Investing Wisely

A Newsletter from Mike Wise

September 2025

The warm weather that we've been having lately sure feels nice! Is this a late Summer after a miserable cool July, or an early Indian Summer? I note that the poplars are turning yellow, so they may be a harbinger of cooler weather to come. We need to be like the squirrels, and get preparations in place for the coming Winter.

Thank you to all those who sent condolences and best wishes to our family following Carmen's sudden passing. Liz, David and I appreciated them all.

My big project over the summer months was preparing for Carmen's Celebration of Life. I wanted to make it a suitable memorial to a very powerful lady who stood by me during good times and bad. If I do say so myself, I think we managed to pull it off!

Now it is time to focus on you, my clients. I'm heading to BC next week for my annual tour and meetings with my clients on the West Coast. After that, I've no plans for any more trips and will concentrate on meeting with clients closer to home. Please let me know if you'd like to meet in late September or October.

Where We Are

Table 1 shows how stocks, bonds and commodities are performing so far this year. Most of my clients have a balanced portfolio. My pension-style Canadian Neutral Balanced Benchmark is up 5.6% in the first 8 months of 2025. This is an after-fees benchmark with a weighting of 60% equities (2:1 CAD/US) and 40% fixed income.

Canadian short-term interest rates (out to about 5 years maturity) have decreased over the year, while longer-term rates (10 years maturity and up) have gone up. The Bank of Canada has been reluctant to adjust its policy rate either up or down since early in the year, mainly because of the uncertainty caused

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Table 1
2025 Returns - Year to 31 August

	31 Dec 2024 Price	31 Aug 2025 Price	YTD Change
Equities			
TSX (CAD)	24727.94	28564.45	15.5%
S&P500 (USD)	5881.63	6460.26	9.8%
NASDAQ 100 (USD)	19310.79	21455.55	11.1%
Commodities			
Oil (WTI; USD)	$71.87	$64.01	-10.9%
Gold (Comex; USD)	$2639.30	$3516.40	33.2%
Fixed Income			
DEX Universe Bond Index (CAD) - Total Return	1168.9	1181.3	1.06%
Govt of Canada 10-Yr Bond Interest Rate	3.225%	3.375%	0.15%
5-yr GIC Rate (rate as of August 8)	3.10%	3.70%	0.60%
High Interest Savings Account (rate as of Aug 8)	3.20%	2.70%	-0.50%
Exchange Rates			
USD/CAD	$0.6951	$0.7276	$0.0325
EURO/CAD	$0.6712	$0.6226	-$0.0486

by President Trump's economic policies and Prime Minister Carney's wavering responses.

The Canadian dollar has strengthened by more than 3c versus the US dollar, and fell by almost 5c relative to the Euro so far this year. I don't understand why the USD should be so weak versus the looney and particularly the Euro when US interest rates are so much higher than other developed economies. (ed note: the Costa Rica colon is also strong compared to the USD).

Carmen's Celebration of Life
"Libiamo"*, from *La Traviata
Lauren Monk, Soprano & Jason Ragan, Tenor

Stock markets rebounded in a major way after a rough 1st quarter, and are up strongly again this year, as shown in Table 1. Rather amazingly, perennial laggard Toronto is one of the top-performing stock markets in the world! The S&P/TSX has out-performed the S&P500 by 7.7% over the past 12 months.

On the commodities side, oil is not doing well, and is bouncing around the $65/bbl mark, down -11% so far this year. Bad news for Alberta! Gold, however, is doing well, and is up another 33% so far in 2025.

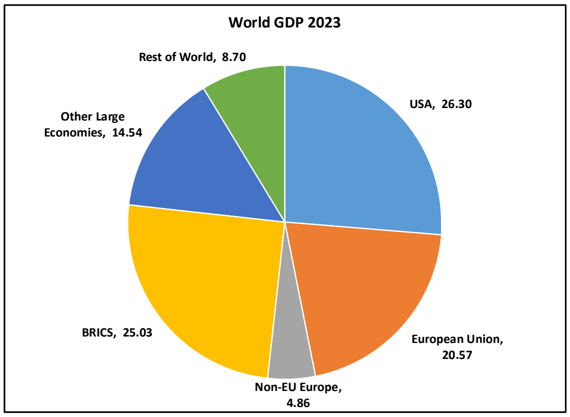
Where We're Heading

I wrote in my January letter that "it looks as if 2025 is shaping up to be a year dominated by political change, particularly in Canada and the United States." I think I under-estimated the chaos that President Trump could wreak, not only on the United States, but around the world!

The US isn't as big a player in the world as it perhaps thinks it is. Chart 1 (next page) shows that the US GDP represents approximately 25% of global GDP. Europe represents another quarter, and the BRICS nations represent yet another quarter.

Thinking long-term, I am concerned about the tendency of the United States to use economic levers

Chart 1
World GDP, 2023
Source:
https://www.theglobaleconomy.com/rankings/gdp_share/



Note 1: Non-EU Europe mainly UK
Note 2: Other Large Economies includes Japan & Canada
Note 3: BRICS: Brazil, Russia, India, China, South Africa

to try to influence its preferred geopolitical outcomes. This isn't just a Trump thing, although he is a proponent with his Trump Tariffs. Going back a few years, I wrote about the exclusion of Russia from the SWIFT financial transactions system, sanctions on Iran and Russia, and the beginnings of the oil trade in currencies other than the US dollar. More recently, we have talk of "secondary sanctions" on countries that purchase oil from Russia. India seems to be the primary target, although President Trump seems agitated that Europe is also a buyer of Russian oil. China essentially laughed at the US for even suggesting imposition of these secondary sanctions; India sells comparatively little to the US, and also has said that they'll continue to do what is in India's best interest.

The European Central Bank (ECB) "froze" Russian state assets stored at the ECB at the start of the Russia-Ukraine conflict. These amount to around USD$300B. More recently, the EU has "stolen" the interest generated by these assets to give to Ukraine so that it can use the money to buy arms and continue the war. The EU continues to try to figure out a way that it can "steal" the principal as well. All of these actions are illegal, and almost certainly Russia will be going to the courts for compensation once the war ends.

Carmen's Celebration of Life
"Time to Say Good-bye"
Barbara Smith, Violin & Jeff Komar, Viola

The effect of all these actions has been to drive China, Russia and India into one another's arms, thus strengthening BRICS and creation of an incipient new world order. Other nations are watching. Some countries have repatriated their sovereign gold holdings from London and Paris to get out from under the US/EU umbrella that they no longer see trustworthy.

Buyers of US-made high-tech military equipment, such as fighter jets, are now worried about whether they'll be able to get spare parts if they run afoul of US foreign policy. Rumours swirl around the Internet that the F-35 stealth fighter has a hidden "kill switch" in its software that could render the jets inoperable at the flick of a switch in Washington.

Just last week, China and Russia signed a contract to build the Power of Siberia 2 gas pipeline from Siberia to China, passing through Mongolia. This will tap into new gas fields in the Siberian Arctic. That gas had formerly been destined for Europe, but will now flow South instead of West. VERY bad news for Europe!

If all goes according to schedule, the new pipeline will be operational by 2030.

Equally important, Power of Siberia 2 will be financed, at least in part, by yuan-denominated bonds issued in China. This is the first large-scale international resource development project ever financed by a currency other than the US dollar.

Power of Siberia 2 has implications for Canada, too. Once completed, it will reduce China's need for LNG

Mike and Zoe

Missy at Sheep Herding Lesson

imports. This impacts the economic case for additional LNG terminals on Canada's west coast.

Perhaps Canada needs to look seriously at an Energy East gas pipeline that will deliver gas to Europe. This despite former PM Trudeau's statement that there is no business case for such a project.

Canada

PM Carney announced the first 5 projects of national importance. This designation will allow those favoured projects to skip much of the environmental reviews and Indigenous consultations that have essentially halted resource development in Canada. The lucky 5 projects are: doubling the output of the Kitimat LNG terminal; construction of a small modular nuclear reactor at Darlington, Ontario; expansion of the container port at the Port of Montreal; development of the McIlvenna Bay Foran copper mine in Saskatchewan; and expansion of the Red Chris copper mine in northern BC.

According to the *Toronto Sun*, all of these projects have already done all their reviews and consultations, financing is in place, and they are literally ready to go. There is no need for further approval by the brand-new Major Projects Office (which isn't even set up yet).

There is no oil pipeline on the list. The rationale will no doubt be that no private-sector proponent has come forward proposing to build a pipeline, either to the NW BC coast, or Churchill, or to the East coast.

This is no surprise. Premier Smith has repeatedly warned that no company will come forward to build an oil pipeline in Canada as long as 3 anti-development laws remain in place: C-69, the so-called no-more-pipelines act (but really the don't-build-anything-anywhere act); the west coast tanker ban; and the emissions cap that Premier Smith says is really a production cap. Other federal laws that she wants scrapped are the Clean Fuel Standards (what Opposition Leader Pierre Polievre calls Carbon Tax 2.0) and the Industrial Carbon Tax.

The Ontario-based auto sector warned PM Carney that his EV mandate is unworkable and will destroy the industry in Canada, particularly since the US does not have such a mandate. The Liberals *paused* the mandate of 20% fully-electric vehicles (no, hybrids don't count!) for 2026 while they review the whole thing. This is nonsense. No sensible company will make business decisions based upon a 1-year *pause* and a possible review.

The Liberals must like pauses. They *paused* the retail Consumer Carbon Tax before the recent election. That can come back at any time.

Getting back to EVs and batteries, I note that the Quebec government has formally declared the Northvolt battery project to be dead, and has written off a $270M investment. The Canada Pension Plan and other pension plans were also investors in Northvolt and will be taking their own haircuts. I don't have any information about whether AIMCO was also involved.

Floating Down the Elbow River

Alpine Meadow in August

The production of methanol from corn turned out to be a failure, because it takes more energy to make the methanol than is contained in the product. Despite knowing this history, our super-smart Prime Minister has decided to pour taxpayer money into using canola as the feedstock for a biofuels project. This is ostensibly to help out the canola farmers who have been hit by Chinese tariffs.

I guess that when you are operating without a budget you don't have any constraints on your spending.

Switching gears, The Bank of Canada Monetary Policy Report for July 2025 reported that:

"Underlying inflation is now assessed to be around 2½%.

"Growth in the Canadian economy in the first quarter of 2025 was stronger than expected at 2.2%, largely due to a temporary surge in exports in anticipation of US tariffs. Growth is estimated to have contracted in the second quarter. (ed. note: the 2nd quarter number was -1.6% on a seasonally-adjusted annual basis). While exports and business investment have fallen, growth in consumer spending has been resilient, and spending by government has picked up."

Looking ahead, the Bank acknowledges that the outlook is very uncertain due to the Trump Tariff situation. It proposed 3 scenarios in the *Monetary Policy Report*: the stable situation scenario (tariffs remain where they were in mid-summer 2025; an escalation scenario (increased trade problems); and a de-escalation scenario. Their best guess for 2026 and 2027 is for permanently slower growth of less than 2% through 2027, but not necessarily a recession later this year and into 2026.

The Canadian Prime Rate is currently 4.95% while the US Prime Rate is 7.50%. I've already written that I'm mystified why the looney is so strong vs the US greenback when there's such a large disparity of interest rates (high interest rates tend to support a currency). Of course it is not just a Canadian dollar thing; the greenback is weak against all major currencies right now, while the Euro is very strong against both currencies.

The relative performance of the Canadian stock market is also a mystery to me. Over the past 12 months, the TSX is up 27.5% while the S&P500 is up only 19.8%. Weakness in the US tech sector (the Magnificent 7) accounted for the US' underperformance late last year and early this year, but it doesn't account for Canada's continued outperformance. If stock markets are forward-looking, the Bank of Canada's forecast doesn't inspire a lot of optimism.

There seems to be a lot of money betting against the US right now! That seems to me to be a very dangerous bet! Have financial markets been infected by Trump Derangement Syndrome?

United States

What am I supposed to say about the United States? Donald Trump strides across the entire world, sowing chaos everywhere he goes.

President Trump thinks of himself as a fantastic dealmaker. He sees life as a series of deals, and his preferred strategy appears to be to create chaos and confusion in the ranks of his opponent so that he comes out ahead. Misdirection is also a favourite tactic – think the 51st state gambit. It sure sucked in a large portion of the Canadian electorate!

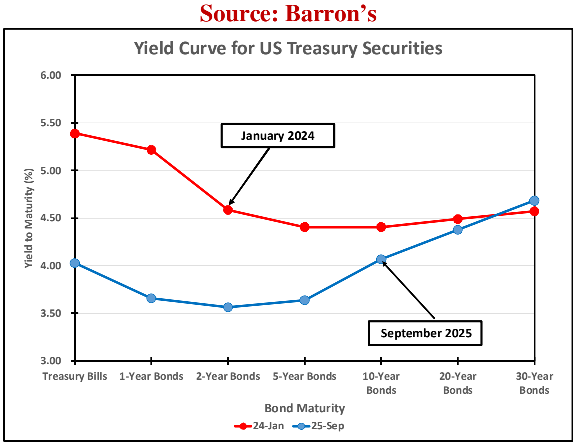
He likes tariffs. He thinks that tariffs on imported goods could allow him to lower taxes on the working class. As a result, his administration imposed tariffs at a minimum of 10% on virtually every country in the world. Many are now scrambling around to see if they can get the tariffs removed. The US claims that something like 130 countries have applied for tariff relief through negotiation. Talks are ongoing between the US and China, and the US and United Kingdom. Canada is never mentioned in this context.

He also thinks that tariffs will induce companies that shifted production away from the US will return that production to the US, by building new factories primarily in the Rust Belt. It is a strategy that seems to be working. Some companies, at least, are making announcement headlines. But action will speak louder that press releases.

It is still way too early to see the effects of tariffs in the economic numbers, but let's see where we are today.

We'll start off with interest rates. See Chart 1. A positively-sloped yield curve (longer-dated bonds have a higher yield than short-term bonds) is considered good for the economy, while a negative slope to the yield curve is unfavourable. Interest rates for short-dated notes have gone down over the past year, while the interest rate for long-term bonds has gone up slightly. Bond watchers look closely at

Chart 1
Yield Curve for US Treasuries As of 12 Sept 2025
Source: Barron's



the spread between the 2yr note and the 10yr bond. The so-called 2/10yr spread is positive. Others look at the spread between the 3-month treasury bill and the 10-year bond. This is remains negative. Mr. Market wants the Fed to lower its benchmark interest rate, and President Trump has been outspoken about wanting lower rates. He has even threatened to fire the Governor of the Federal Reserve. The Fed's actions only really influence the very short-term end of the interest spectrum, and certainly the Fed could drop its policy rate so that the 3mo/10yr curve is flat.

I think that the bond market would be happy if rates stayed unchanged for the rest of the year. Bond investors can get a risk-free coupon of better than 4% on long-dated US Treasuries, and better than 3% while sitting on cash held as short-term T-Bills. Investors in corporate debt can do better than this. Way back in the Middle Ages, my teachers taught us that corporate bonds can give investors equity-like returns, but at lower risk. I use that strategy in many of my client portfolios.

There's a recent article in *Barron's Magazine* that talks about a weakening jobs market in the US. Let's look at a few charts to see if this worry is warranted.

Chart 2 shows the Beveridge Curve, which is the ratio between Job Openings (the JOLTS report) and the Unemployment Rate. The JOLTS data comes from the US Bureau of Economic Research, while the

Chart 2
Beveridge Curve: Job Openings vs Unemployment Rate
Sources: Bureau of Economic Research; Dept of Labor Statistics

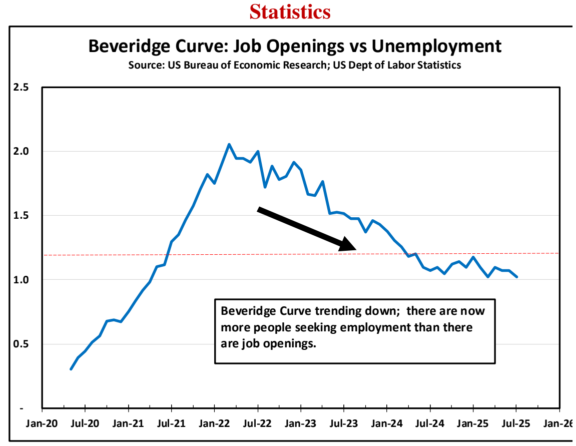


Chart 3
US Manufacturing Overtime Hours
Source: US Bureau of Labor Statistics

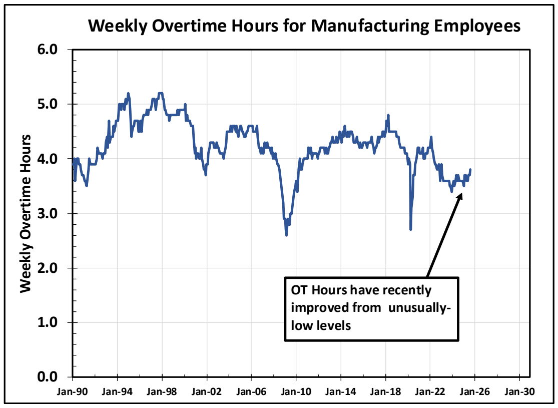
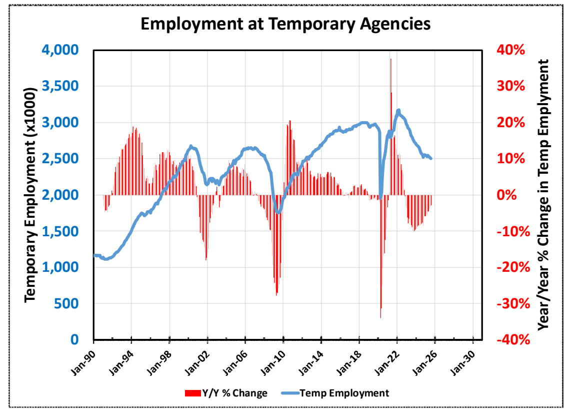


Chart 4
Employment at Temporary Agencies
Source: US Bureau of Labor Statistics



unemployment data is from the US Bureau of Labor Statistics.

The labour market is considered to be in balance when the Beveridge number is at 1.2, meaning there are 1.2 potential jobs for every unemployed person (in the US, only those actively seeking work are considered to be unemployed; this is different from Canada). The Beveridge Curve is currently close to 1.0, and is drifting downwards. This is not good news for President Trump!

If we burrow into the US jobs market a little further, we can examine 2 leading indicators for where US employment might be headed. Manufacturing overtime hours gives us an idea of the health of the blue-collar workforce, while employment at temporary agencies gives us an indicator of white-collar workers in the private sector.

Chart 3 shows that manufacturing overtime hours remain at historically low levels, but there has been modest improvement over the past few months. I'd say that manufacturing in the US is doing OK, but is not booming. Automation, including increased use of robotics, is probably fundamentally changing the employment prospects in the manufacturing sector.

Chart 4 shows that employment through temporary agencies is a continuing disaster. Over 675,000 positions have disappeared from this sector since March 2022, and although the pace of job loss appears to be slowing, actual job losses continue. We might be looking at a permanent structural change.

We all know that automated phone systems have replaced actual humans when we telephone businesses, and often there is no receptionist at the entrance to greet us at the door.

What about the stock market? The positive-sloped 2/10 yr yield curve is signalling that we should have a decent-to-good economy, and President Trump's economic policies in his 1st term were pretty good for business, so shouldn't that be good for stocks?

The US employment data isn't great. We're definitely not seeing all those jobs that the Trump Tariffs were supposed to be bringing to the US! Perhaps in a perverse way Mr. Market is cheering those job losses as an indicator that US businesses are getting lean and mean, and nice fat profits are going to come their way.

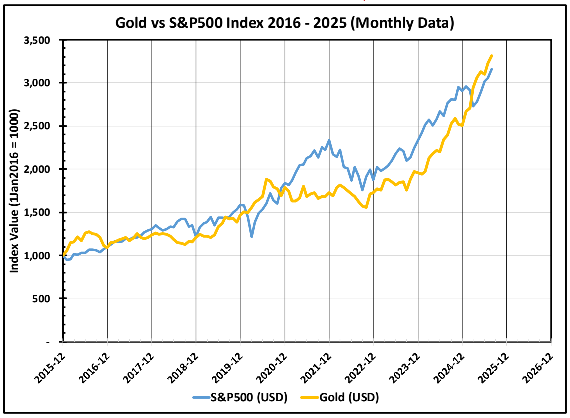
It is anyone's guess where the US stock market might end up by the end of this year. President Trump is just too unpredictable, and Mr. Market is reacting to every tweet. When elephants are rampaging through the jungle, sometimes the best strategy is to seek shelter and do nothing.

Gold

A final word about gold.

You might know that the US S&P500 stock index is the best-performing stock market in the world over the past decade. What you might not know is that gold matched the S&P500 over that decade, and is

Chart 5
Performance of Gold vs S&P500 Stock Index, 2016-2025
Source: Standard & Poors; Barrons



outperforming the S&P500 this year. See Chart 5. Central banks appear to be the big buyers. They are buyers, not traders, so once the gold enters their vaults it never leaves. Central banks also do not appear to be particularly sensitive to price. Third-world countries, particularly China and India, might be buying gold as a way of getting rid of their US dollar reserves.

Summing Up

My views haven't changed since my May newsletter, so I'll repeat what I wrote then.

I think that we'll be happy with single-digit returns from the stock market this year. This is more in keeping with long-term averages, but less than what we might have become used to over the past while.

I like the bond market, and a mix of short-term bonds and/or a high interest savings account, coupled with a high yield corporate bond fund, should give solid positive returns.

I remain a gold bug. I think an allocation of up to 5% in gold bullion is appropriate. Risk takers might prefer to put some of this allocation into crypto.

Family Photo at Kananaskis