THE COERENTE VIEW

2ND QUARTER 2025

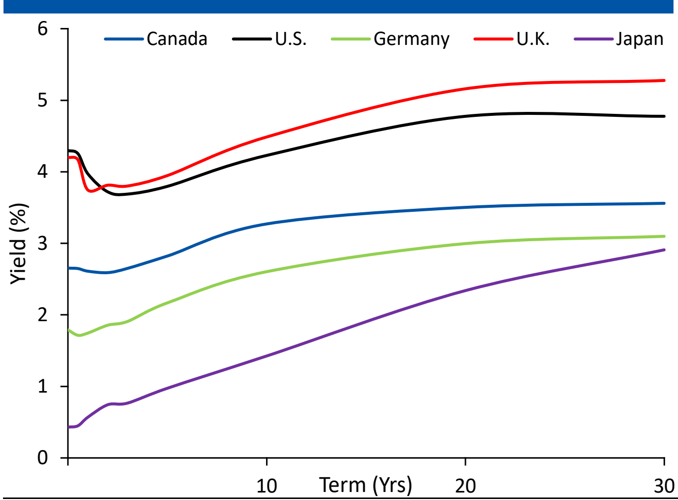
Market Statistics

	Jun/25	Mar/25	Dec/24	Jun/24
Yields (%)				
90 Day T-Bill	2.65	2.62	3.13	4.64
10 Yr. Canada Bond	3.27	2.97	3.23	3.50
30 Yr. Canada Bond	3.56	3.22	3.33	3.39
Rates				
C.P.I. (annual %)	1.70	2.30	1.80	2.70
C$/US$	0.73	0.69	0.70	0.73
C$/Euro	0.62	0.64	0.67	0.68
Prices (US$)				
Crude Oil (bbl.)	65	72	72	82
Natural Gas (mm)	3.50	4.10	3.60	2.60
Gold (oz.)	3,277	3,120	2,611	2,328

Market Returns

	Periods Ending Jun. 30/25			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	8.5	26.4	15.0	9.6
S&P 500 (C$)	5.2	14.9	16.7	14.7
S&P 500 (US$)	10.9	15.2	16.6	13.7
MSCI EAFE Net (C$)	5.9	17.3	11.2	7.5
MSCI EAFE Net (US$)	11.8	17.7	11.2	6.5
MSCI World Net (C$)	5.7	15.8	14.6	11.7
MSCI World Net (US$)	11.5	16.3	14.6	10.7
Bond Universe	-0.6	6.1	-0.4	1.9
91 Day T-Bills	0.7	3.8	2.6	1.8

Yield Curves



The Economy

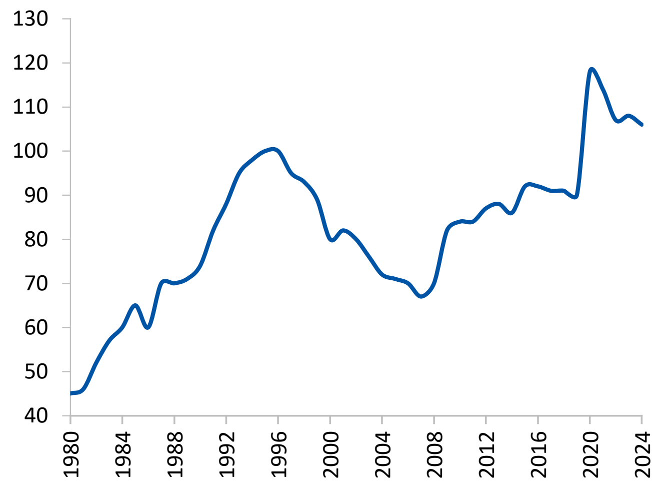
Despite tariffs, trade wars, multiple conflicts in the Middle East and Ukraine, and uncertainty with regard to the direction of inflation and interest rates, global economic growth has progressed, and more specifically within the US. Tariffs were expected to instantly slow economic growth and raise inflation, as they have historically, but the Trump administration has wavered and changed the size and implementation date of proposed tariffs. Some have gamed the process with advanced purchases, which actually provided a temporary growth spurt, but the uncertainty has largely led businesses and individuals to pull back on longer-term spending and investment commitments. A resulting modest rate of US economic growth and little inflationary pressure have led the US Federal Reserve to pause on further interest rate cuts after three successive reductions.

For Canada, the effect of tariffs has been more acute relative to other countries given the importance of trade with the US to our economy. Economic growth is clearly slowing and the magnitude of the slowdown remains uncertain. There will be additional tariffs – the question is to what extent and how severe. The recent sizable decline in Canadian manufacturing activity would suggest a recession is imminent unless the federal government unleashes a massive fiscal spending program. This may be coming as military spending has been announced to immediately increase from 1.3% to 2.0% of Gross Domestic Product (GDP) and move to 5% by 2035. Government spending can quickly counter economic slowdowns caused by exogenous factors such as tariffs. The resulting increases in debt levels can, however, reduce longer-term economic growth with more spent on interest payments and less on capital investments. Long-term interest rates also rise, compounding the problem, as bond investors demand higher yields as risk (debt) levels increase.

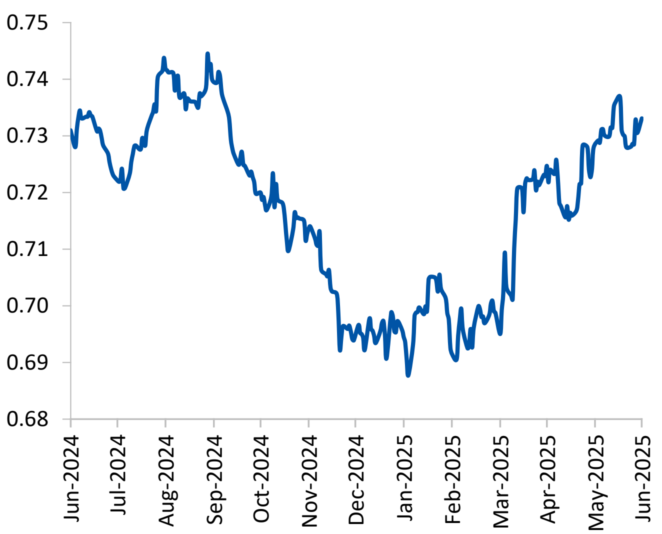
In Canada, the Government Debt to GDP ratio has grown considerably. (See top chart on page two.) It may be too early to sound alarms and an optimist would highlight that we are still "middle of the pack" relative to other G7 nations but our ratio today sits at over 100% and is not far from the all-time high reached during Covid.

2024 Government Debt to GDP (%)	
Germany	63
UK	102
Canada	106
France	112
US	121
Italy	137
Japan	251

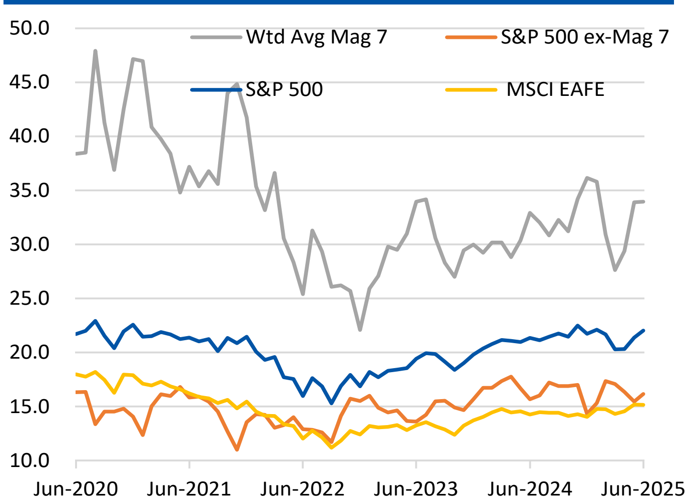
Canada Debt to GDP



CAD-USD FX Rate



Forward P/E – Magnificent 7



There are multiple variables that go into deciding on how much debt is too much, including whether debts are largely domestically funded. Our government has yet to outline when we may achieve a balanced budget but it will certainly be many years away. The current US budget debates are highlighting the same issue as their debt levels are expected to rise and surpluses will not be generated for at least ten years.

The Markets

After stock market declines in April caused by the US tariff announcements, equity markets rebounded strongly during the latter part of the second quarter as significant changes were proposed to tariff levels and expectations rose for agreements that would lessen their impact. Above all, corporate earnings continued to surprise on the upside. Technology related companies led the way once again but in our portfolios 76% of earnings reports were better than estimates. The S&P/TSX gained 8.5% in the second quarter and 10.2% year-to-date. The World Index did even better returning 11.5% and 9.5% over the same periods respectively. The decline of the US dollar versus most major global currencies did, however, significantly reduce returns in Canadian dollar terms to only 5.7% and 3.7%. The chart opposite demonstrates that we are now back to exchange rate levels of just one year ago. Arguably, with the negative effect of tariffs on the Canadian economy and rising levels of government debt, we could expect some future weakness in our currency but there are many other factors involved. Our strategy remains to invest in quality companies and allow company management teams to take care of currency risk.

Bonds provided negative returns of 0.6% in the quarter and eked out a small gain of 1.4% for the year-to-date period, a level that is unappealing and does not keep up with inflation. We remain focused on primarily shorter-term maturities with some recent purchases in the five to seven year range where yields of 3.5-4.0% can be earned in corporate issues.

The bottom chart demonstrates that stock prices have risen faster than earnings and that share price multiples have again reached year-end 2024 levels. Caution remains warranted with technology related stocks where the largest companies are once again averaging nearly 35 times earnings multiples, far exceeding the broader market averages. Despite the strong earnings growth from this sector, we are continuing to cap the size of our holdings. With valuations in other sectors still reasonable, we are redirecting proceeds into other stocks but at a tempered pace. As a result, the fixed income weighting in accounts may temporarily increase.

Sources: Bloomberg, National Bank Financial, Statistics Canada, International Monetary Fund