity prices, particularly precious and rare earth metals, and a resumption in demand for copper and natural gas. An area where we need to do additional homework is oil itself. Oil briefly spiked on hostilities between Israel and Iran, but if you look closely, crude oil prices have been weakening since about this time in 2022. I completely exclude oil's price spike [Feb '22 until late July '22] but continue to scribble down questions regarding oil's supply and demand fundamentals. Nonetheless, solid returns in commodities have historically been associated with a more muscular Canadian dollar, and for a more vigorous S&P/TSX Composite.

Study corporate profits like a hawk…

Q2 '25's earnings reports are rounding 3rd base. There have been strike outs, hits, grand slams [i.e. Shopify] and even a few walks by companies that met analyst's expectations but projected **lower** guidance going forward. Issuers of US listed shares are also doing pretty well with corporate profits tracking at roughly 10.8% [Source: Factset] south of the border. Canadian corporate profits were clustered around the 5% level as notable misses by companies like Canadian Tire, Tim Horton's, Burger King and Manulife offset strength in other areas. The main point around corporate profits in both Canada and the United States is that they have in some ways somewhat surprised to the upside if you consider that forecasts from just two weeks prior to my own two weeks off, investors expected profit growth rate closer to 5%. What is more the profitability of companies in aggregate in the form of margins has not necessarily been affected yet by tariffs and cost pressures. As has been the case for some time, the large technology-related businesses continue to drive a disproportionate amount of earnings growth. If one excludes the Technology and Communications sectors, the blended earnings growth for the S&P 500 index would be reduced by more than half. But growth has broadened, and most sectors see a better pace of growth versus last year. And that is an accomplishment on its own given the unusual operating environment this year. You should feel good that earnings came in where they did given valuations. Next quarters' numbers could be softer. The median effective tariff rate on imports could rise to close to 20% later this year. Goods being imported into the United States will cost more. Could this cause a recession? I really don't think so, but it is expected to function as a drag on corporate profit margins. Inflationary pressures are overall contained but there is a wide dispersion, which I think sometimes catches people. The pressure on services industry have shown signs of abating and we do not just mean that automatic "tip" function built into the payment app your waiter brings you that *starts* at 18%. Some sectors like client relationship management systems and digital marketing prices have cooled down too, and that's been encouraging. Costs in manufactured goods, largely due to tariffs, have escalated.

07/31/2025			Price Return			
Index	**Price**	**Daily**	**Weekly**	**Monthly**	**YTD**	**1 Yr.**
S&P TSX	27,259.78	-0.40%	-0.41%	1.50%	10.24%	17.95%
S&P TSX 60	1,620.53	-0.38%	-0.41%	1.38%	9.33%	17.35%
S&P/TSX Venture	770.88	0.10%	-3.99%	5.11%	28.94%	32.32%
S&P 500	6,339.39	-0.37%	-0.38%	2.17%	7.78%	14.80%
NASDAQ Composite	21,122.45	-0.03%	0.31%	3.70%	9.38%	20.02%
Dow Jones Industrial Average	44,130.98	-0.74%	-1.26%	0.08%	3.73%	8.05%
iShares MSCI ACWI ex U.S. ETF	60.26	-0.92%	-	-	-	-
Shanghai - SSE	3,573.21	-1.18%	-0.90%	3.74%	6.61%	21.59%
France - CAC 40	7,771.97	-1.14%	-0.59%	1.38%	5.30%	3.19%
Germany - DAX	24,065.47	-0.81%	-0.95%	0.65%	20.88%	30.02%
Italy - FTSE MIB	40,987.69	-1.56%	0.96%	3.00%	19.90%	21.40%
Japan - Nikkei 225	41,069.82	1.02%	-1.81%	1.44%	2.95%	5.03%
U.K. - FTSE 100	9,132.81	-0.05%	-0.06%	4.24%	11.74%	9.14%
Australia - ASX 200	8,742.80	-0.16%	0.38%	2.35%	7.15%	8.04%
India - S&P BSE 100	25,961.78	-0.39%	-1.24%	-2.99%	3.59%	-1.80%

For sure stocks globally have done a good job in making hay while the sun shines, so we aren't quite sure if a new highs mean stocks are expensive. I mean stocks are expensive [S&P500, 30x trailing 12-month earnings] but despite Shopify's march-to-the-top the Canadian stock market is not hugely expensive. Stocks in Europe and Asia are also heading back to their longer-term averages. Also keep in mind that U.S. stocks influenced disproportionately several large cap technology companies in the index. Strip those out and US stocks seem more grounded. Illinois Tool Works, a company we don't own but watch, trades at 22x earnings. We think that's fair for what you get in [ITW:NYSE]. Technically, the market looks pretty good with breadth and momentum indicators higher as more stocks join the festivities. Extremely bullish analysts predict 30,000 for the S&P/TSX [note our own internal target is lower at 28,500] and 7,400 for the S&P500. There are a few people who feel that 8,000 points is not an unreasonable target for the S&P500 but we think that's reaching.



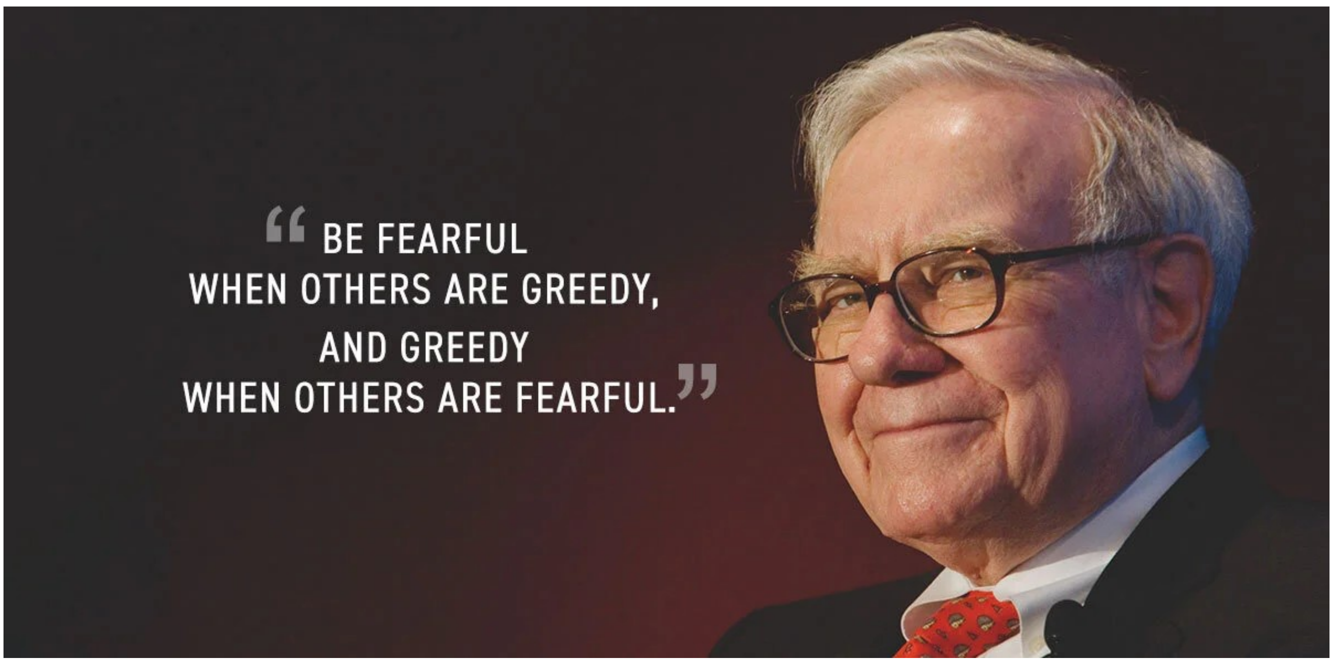
If you go back a decade and a half like the chart above does, stocks actually look great. You can see from the above 15 plus year chart of the S&P500 that it's starting to challenge that upward sloping band of resistance. Each new high over the last while has functioned to pivot the band up, but a breakout would be spectacular for stocks.

I'm still not always sure what I do around here, but after two weeks in Muskoka it was good to get back. I hate boring you with the inner workings of financial markets, but then I really do love learning about the inner workings of financial markets. You're safe in stocks for now, and you are definitely safe in *our* stocks for now but starting to think about *downside protection* is probably not a bad idea either.

Behavioral investing: chasing trends?

In *What the Heck do I do around here again?* We tell you that stocks have done well, aren't exactly cheap, but will probably go up a bit more. While it sounds like chasing a trend, I really don't think it is. On the other hand, researchers in behavioral finance found that 39% of all new money committed to mutual funds went into the 10% of funds with the best performance the prior year. In fact, this type of practice is commonplace at the big Canadian bank own fund companies. No one is interested in last year's worst performing mutual fund, and it's a poor sales practice to recommend them to your client. Everybody likes a winner. But here is the deal, what does pretty much every single thing we send you state somewhere in the fine print: past performance is no guarantee of future results. Despite this almost universally required legal footnote, many investors believe that you can pick this year's winner by investing in last year's winner.

So, if you're the type of investors that chases winners…we have a solution for you…



Make this quote of Warren Buffett the screen saver on your laptop computer. Buffett stepped away from active duty at Berkshire a while ago, but this quote is as true today as when he first said it. Chasing trends is a tough behavioral bias to beat. It can work the odd time with individual stocks, but in the mutual fund world it mostly functions to undermine a focus on more important things like asset mix and investment time horizon.

The MacNicol Investment Team

Firm Wide News:

We are pleased to welcome Luke Juha to the MacNicol team. Luke has been working in the industry for the past 13 years and brings with him a wealth of experience both in the back office as well as with client relationships.