Market Update

September 2025

Important Topic: Disconnect Between Perception and Performance

There appears to be a growing disconnect between how people feel about the economy and how the economy is actually performing. This is not unusual as the economy is so large it is difficult to appreciate how it is doing.

On the one hand, equity markets continue to hit all-time highs. This has been driven by increased earnings as companies continue to perform well.

On the other, unemployment is rising in both the U.S. and Canada. While still relatively low historically, the change has left many feeling concerned about the future economy.

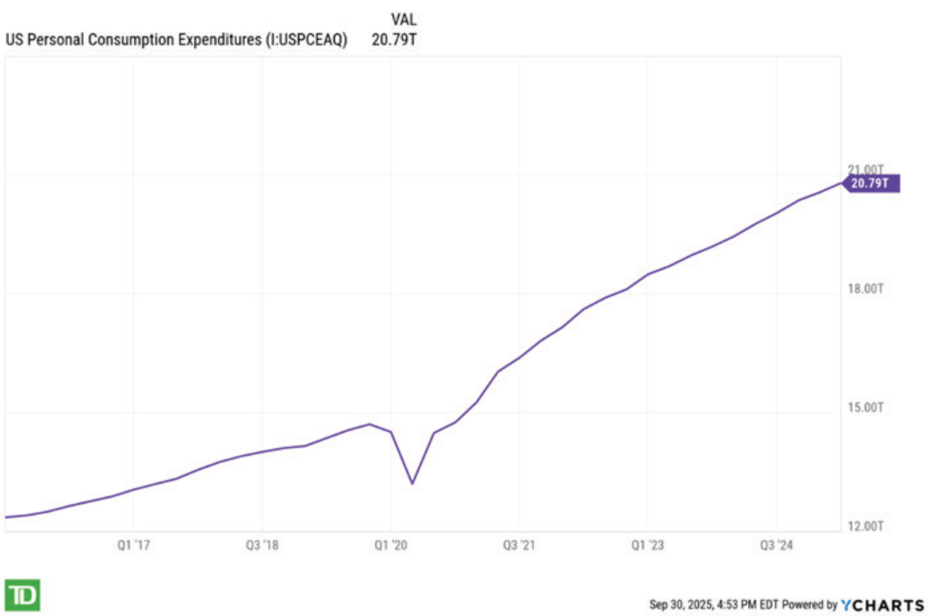
Historically, the equity markets and unemployment would usually move more closely together. Today, however, there appears to be a widening buffer between corporate earnings (which drive market gains) and unemployment.

Consumer Spending

Apollo research states that consumer spending in the US is approximately 70% of GDP (Gross Domestic Product). Americans love to spend. People love to spend.

The question then is whether consumer spending will be affected.

Look at the chart below. There was a slight dip during the pandemic, but then straight up.



Interestingly, two groups, high-income individuals and retirees, are less directly impacted by rising unemployment. In many ways, they are relatively immune to labor market weakness.

Bloomberg came out with data showing that the share of spending from the top 10% of Americans now account for approximately 50% of the consumer spending in the US! This has increased from about 33% in 1990.

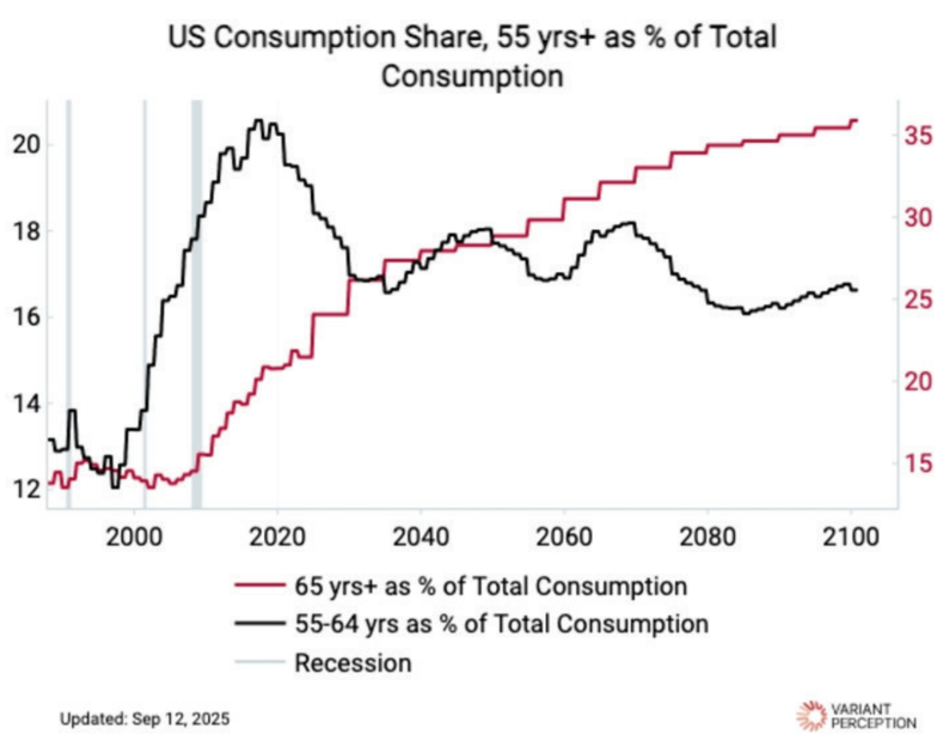
Additionally, Americans are all getting richer. Over 1/3 of American families now have over $150,000 of income for the first time in history (adjusted for inflation). Middle and lower classes have been shrinking because all families are moving up the wealth ladder.

The chart below provides what we think is another buffer. People who are 65 or over are going to be a huge part of consumer spending in the years to come. They accounted for 12% of consumer spending in 2000, but are now at 25% and will keep increasing. This group does not care if the job market is booming or terrible, as they are retired. This cohort of baby boomers has funds to spend, homes with no mortgages and portfolios that have increased significantly over the past decade.

What could stop the wealthy and the retirees from spending? Possibly, though this has not been the case historically, a drop in the value of their portfolios or homes resulting in them feeling less wealthy.

What causes this? A recession. However, this appears unlikely at present and if spending persists it becomes even more unlikely.

So, although unemployment is ticking up, a combination of the baby boomer spending, AI (artificial intelligence) and tech improvements, and the lowering of immigration (crack down on illegal immigration) could counter its effect and allow for the economy to continue to grow without a downturn.



Credit to Variant Perception

https://portal.variantperception.com/guide/welcome-to-variant-perception

Market Update: September 2025 – Optimism

Markets rose again in September, although historically September has averaged negative returns. The past five months have seen impressive increases across almost all markets, producing attractive Year-to-Date returns.

Torston Slock the Chief Economist at Apollo research provided us with the following data: 12 Reasons to be Optimistic

1. Trade policy uncertainty is improving
2. Economic policy uncertainty is improving
3. Consumer expectations to business conditions are improving
4. Consumers are less worried about losing their jobs (though worried about others) and jobless claims are still low
5. Corporate capex plans are improving
6. The daily TSA data for the number of people traveling on airplanes is strong
7. Data for the number of people going to Broadway shows, the movies and visiting the Statue of Liberty is strong
8. Weekly data for same-store retail sales is strong
9. Weekly data for bank lending is accelerating
10. Weekly bankruptcy filings are starting to trend lower
11. Weekly data for business formation is still stron
12. Combined with the Atlanta Fed expecting GDP growth in the third quarter at 3.9%, the bottom line is that the economy continues to do better than the consensus expects

Two items that could interfere:

1. There are significant upside risks to inflation in the regional Fed surveys and in ISM services price paid
2. We must always be aware and recognize that any time there can be an unexpected event that worries investors and triggers a temporary and emotional reaction that ignores all of the above.

While we do not know what will happen or when, we continue to believe that the economy will push forward. As long as earnings continue to grow, consumers continue to spend, and wages remain strong, we do not expect markets to fall any further than usual and believe the odds remain in favour of attractive gains.

We remain cautious about the short term and positive and optimistic about the medium, and long term. To be clear, this is based on over 100 years of data and the continued success of capitalism in allocating scare resources prudently. The short term is tied to human emotions, and this can flip faster than a Loonie.

Most importantly, we are confident that working together we can meet your objectives. At the end of the day this is all that truly matters.

Portfolio Update

Index	Quarter	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	1.40%	2.80%
Canadian Equity - S&P/TSX 60 Index - CAD	11.30%	21.70%
US Equity – S&P 500 - CAD	7.20%	12.70%
International – MSCI EAFE Index - USD	4.00%	25.10%
Global Small Companies - CAD	10.50%	12.90%
Emerging Markets - MSCI Emerging Markets Index - CAD	12.70%	24.00%
Real Estate - Dow Jones® Global Real Estate Index - USD	3.70%	8.50%
S&P/TSX Preferred Share Index - CAD	3.60%	11.50%

Attached please find a summary of account totals as of September 30, 2025

Have a great month and let us know if there is anything we can do for you,

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