



SEPTEMBER 2025 NEWSLETTER

MARKET REVIEW

Markets continued to perform well with the TSX Composite up 11.8% and the S&P 500 up 7.8% in the third quarter of 2025. Most market attention seems to be on the recent and potential future rate cuts. The U.S. Federal Reserve has a complicated task as unemployment and inflation are rising at the same time, forcing them to choose which of their mandates to focus on.

	<u>Sept. 30, 2024</u> <u>Close</u>	<u>June 30, 2025</u> <u>Close</u>	<u>Sept. 30, 2025</u> <u>Close</u>	<u>90-Day</u> <u>Change</u>	<u>1-Year</u> <u>Change</u>
S&P 500*	5,762	6,205	6,688	7.8%	16.1%
S&P/TSX Composite	24,000	26,857	30,023	11.8%	25.1%

*USD currency

Source: FactSet

Published for the friends and clients of
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FIXED INCOME

In Canada yields have dropped slightly across the yield curve with the exception of the 30-year, which is up slightly.

Canadian T-Bills and Bond Yields

<u>T-Bills & Bonds</u>	<u>Sept. 30, 2024</u>	<u>June 30, 2025</u>	<u>Sept. 30, 2025</u>
3-Month	4.01%	2.67%	2.44%
6-Month	3.74%	2.65%	2.42%
1-Year	3.31%	2.62%	2.43%
2-Year	2.91%	2.59%	2.48%
5-Year	2.72%	2.82%	2.69%
10-Year	2.95%	3.24%	3.14%
30-Year	3.14%	3.56%	3.62%

Source: FactSet

International ten year bond yields are up with the exception of the U.S. and Canada, which are down slightly.

International 10-Year Bond Yields

<u>Country</u>	<u>June 30, 2025</u>	<u>Sept. 30, 2025</u>
India	6.36%	6.55%
U.S.	4.23%	4.15%
U.K.	4.48%	4.70%
Italy	3.48%	3.54%
Canada	3.24%	3.14%
Greece	3.28%	3.38%
France	3.28%	3.54%
Germany	2.60%	2.71%
China	1.65%	1.90%
Japan	1.43%	1.65%

Source: FactSet

None of these changes are what we would call significant, and they are far more stable than we would have expected. We continue to believe that bond investors are not earning a sufficient yield to compensate for current and future inflation, so we have zero exposure to longer maturity bonds. We continue to hold short-term discount bonds, as tax-efficient near cash equivalents.

GICs

At Douglas Duncan Wealth Management we place a very high value on liquidity. Even a person with a very stable life can face an unexpected cash need. House repairs, assisting children, unexpected medical expenses, new cars, expensive travel and investment opportunities can require cash on short notice.

For this reason we tend to avoid locked-in investments. That being said, short term GICs have a reasonable premium to daily interest accounts and government bonds. If you are absolutely sure that there will not be a need for the capital during the next year, one year GICs pay 3.26% as of Sept. 30, 2025 and can add to your income and cash flow.

1 - 5 Year GIC Rates

<u>Term</u>	<u>Issuer</u>	<u>Rate</u>	<u>Notes</u>
1-Year	FirstOntario CU	3.26%	FSRA Insured up to \$250,000 for non-registered accounts
2-Year	FirstOntario CU	3.34%	FSRA Insured up to \$250,000 for non-registered accounts
3-Year	FirstOntario CU	3.33%	FSRA Insured up to \$250,000 for non-registered accounts
4-Year	FirstOntario CU	3.39%	FSRA Insured up to \$250,000 for non-registered accounts
5-Year	FirstOntario CU	3.49%	FSRA Insured up to \$250,000 for non-registered accounts

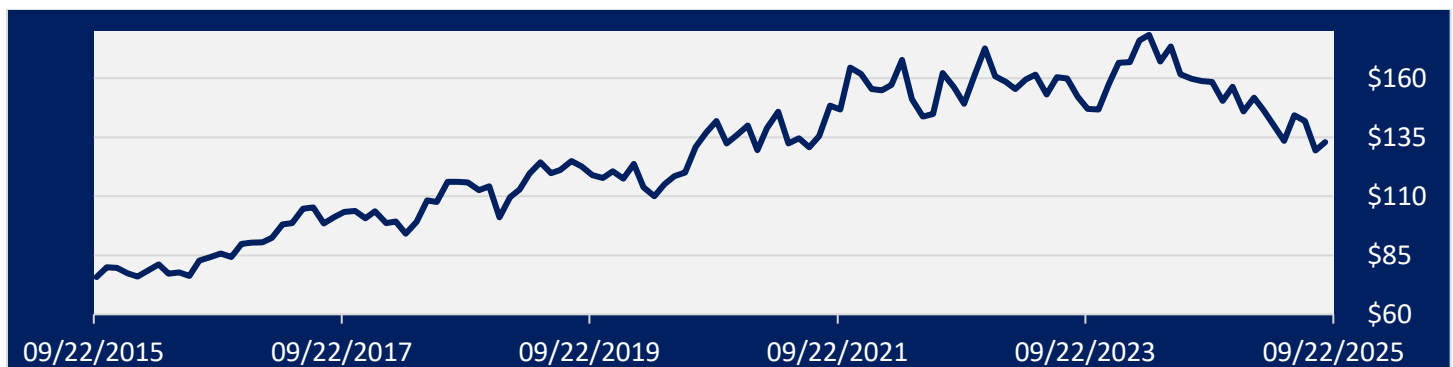
Source: RJNet

EQUITIES

CN Rail has been one of our core positions for many years and has had excellent long-term growth. However, the last year and a half has been disappointing, with the price falling from \$181.34 in March, 2024 to \$131.24, a 27.6% pullback. This gives us a five-year negative return and what we feel is a low risk entry point. CNR has a P/E of 17.4 times and a dividend yield of 2.7%, a reasonable valuation.

We feel that in the long-run the cross-North American train system will continue to be a valuable, irreplaceable asset and the current uncertainty about cross-border trade gives us the opportunity to get a great company at a reasonable price.

Canadian National Railway 10-Year Performance



Source: FactSet

INTERNATIONAL INVESTING

For the last 25 years or so we have focused almost entirely on Canada and the U.S. for our investment choices. Part of the rationale was to invest in easy-to-understand and familiar companies and part is from being "burned" a couple of times in Emerging Markets in the 1990's. Our strategy has paid off over the time period as Europe, Asia, and the emerging markets have all underperformed the U.S. and Canada. Over the last year this trend has changed, with most foreign markets outperforming the U.S.

The current U.S. administration believes that with protectionism and more government control of the economy the U.S. will get stronger and the rest of the countries of the world will become weaker. Another result could be that the other countries find less demanding trading partners, reduce inefficient internal regulations, and create more dynamic economies. No one country has a monopoly on intelligent creative people and the optimistic investor will believe that there is progress to be made.

If you believe that the latter is possible there is a diversified, cost-efficient way to do this: the Vanguard FTSE All-World ex-US ETF (VEU).

Vanguard FTSE All-World ex-US Index Fund: 10-Year Performance



Source: FactSet

Foreign markets have more attractive valuations than the U.S. so growth investors may consider initiating a position.

VEU Valuations & Profitability

Average P/E	16.2x
Average ROE	12.4%
Yield / Distribution	2.74%
Management Fee (MER)	4/100 of 1% or 0.04%

Source: vanguard.com

VEU Country Allocation:

<u>Country</u>	<u>% Allocated</u>
Japan	15.6%
China	9.6%
UK	9.3%
Canada	6.8%
France	6.3%
Switzerland	5.7%
Taiwan	5.4%
India	5.3%
Australia	4.7%
Korea	3.1%

Source: vanguard.com

As in the U.S., the largest capitalization companies tend to be in technology and healthcare, which have opportunities for innovation and growth. Many of these companies are world leaders in addition to dominating their home markets. The top ten holdings of VEU are:

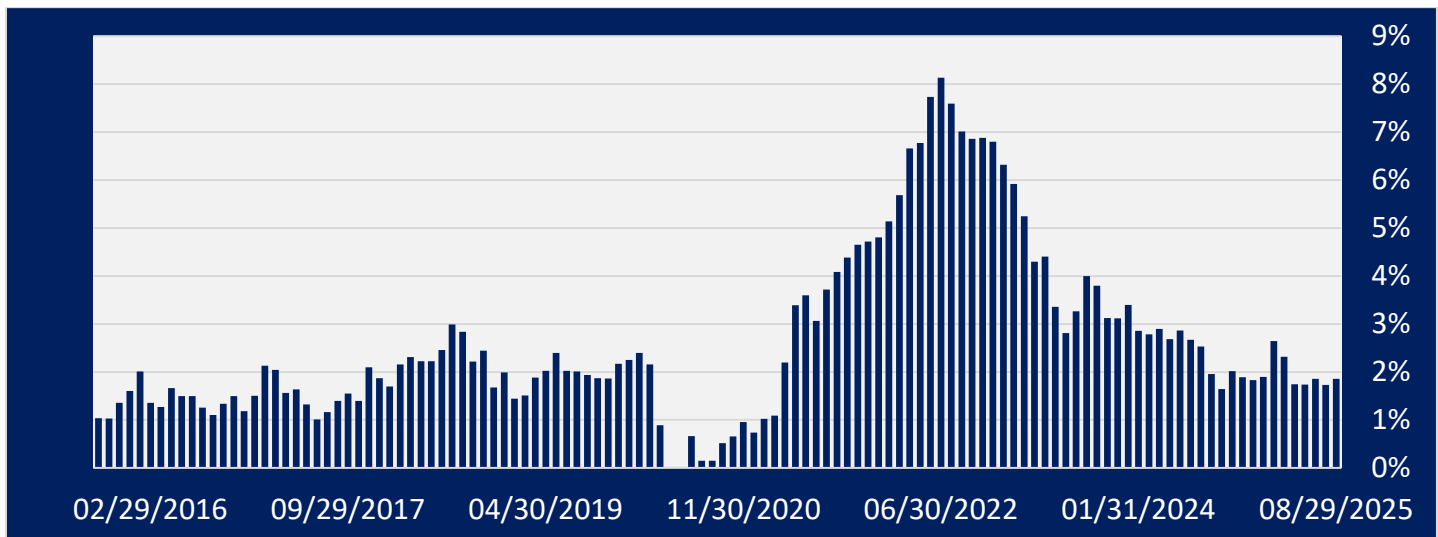
<u>Position</u>	<u>Holding</u>	<u>Country of Origin</u>
1	Taiwan Semiconductor	Taiwan
2	Tencent Holdings	China
3	Alibaba Group Holdings	China
4	ASML Holdings	Netherlands
5	SAP SE	Germany
6	Astra Zeneca PLC	UK - Sweden
7	Nestlé SA	Switzerland
8	Novartis AG	Switzerland
9	Samsung Electronics	Korea
10	Roche Holdings	Switzerland

Source: vanguard.com

INFLATION

Canada's inflation has recovered from the Covid supply shock and is now similar to the 2016 to 2019 levels, below 2%. Unless U.S. rates spike up there is currently no pressure on the Canadian Central Bank to raise rates.

10-Year Canadian Inflation



Source: FactSet

Canada's unemployment levels have been increasing since July 2022, and the new U.S. tariff regime has given us a shock that will stifle growth until we pivot to new markets and build trade alliances. Our deteriorating labour situation gives our Central Bank room to lower rates further.

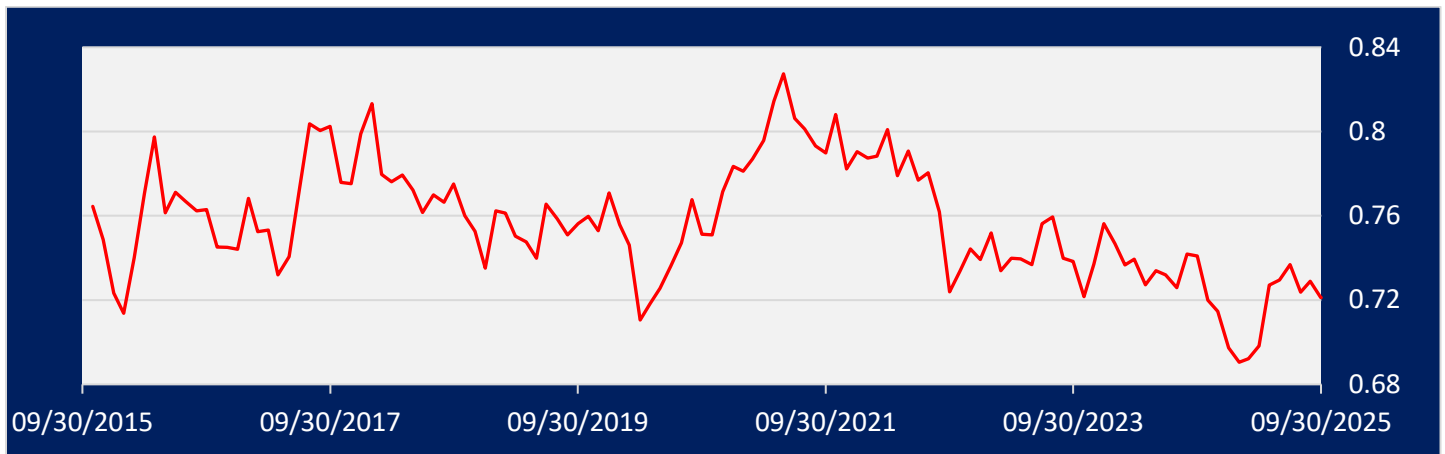
10-Year Canadian Unemployment Rate



Source: FactSet

The Canadian dollar is currently weak compared with its ten year average. This makes Canadian goods and services relatively cheap, but imports of foreign goods and services more expensive. If the Canadian dollar gets too weak our ability to lower rates may be limited.

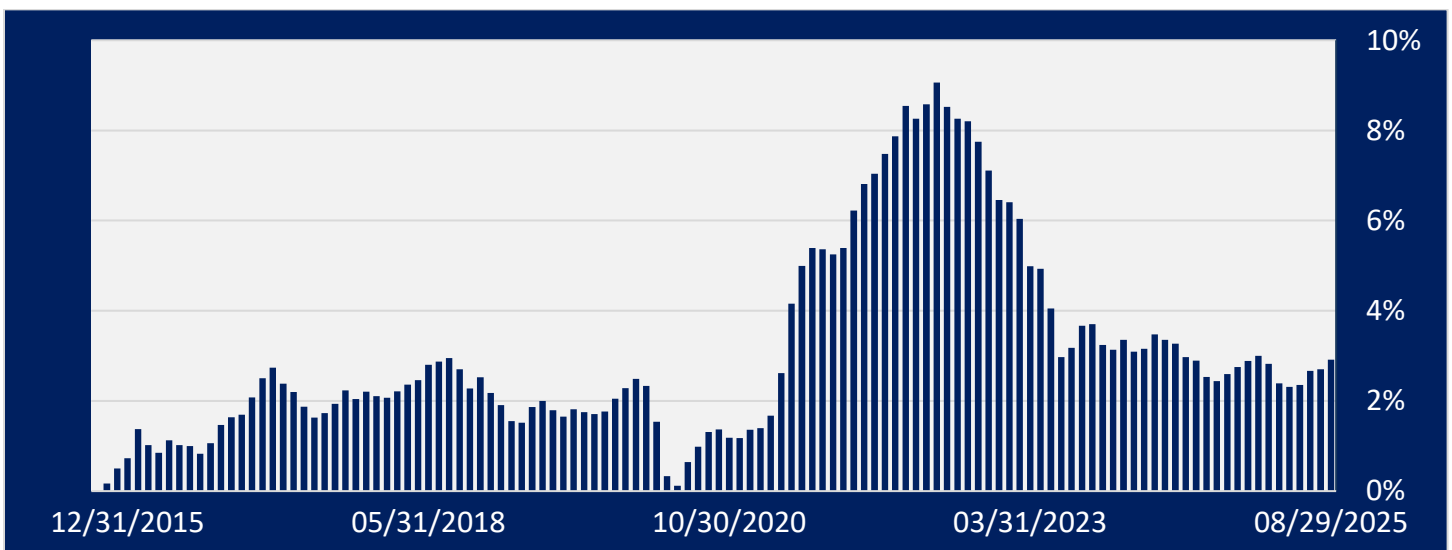
10-Year United States / Canada Exchange Rate (CAD/USD)



Source: FactSet

The chart below indicates U.S. inflation data over the last 10 years. Our interpretation of this chart is that while inflation has come down from the external shock of Covid, the current inflation numbers are generally higher than the pre-covid numbers. For the last four months inflation has been rising, but as of yet we can't determine if this is short-term noise or a significant trend change.

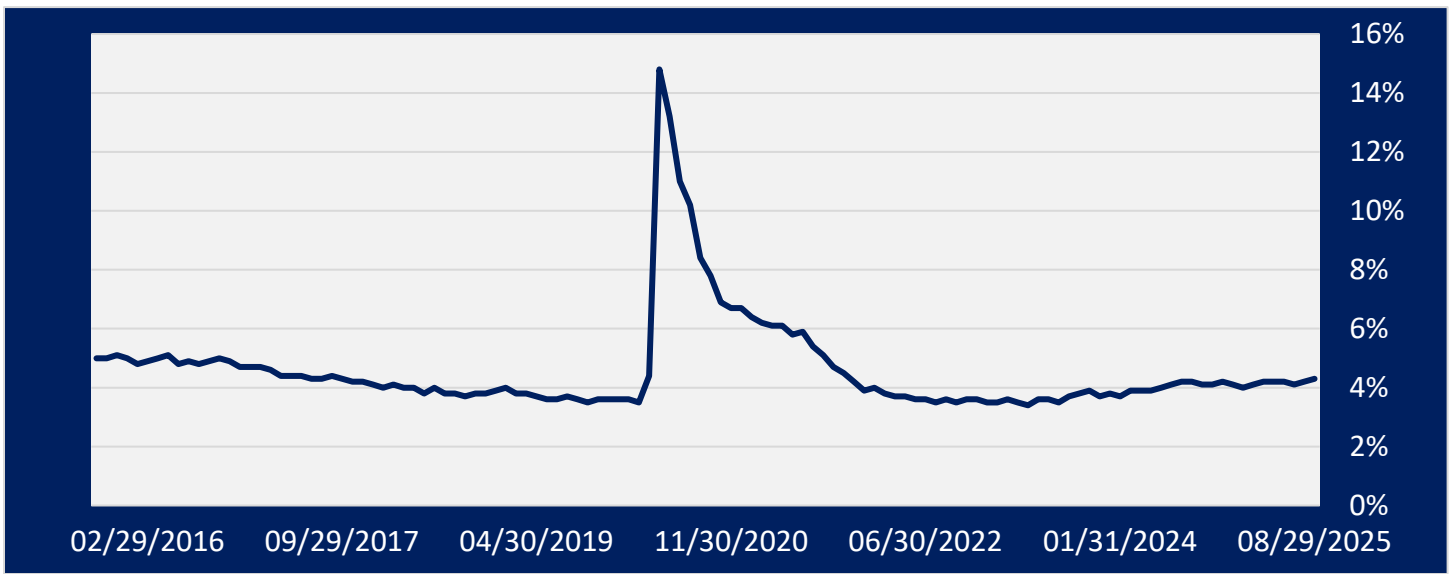
10-Year U.S. Inflation



Source: FactSet

The following chart indicates that U.S. unemployment gradually fell from 2016 until early 2020 with the Covid epidemic. This caused a sharp spike that reversed itself quickly until 2022. Since then, unemployment has crept up and is currently at 2016 levels. As of this time we consider this to be relatively stable.

U.S. Unemployment Rate



Source: FactSet

While some of our newsletter readers may wonder why we add this fairly dry information, the economy, markets, and interest rates are very dependent on what happens to these statistics. We all have opinions on tariffs and trade policies but the score card will largely be judged on these numbers. As of yet they are going in the wrong direction but not at an alarming rate.

SUMMARY & STRATEGY FOR 2025

The third quarter of 2025 finds us in an uncomfortable position in that the world is experiencing a major negative shock to the global trading system, but markets continue to rise.

Ironically the nation upending the system, the U.S., has been a relatively modest performer year-to-date (S&P 500) up 13.7%, while the rest of the world (as per the Vanguard FTSE All-World ex-US index) is up 24.3% and the target of the most aggressive tariffs and sanctions, China, (as per iShares MSCI China ETF) is up 40.5%.

At present we can't find any "table pounding buys," and many of our favourite companies are trading at valuations where we are hesitant to add to positions." In light of the apparent disconnect between fundamentals and market trends we continue to embrace the stance of remaining invested but leaving an extra 5 to 10% cash allocation in case markets correct.

Should you expect changes in your financial situation or have questions on how your investments are prepared for the future, please call Meaghan or Mark.

CLIENT APPRECIATION 2025

We were pleased to have 118 clients attend our client appreciation at the Nanaimo Golf Club on September 18th. While we realize that large events are not for everyone, those who do attend get to enjoy an afternoon of soft live music, good food and drink, and the company of very nice and interesting people. We will be hosting our next client appreciation event at the Nanaimo Golf Club on September 17, 2026.



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If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!

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