Where are we now?

In late 2024 I wrote a letter sharing how dips / corrections / pullbacks in the market have always been an opportunity and 10% corrections typically happen once a year. In April, at the time of writing this, we were in the midst of one of these 10% corrections. Things have changed materially since then. Given the sky-high valuations in the U.S. at the end of last year, we were due for a correction of this nature. While it may not have felt like regular market activity, the market is designed to do this.

On Thursday May 1st, I hosted a Webinar with guest speaker, Brad Simpson, Chief Wealth Strategist of TD Wealth. We plan to do more of these webinars on a variety of topics in the future. We had a great discussion about the current market environment, the importance of diversification, and having a Wealth Plan that articulates your goals. I have summarized some of our conversation below:

Market Sentiment vs. Reality

- Media headlines are extreme (Carnage, meltdown, bloodbath), but actual market returns resemble a typical correction that happens every 1-2 years on average.
- Markets are extremely volatile but risk-controlled assets are doing their job.
- Investor fear is driven more by how we get our information (social media, news) rather than the actual data.

Tariffs & Global Trade

- Tariffs are back at levels last seen in the 19th century. In that period the lack of free trade ultimately led to the 2 world wars. We do not believe we are heading there again but this gives some context to the policy uncertainty in the U.S.
- The U.S. has usually acted as the great stabilizer in global trade, but now the opposite is true.
- Best case: Less than 10% U.S. Tariffs imposed on average. Base case: 10-25% on average. Worst case: 25%+ tariffs on average.

Investment Strategy

- Era of U.S. exceptionalism could come to an end. This along with a high valuation & lower trust could lead to depreciation in the U.S. Dollar.
- Fixed Income: Yields likely higher for longer than expected. Weaker capital gain outlook. Strong portfolio diversifier and method of preserving capital.
- Equities: Movement from growth & momentum into defensive names such as low volatility, value & Dividend payers.
- Commodities: Ageing infrastructure, growing power demand and energy transition provide an opportune environment for commodities.

Outlook for Canada

- Recession is not inevitable, and inflation remains higher. Markets have priced this in. Employment and spending remain resilient.
- Canada is seen as a global safe haven: Stability, AAA credit rating, strong institutions.
- TSX companies offer similar earnings growth as U.S but at lower valuations.
- Over 50% of TSX in defensive sectors (financials, pipelines, telecoms, utilities).

Key Takeaways

- Do not overreact to noise. Markets have acted in an orderly fashion compared to historical bear markets (COVID, Great Financial Crisis, Tech Bubble).
- Trade Agreement's take time, on average 18 months to sign & 45 months to implement. Investors need to be in this for the long haul.
- Diversification is the key to generating strong portfolio returns during volatile times.
- Decades of underinvestment could signal a meaningful opportunity in Canada.
- Most important part of financial success is to establish and follow your Wealth Plan.

We favor dividends as they tend to be a sign of a financially healthy and stable business. Last quarter many of our holdings increased their dividend with some examples below:

Company	Recent % Increase	5 Year % Cumulative Increase
Canadian National Railway	5.03%	56.46%
Tourmaline Oil	42.86%	216.67%
Johnson & Johnson	4.84%	30.53%
Proctor & Gamble Company	5.00%	34.60%
Nutrien Ltd.	0.93%	26.99%

*From Factset.com on April 5th, 2025

I thought I would share 3 of your portfolio holdings and why we like them for your interest.

BNS – Bank of Nova Scotia

Scotiabank (BNS) is a Big 6 Canadian bank. Its scope of business includes personal & commercial banking, wealth management, investment banking and global transaction banking in Canada, the United States, Latin America, and the Caribbean.

We view Canadian Banks as a great way to invest in Canada's economic growth. As mentioned in the conversation with Brad Simpson above, we believe the safety and attractive valuations of Canadian companies could attract investment. The Big 6 banks are a prime example of this and have demonstrated robust growth and strong market positions over the past decade. Currently, BNS has the lowest share price valuation among the Big 6 banks making it a strong investment candidate.

WSP – WSP Global Inc.

WSP Global Inc. (WSP) is one of the largest engineering and consulting firms in the world that engages in advisory, engineering and design services for private and public-sector clients in various end-markets, including transportation & infrastructure, property & buildings, industry, resources, power, and environment.

Back at its investor day in February, WSP unveiled ambitious investment goals through 2027. The company aims to grow net revenue by 40% while generating earnings growth of 50% over that period. While that may sound ambitious, the company has a great track record of generating value and meeting previous targets. To attain its objectives, WSP will concentrate on several key growth areas, including water engineering, energy transition, advanced manufacturing, and mission-critical facilities

XGD – iShares S&P/TSX Global Gold Index ETF

XGD seeks to provide long-term capital growth by replicating, to the extent possible, the performance of the S&P/TSX Global Gold Index, net of expenses. Under normal market conditions, XGD will primarily invest in equity securities issued by international issuers participating in the mining sector. The portfolio maintains a cost advantage over competitors, priced within the second-lowest fee quintile among peers.

XGD is the gold holding in our portfolio which has served us extremely well as of late and has done its job as a diversifier. Gold is a core holding in your portfolio as it is a great way to hedge against political uncertainty, high inflation, and/or "Black Swan events". Gold's recent success is a great example of why diversification is so important and a priority in your portfolio.

Mike

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