

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.



**MACNICOL & ASSOCIATES**  
ASSET MANAGEMENT

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## BEACONS OF THE WEEK

*The two main purposes of a Lighthouse are to serve as a navigational aid and to warn ships (Investors) of dangerous areas. It is like a traffic sign on the sea.*



### ***Block Island Southeast Light, New Shoreham, Rhode Island***

This lighthouse was originally appropriated by Congress in 1856 for \$8,000. The lighthouse was finally built 18 years later. It was designated a U.S. National Historic Landmark in 1997.



### ***Point Sur Lighthouse, Point Sur State Historic Park, California***

This lighthouse is located 24 miles south of Monterey. The light station was established in 1889, and the lighthouse stands at 12 meters tall. This lighthouse sits 82 meters above sea level due to it sitting at the head of the point on the coast.

*\*Feel free to send us your photos of Lighthouses to be featured in our weekly market observations. \**

## **Trade talks**

A great deal has been discussed regarding tariffs, their potential impact, and trade agreements in recent months. After all, President Trump hit almost every country in the world with new tariffs and upended the global economy. After a rocky few months, the U.S. has signed trade deals with numerous countries around the world. One of the countries that has not signed a trade deal is Canada, America's closest ally. On Friday, tensions between Canada and the U.S. regarding trade increased as President Trump slapped his northern neighbours with a 35% tariff rate (a 10% increase from the rate that has been in effect for some Canadian goods since March). This new tariff rate only impacts products not compliant with the U.S.-Canada-Mexico Trade Agreement.

Before you jump and say, "I have not noticed tariffs and I thought they were paused", most Canadian products are exempt from these 'Trump tariffs' due to the North American Trade Agreement\*. According to the Bank of Canada, 95% of products are covered by the USMCA. In a statement released on Tuesday of this week, Prime Minister Carney said he will talk with Trump when it is right and that 85% of products that Canada exports are exempt from tariffs. We are not economic or political experts, so we are not sure what to believe, but we understand that right now, most products are exempt from tariffs, and we hope that does not change.

On top of the new tariff rate announced by Trump on Friday against Canadian goods, a 50% tariff on select copper products was also announced. This will impact some manufacturing industries moderately due to certain copper products being exempt.

President Trump and his administration stated that fentanyl pushed through the border into the U.S., and Canada's initial retaliation against U.S. tariffs as reasons for an increase in the tariff rate. Canada and China were the only major countries that directly retaliated against U.S. tariffs; other nations warned against and made what turned out to be empty threats.

Unfortunately, Canada is getting the short end of the stick as other nations sign trade deals with much lower tariff rates.

Another country that is having difficulty inking a trade deal with the U.S. is India, the world's most populous country. For a few months, it seemed India would be one of the first to sign a trade deal with the U.S.

Over the last two weeks, trade discussions between Indian and American officials broke down. The Trump administration has been highly critical of India, who continue to purchase Russian energy (which sells at a discount). Trump said India is helping fuel the war in Ukraine by financing Russia's efforts through oil purchases. This led Trump to raise tariffs against India from 25% announced last week to

*\* The North American Free Trade Agreement (NAFTA) was a trade agreement signed in 1992 by Canada, Mexico, and the United States, and it came into effect on January 1, 1994. It aimed to eliminate trade barriers and promote free trade between the three countries, but was eventually replaced by the [United States-Mexico-Canada Agreement \(USMCA\)](#) in 2020.*

50% on Wednesday morning. The new tariffs announced by Trump will reportedly go into effect in 21 days. On Wednesday, it was also reported by numerous sources that the Prime Minister of India would make his first visit to China in over seven years. A move that will trouble some American officials.

The ironic part of these new tariffs announced by the U.S. is that Trump has a very good relationship with the Prime Minister of India. It is also in the interest of the U.S. to further develop a relationship with India as it decreases its dependence on China.

Even though we got some optimism through some announced trade deals over the last two weeks, this week's tariff news paints a grimmer picture. India and Canada are both close allies of the U.S. Canada's largest export and import partner is the U.S. The U.S. is India's largest export partner and 5th largest import partner. There is a lot at stake when it comes to these deals. There is even more at stake when you throw China into the mix. The U.S. playing hardball could push India right into China's hands, which could further accelerate the East-West divide that we have mentioned in recent years.

### **Earnings beat from a consistent compounder**

An insurance provider based out of Winnipeg reported its second-quarter earnings on Tuesday and once again delivered strong results (for the most part). The company we are talking about is Great West Life. The company that we often talk about is a widely held holding for our clients. We like the company's disciplined management, strong balance sheet, valuation, and growth prospects. Great West Life trades marginally above ten times forward earnings, well below industry averages.

The company reported EPS of \$1.24 versus a street estimate of \$1.18. EPS increased by over 12% year-over-year. This strong performance was driven by growth in their Wealth and Group benefits businesses. This growth was driven by favourable currency movements, strong equity markets, improved insurance experience, and new business growth.

Great West Life repurchased over 6.3 million shares during the second quarter for \$321 million. The company announced intentions for an additional \$500 million in buybacks in 2025 on its earnings call. This raises its 2025 buyback program to \$1 billion. Great West Life's strong financial position and cash pile, which sits above \$2 billion, have supported this buyback program. Great West Life's return on equity came in higher than expected at 14.9% driven by overall growth and share buybacks.

Management reinforced the company's strategic priorities mentioned over the last year. These priorities include customer focus, leveraging digital and AI, and operational excellence. Management also provided optimistic guidance for future quarters, indicating continuous and steady growth across its key markets.

Great West Life (GWO) shares jumped on this strong earnings report; shares are up 31% over the last year. We remain bullish and believe there is much more upside in GWO shares. This earnings report

reiterated our confidence in management, and we believe they will unlock shareholder value moving forward.

*Disclaimer: MacNicol & Associates Asset Management holds shares of Great West Life (GWO: TSX) across various client accounts.*

## **Getting off of China**

A huge promise of Trump and his administration has been to combat China, decrease America's reliance on Chinese supply chains, and halt the outsourcing of American technology to low-wage countries like China. Trump and many Americans want these things to happen because of the changing world order, which has put China and the U.S. on different sides. The two countries are essentially in a technological and economic Cold War where each takes swipes at the other. We mention all this due to a graphic that we found in a newsletter this week. The graphic highlights U.S. imports from China since 2009.

United States, Foreign Trade, Census Bureau, Import, Total, Goods, Census Basis, China, SA, USD



Source: Mott Capital Management, Macrobond, U.S. Census Bureau

According to U.S. Census Bureau data, the U.S. is now importing less from China than it was at the onset of COVID-19. This is a dramatic shift as the U.S. reroutes its supply chain and decreases its reliance on China and its goods. According to the Bureau, the American trade gap with China shrank to its lowest in more than 21 years. This is the fifth straight month that the U.S. trade deficit with China has narrowed.

China has reportedly filled this void with an increase in trade with some other Western nations. The U.S. has filled its China void with other Asian countries that have cheaper labour. This push away from China has not led to a boom in U.S. manufacturing; it has severed some tie(s) between the U.S. and China.

June's data also revealed an overall trade gap for the U.S. of \$60.2 billion, which narrowed 16%.

Despite all the negatives that come with tariffs, the U.S. slowly shrinking its overall trade deficit is a major plus for the American public. We hope some stability comes in the form of some deals in the coming weeks.

### **Apple's jump**

Apple shares jumped by more than 5% on Wednesday morning after it was reported that the company will announce a new \$100 billion commitment in the U.S. The announcement will be made by CEO Tim Cook at market close in the Oval Office alongside President Trump. Another CEO seemingly bowing to Trump as the fear of going against him builds, even from the world's most powerful company's leaders.

This announcement further accelerates Apple's U.S. investment commitments that now total \$600 billion over the next four years.

Trump has been pushing companies to move manufacturing to the U.S. since taking office. Tariffs have accelerated that initiative as companies seek to avoid them. Trump has repeatedly criticized Apple for building its iPhones abroad, with the administration saying the company should instead bring its manufacturing facilities to the U.S. Apple currently manufactures its U.S. bound iPhones in India, and most of its other iPhones are built in China.

Currently, Apple's U.S. investment plans include working with partners to build an AI server plant in Texas.

It will be a long road ahead for Apple if it commits to building iPhones in the U.S. The cheap labour that they use abroad is not available within the U.S. However, Apple seems very focused on avoiding tariffs, as its most recent earnings were impacted by tariffs set by President Trump.

### **Cracks in the foundation**

Despite certain headlines painting a nice picture for the U.S. economy and officials stating that the "economy is stronger than ever", more cracks continue to pop up.

We have highlighted consumer spending behaviour and the reliance on credit to make purchases as warning signs over the last 18 months. This has been a driver of home prices moving lower as demand slows. Interest rates moving higher are one driver, but so are consumer balance sheets, which are deteriorating.

Last week, the *New York Post* posted a headline that caught our attention. The headline reads as follows:



Income's dropping by that much is a warning sign. These Las Vegas workers earn an income from consumers' disposable income. That disposable income is seemingly drying up.

Could Canadians deciding to not go to Las Vegas have something to do with this? It is hard to tell.

Consumers are feeling the impact of a weak economy that has been limping along for a few years now. Artificial liquidity and government spending were essentially keeping the economy on track. Both have been cut, interest rates remain elevated, tariffs have increased prices, and employment has decreased.

This is something that we are watching very closely; we hope you are too.

**MacNicol & Associates Asset Management**  
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