Bi-Monthly Newsletter
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Wise Investor – June 2025

Executive Summary

If there's one thing I've learned over the past few months, both as a parent of two young children and as a financial professional - it's that patience is more than a virtue; it's a survival skill.

Much like trying to get a baby to nap on a sunny afternoon or negotiating vegetable consumption with a kindergartener, the financial markets lately have demanded a kind of calm persistence that most of us don't develop until we've spent hours explaining why underwear is not optional. In both parenting and investing, progress often happens in small, hard-earned victories.

In Washington, policy conversations have mirrored my living room negotiations, plenty of posturing, some last-minute compromises, and lots of noise that may or may not result in real change. Tariffs and the U.S. debt and budget debates have returned to the headlines, keeping investors on edge, and adding to the sense of delayed gratification. When things are calm, planning a family road trip in the next few months or an investment strategy for the next few years can be straightforward but when adding an element of tantrums and immaturity, things get a little more complicated for both.

Meanwhile, the U.S. economy has felt like it's been walking that same tightrope. Inflation has cooled further, but along with it, so too has the economy. The hard data has been surprisingly well-behaved, and the likelihood of a recession has calmed. The Federal Reserve has continued its "wait and see" approach, much like a parent watching their child inch towards the cookie jar. Rate cuts are still on the horizon, but they're being held back like dessert: "We'll see, if things behave."

And the markets? They've reflected this uneasy balancing act. Equities have held up better than expected, with optimism peeking through like a rare quiet Sunday afternoon at home - but under the surface, there's still volatility, caution, and a watchful eye on what comes next.

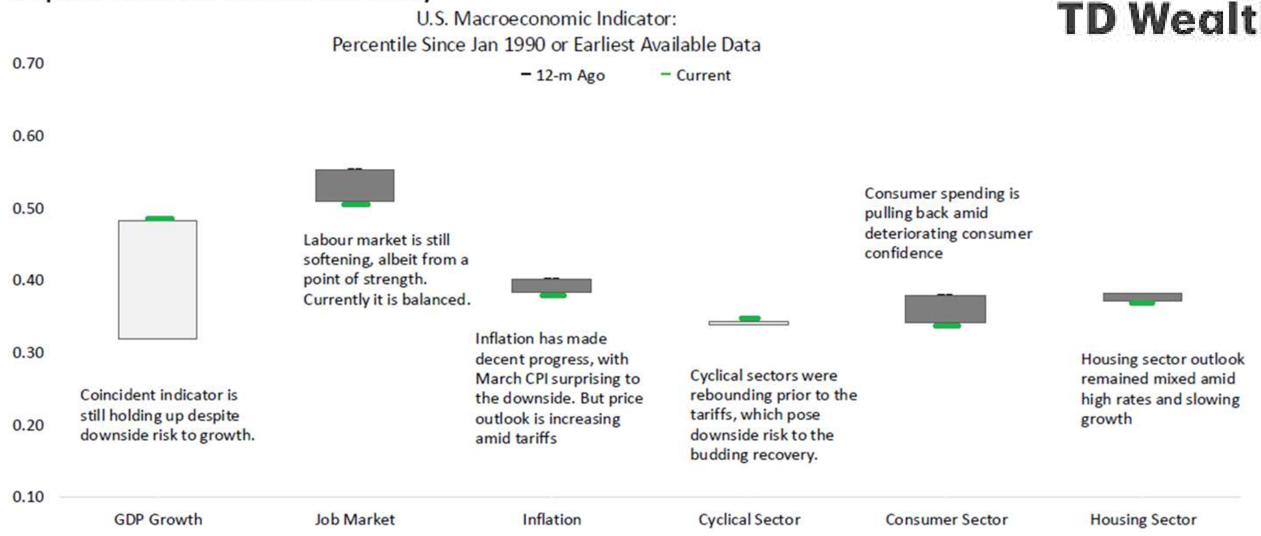
My insignificant summer road trip planning is of course overshadowed by the challenges currently facing business leaders globally. Compounding the problem, the quick rebound in financial markets has quickly removed any pricing of a significant economic slowdown, in other words, stocks have gotten expensive again.

In short, the last couple of months have been a reminder that whether you're managing a portfolio or managing sugar and screen-time, success often comes from being steady, flexible, and willing to play the long game.

In this publication I will touch on:

- **What could happen with tariffs?**
- **The changes that are likely needed for a cohesive global economy.**
- **What are the potential impacts of deglobalization?**
- **The, not so beautiful, Big Bill**
- **What is the possible patch for financials markets going forward.**

Graph 1: U.S. Hard Economic Data Summary



Source: FactSet, Wealth Investment Office as of April 21, 2025

What's Happened Lately

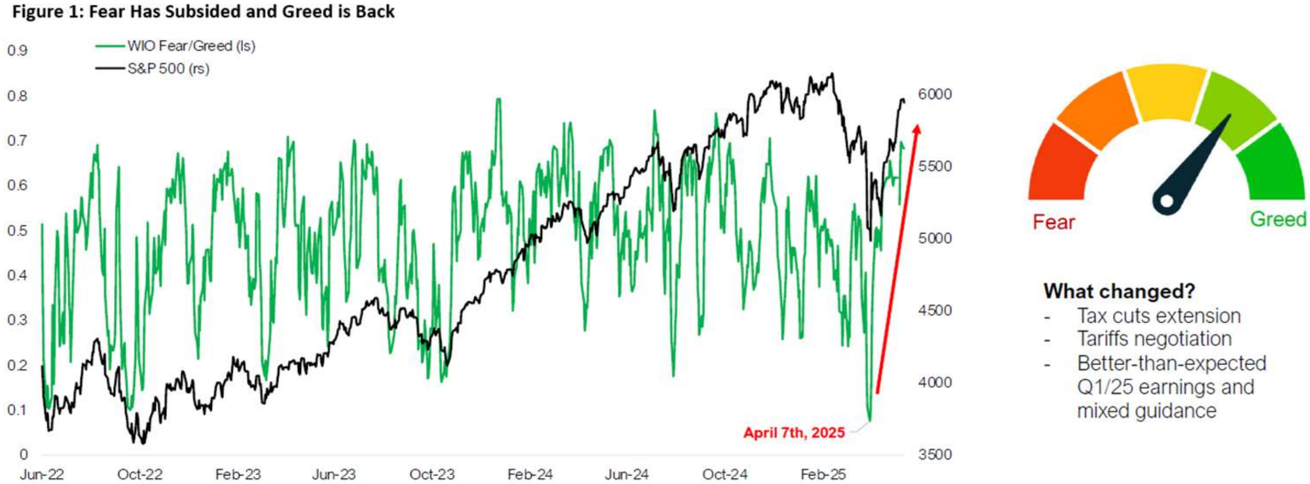
Since my March publication, the U.S. 'Liberation Day' early April implemented a series of aggressive tariff measures initially including 10% on nearly all imported goods, and additional 'reciprocal' tariffs on imports from 57 specific countries. Most significantly for financial markets, 25% tariffs on most imports from Canada and Mexico, now somewhat protected by United States Mexico Canada Agreement USMCA, and increased tariffs on Chinese goods reaching up to 145%, before a 90-day truce reduced them to 30%. The administration also threatened a 50% tariff on European Union imports, though the EU tariffs have now been delayed to July 9 to allow for further negotiations and a complicated deal was negotiated with the U.K. This is all now under question due to the American Court of International Trade sighting unlawful use of the International Emergency Economic Powers Act blocking the sweeping tariffs .

As a result, in April short-term indicators quickly showed signs of extreme stress, most notable the stock market and bond yields. Trade wars and fluctuating tariffs also disrupted key industries, leading to declining imports, reduced tourism, and hiring slowdowns. While some analysts predicted no recession and no rate cuts in 2025, citing rising growth and inflation, others were quick to point to sluggish growth and elevated inflation as potential recession risks. The reality is that nobody knows how this ends, but the hard economic data has remained mixed to slightly positive, with GDP holding up, inflation sustainably within target but with a slowdown in jobs, consumer spending and the housing sector, graph 1.

Lastly, in May, President Trump's "One Big Beautiful Bill' narrowly passed by one vote in the House, which is a legislative package aimed at stimulating the U.S. economy but would substantially increase the U.S. debt ceiling. This legislation would also carry notable implications for Canada as it could override existing tax treaties increasing tax burdens for Canadian investors. While the House aims to pass the bill by July 4th, the Senate may seek modifications, potentially delaying the timeline.

What a difference a month makes, with some concessions on the egregious tariffs on China and ongoing negotiations out of Europe and the E.U., and the possibility of tax cuts and deregulation, markets have rallied right back and short-term indicators are now flashing the all-clear with volatility subsiding and stock prices rallying to pre-liberation-day highs. Much like a toddler falling asleep on the couch after dinner, we need to see how these negotiations end before we can feel relaxed.

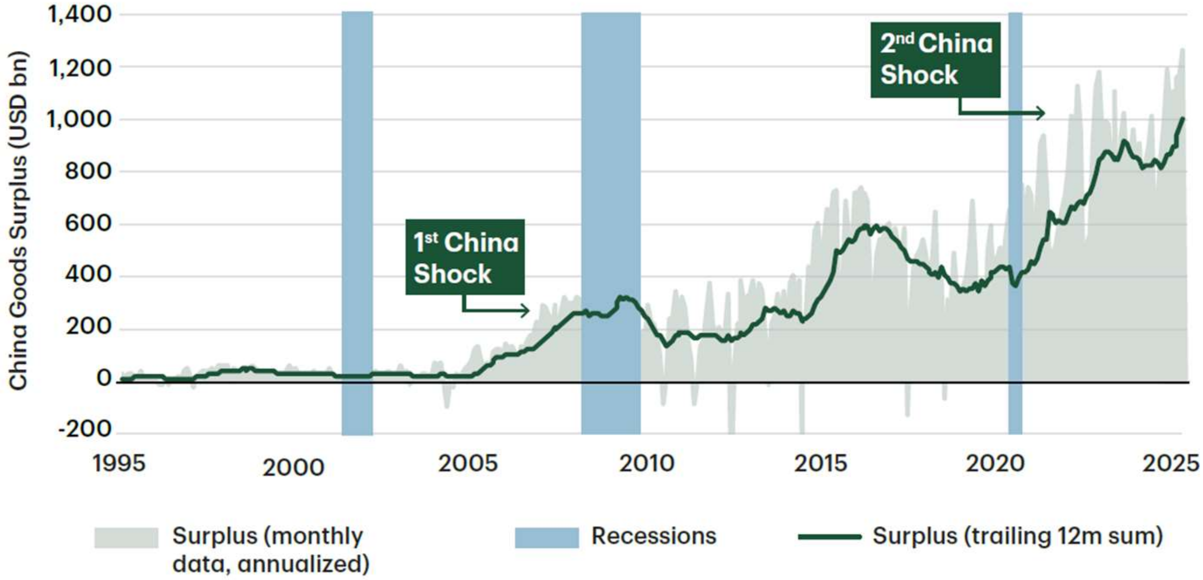
Figure 1: Fear Has Subsided and Greed is Back



Source: FactSet, Wealth Investment Office, as of May 21, 2025

All this to say, that if we had taken a 6-week nap, like sometimes I wish my kids would do, we would have woken up like nothing has happened. In reality, a ton has happened, and we must be both cognizant of the fact that uncertainties lay ahead which likely causes some future volatility, but the real time data remains positive and we're not in a recession.

Graph 2: China Goods Surplus (USD bn)



Source: Bloomberg Finance L.P., as at March 6, 2025

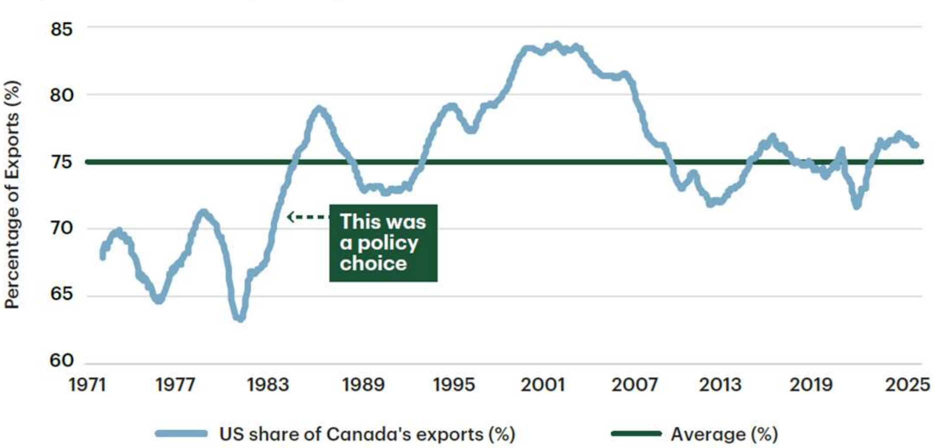
Why Should We Care?

The reality is that there are unsustainable excesses in global trade that need to be reduced to levels that are sustainable, but my opinion is that the U.S. has gone about this all wrong. China's surplus has more than doubled from its pre-COVID level, which was already the largest experienced anywhere in history, graph 2. Chinese companies now produce 90% of the world's solar panels, 70% of its batteries and 90% of consumer drones which is concerning. China also produces more than 50% of the world's aluminum, steel, and ships. Further, during the last three years, car exports have tripled, with China becoming the world's largest car exporter by units.

With the U.S. being the worlds dominant consumer and borrower, China has become the world's dominant manufacturer and lender creating an unhealthy dependency between the world's two largest nations. The U.S. needs to cut the deficit, raise manufacturing, lower consumption to ultimately reduce their debt burdens. With both nations sighting national security, the previous path was clearly unsustainable.

Back home, Canada's imbalances are not as exceptional as China but to no surprise we have a unique dependence on the U.S. that also needs to be diversified, graph 3. The risks associated with this dependency are well known and have been vigorously debated for decades. Canada made the explicit policy decision in the 1980s and 1990s via broad trade agreements that put us on this path but clearly the course now needs to be adjusted.

Graph 3: Share of Canada's Exports Going to the U.S.



Source: Bloomberg Finance L.P., as at March 6, 2025

There are many ways that all sides working together could engineer a more plausible rebalancing, but I have doubts that the current administrations will be able to reach a mutually beneficial solution. This ultimately means more headlines, negotiations, volatility, and uncertainty.

Before we move on, a quick comment about the 'Big Beautiful Bill' which to become law, must pass the Senate, where Republicans hold a slim majority. Given the internal divisions, the Bill's future remains too uncertain to attempt to strategize around. We'll need to monitor the bill's progress before preparing for the possible economic implications.

What Should We Do? – *Investment Strategy*

It doesn't take an advance degree in economics to recognize the challenges ahead. Tariffs and trade wars historically result in less-than-optimal economic outcomes. We also need to consider the other side of the coin, what could go right. What appears to be true now is that the 'Liberation Day' policies were a mistake and if a crisis is of your own making, then a reversal and clarification can provide relief. For now, the challenge is that we're all operating under the whims of the next policy or trade announcement.

With everything going on, from tariffs and trade shifts to recession chatter and political unpredictability, it's easy to feel like the world (and the markets) are a little noisy right now. But noise isn't the same as signal. And just like parenting or grandparenting, we know that reacting to every moment of chaos can lead to more harm than help. What matters most is having a plan, staying grounded, and knowing which moments really require action.

Our mission remains unchanged: to help our clients build the life they envision, not just in the next few months, but over the decades ahead. That means we don't chase headlines. Instead, we rely on customized strategies built around long-term goals, diversified portfolios designed to protect on the downside, and, when appropriate, tactical moves to adapt to the environment.

Recently, we took some profits during the market's rally and raised a little cash, what we like to call "dry powder." This gives us flexibility and opportunity should the markets get bumpy again, and it's just one part of the disciplined approach we bring to each client relationship. Our outlook remains for more choppiness but that doesn't have to be a bad thing if it can be taken advantage of.

If recent news has left you wondering how all of this fits into your own plan, let's talk. Whether it's checking in on your goals or making small course corrections, we're here to guide you through it. Because while today's headlines might feel overwhelming, we believe the broader global reset, especially in trade and policy, will unfold over many years. In hindsight, this period may feel like just a brief detour on a much longer and more important journey.

As anyone with young kids in the family knows, the days can feel long, but the years move fast. Investing isn't so different. There are messy days, tantrums, and curveballs, but with vision, strategy, patience, and a good plan, things tend to settle, progress typically continues, and for the most part, the future stays bright.

Personal Note

As life picks up pace and the world continues to throw surprises our way, I've been thinking more about the importance of staying grounded, literally. There's something simple but powerful about "earthing" or reconnecting with the ground beneath our feet. It's amazing what even a few quiet moments with your shoes off in the backyard can do for your clarity and tranquility.

In fact, A little dirt between the toes can help you:

- ✓ **Reduce stress:** Studies have shown that earthing can reduce cortisol levels, the body's primary stress hormone. Just 20 to 30 minutes of contact with the earth can promote calmness.
- ✓ **Improve sleep:** Earthing has been linked to better sleep patterns by helping to normalize circadian rhythms.
- ✓ **Support inflammation reduction:** some research suggest that earthing may reduce inflammation by allowing electrons from the earth to act as antioxidants.
- ✓ **Boost mood:** Time spent in nature and direct contact with soil or grass can increase serotonin levels, helping improve overall mood and focus.

And it's all free, no subscription, no funky side effects, no gear, just take your shoes off and step outside.

Of course, in our house, grounding looks a bit more like getting outside with the kids and finding ways to get our hands dirty. This month, I convinced my son is was a good idea to help me dig a hole to plant a new tree. He thought it was manual labour; I told him it was character building, and a chance for some free earthing therapy. Win-win, right?

Wishing you all a grounded and peaceful start to the summer,

Marley

"Wealth is not his that has, but his that enjoys it."

Benjamin Franklin

We will take as much time as needed to get to know what matters most to you while establishing a strong working and personal relationship. We have every confidence that this relationship can benefit you greatly. We have proven our value time and time again by helping a small niche of successful affluent Canadians realize their lifelong goals.

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