



Royds Report

January 2025

Topics in this Newsletter

Thank You for All Your Help and Patience
Portfolio Reviews and Statements
What's Ahead for Markets and Economies in 2025

There are only 3 short topics today: a thank you to you, info on new statements and the market outlook.

Thank You for All Your Help and Patience

We'd like to thank all our clients for following us to iA Private Wealth and for your time and cooperation to do all the paperwork. We've worked hard to make the transition as smooth and as quick as we could, and we are still working on getting your contributions (Pre-Authorized Chequing or PAC) and withdrawals (Systematic Withdrawal Plan or SWP) set up as they were at Manulife. We did have some typos and interruptions in the processing, and maybe haven't caught them all yet. Please let us know if you see anything that needs correcting, or if you didn't get something you expected. We apologize for any errors. The volume of data to change has been a bit overwhelming. And we are still going through a learning curve on how to use all the new computer systems and to find out what the small processing differences are from what we were used to. (One change we were thrilled to discover is that now we have the ability to do systematic withdrawals from RRIFs and LIFs directly into unregistered or TFSA accounts. We will be able to set that up for those interested and not have to call you every year to manually arrange them.) We'll get faster with the new systems as we go and expect to get back to our normal review meeting scheduling soon. In the meantime, call us when you have any financial needs or questions and thank you again.

Portfolio Reviews and Statements

Pretty soon iAPW head office will send out your official 4th quarter statements, either electronically to the client portal or by mail, depending on what you requested. And soon we will be sending out fourth quarter Portfolio Evaluations with our comments on them, to all clients who had at least some of their assets transferred over to iA Private Wealth by Dec 31. It has been taking about 3 weeks for clients' mutual fund assets to transfer here, after the transfer forms have been electronically signed or received back in the mail. It usually takes a week or so longer for GICs to get transferred. And, for any RIFs or LIFs that were transferring in Dec, they may have been further delayed, because the industry doesn't want RIFs to be partially transferred as of Dec 31. That's because RIF and LIF minimums are calculated as of that date and the full total value must be known for that calculation. Not everyone's portfolio has transferred or *completely* transferred to iA yet. If you signed your forms in Dec and don't get a portfolio evaluation from us or you get one that only shows some of your holdings, don't be alarmed. All of your assets will arrive at iA, but the transfers are taking longer than expected, even though we've worked as hard and as fast as we could to make the transition as smooth and quick.

Also, don't worry if you see debit balances for \$169.50 in your accounts. Those are the transfer out fees Manulife charged. We submit reimbursement requests every week. So just be patient and those debits will be cleared. We're taking care of them.

For the last 27 years, when we mailed out Portfolio Reviews, we attached Market Value Logs to the last page. We manually kept track of all your deposits and withdrawals, your cumulative net invested and your quarterly market values on those logs. The purpose of the Market Value Logs was twofold. First, we wanted to help clients see whether their portfolios were growing mostly because of the money they added or because of market growth. Secondly, we hoped that people would be able to look back and see that some quarters or years their portfolios dropped substantially, but then their investments rebounded and went on to new highs. We hoped this would help them stay calm the next time the market fell. It turns out that after clients weather a couple of significant market downturns, they get pretty calm about market drops and internalize the knowledge that markets rebound. So, the Market Value Log became less and less necessary for the second purpose. We think it's still important though to be able to attribute any movement in a portfolio's value to the market or to the contribution and withdrawal of funds. For that reason, we will now be mailing you iAPW's Portfolio Summary report instead of a Market Value Log. This report specifically spells out how much of the change in a portfolio's value each period was due to contributions to or withdrawals from the portfolio and how much was due to interest and dividend income or market gains or losses. And, this iAPW report tracks the cumulative net invested to compare to the portfolio's market value, the same as our old Market Value Log used to. We couldn't carry forward the history of your portfolios' ups and downs at Manulife, but you have all that history from the Sept 30 Market Value Log we sent you in October. And going forward, you can also see a nice chart of your net invested compared to your market growth over time on the client portal. So, the Market Value Logs served their purpose, but now you will see that info in more modern forms.

Two terms you may see used on your statements are used differently from what you were used to at Manulife are Growth Securities and Investment Funds. For the most part, any pure equity fund will be shown under the heading Growth Securities to distinguish them from fixed income or balanced funds. The word growth does not refer to the investment style of the funds. The term Investment Funds refers to funds that have a focus on delivering an income stream. We are used to calling them simply balanced or alternative funds. The categorizations on the Portfolio Evaluations don't impact how we structure portfolios for the Income Matching Strategy, so don't focus on that so much as how your funds are doing.

By the way, we've had feedback from many of you that iAPW's client portal is easy to use. There is so much clear information there. Just remember that it's not good to look at your portfolio too often. As we've said before, Prospect Theory states that you feel every drop in the market twice as hard as you feel every gain. And since markets go down about 46% of all days (for $2 \times 46 = 92$ units lost from your happiness) compared to rising 54% of the time (for 54 units of added units of happiness), people can end up unhappy even when markets are rising more than falling. Source: Taleb, Nassim Nicholas (as quoted by Bridgehouse Asset Managers). The Hidden Role of Chance in Life and Markets, Fooled by Randomness.

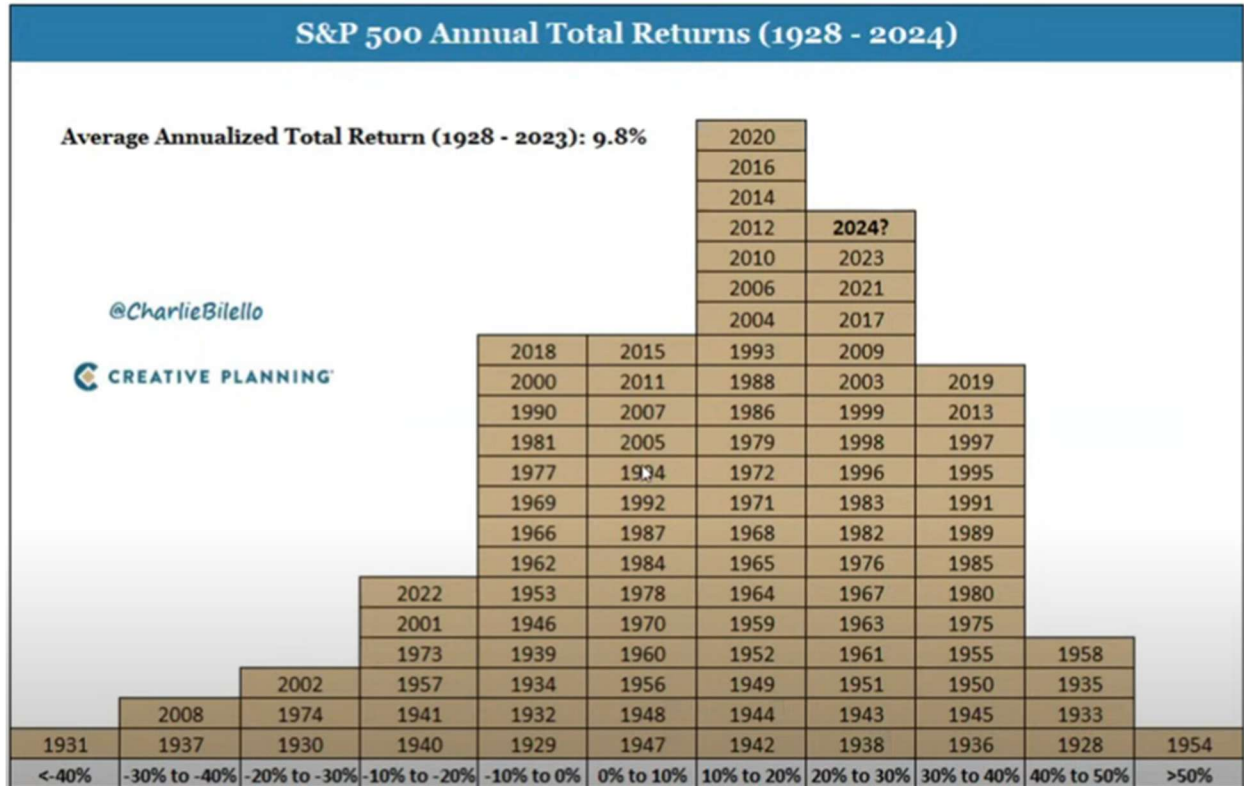
What's Ahead for Markets and Economies in 2025

We still don't have a crystal ball to know what surprises will upset the market or spur it on to new heights, but we can look at likelihoods based on history and then look at what seems to be on the horizon. As usual, we concentrate on US markets, because that's where most of our clients' investments

Planning, (2024, Dec 23). Put These Charts on Your Wall (2024 Edition) | Charlie Bilello | Creative Planning, <https://www.youtube.com/watch?v=iahIYXrck5I>.

(2022, Feb 22), Market Corrections Are More Common Than You Think, schwab.com.

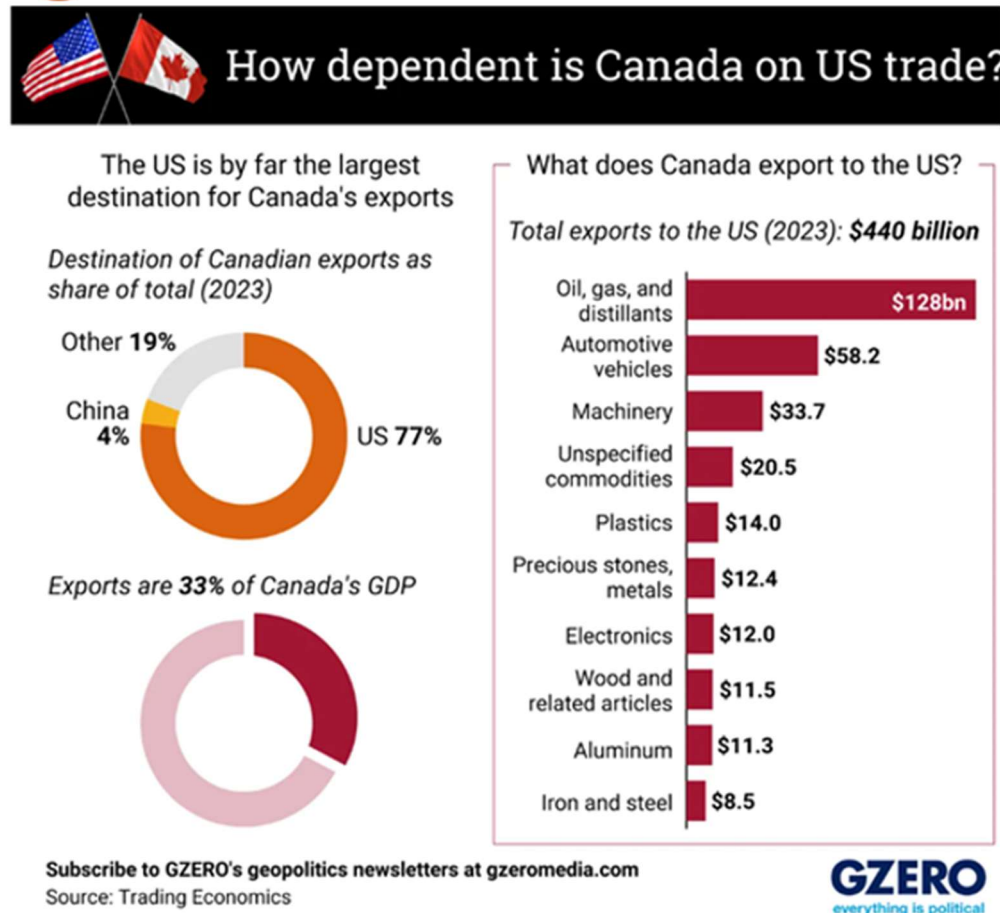
will end up positive. Below is a chart showing which years since 1928 fell into various bands of returns, ranging from really horrible to utterly fabulous.



reaction to markets? Hold on and stay invested through thick and thin. Source: Creative Planning, (2024, Dec

23). Put These Charts on Your Wall (2024 Edition) | Charlie Bilello | Creative Planning,
<https://www.youtube.com/watch?v=iahLYXrck5I>.

One thing highly expected to impact the Canadian economy (and is yet another reason that we encourage clients to underweight Canadian investments) is tariffs. Here's a nice chart, that GZeroMedia.com labelled "Graphic Truth: **Trump tariffs could cook Canada**", to show just how concentrated Canadian exports to the U.S. are and what industries are most dependent on exports to the U.S.



And how bad could even 10% tariffs be for Canada? "Brace yourself. **A recent report by the Canadian Chamber of Commerce estimated that a permanent 10% US tariff on Canada would cause US imports to fall by 10%, and knock as much as 5% off of Canada's GDP.**" Source: Kliment, Alex (2024, Nov 14). Graphic Truth : Trump tariffs could cook Canada, GZERO.

The AGF outlook for 2025 resonated well with us. Here are under 2 pages of the highlights of AGF's 41 page "Forecast for the year ahead".

- "Economic growth is solid, if unspectacular in many countries, and the interest rate environment has slowly become more accommodative since the summer. ... 2025 will be another positive year."
- "Trump 2.0 could be a double-edged sword for investors. For instance, the president-elect's pro-growth agenda, which promises lower taxes and reduced regulation, seems decidedly bullish for

U.S. equities, but it could also work against the market should economic activity heat up too much and force the Fed to slow the pace of its easing cycle even further in response. Then there is Trump's plan to slap tariffs on all imported goods, which, if they reignite U.S. inflation, could elicit a similar response from the Fed. That ... could be a drag on U.S. stock performance"

- "Trump's administration could disrupt global markets in other ways. One is his anticipated foreign policy, which could stoke already heightened geopolitical tensions. Another is his potentially inflationary pledge to deport millions of immigrants and force many companies to "pay up" to replace lost workers. All in, then, investors might find it challenging to garner positive returns in 2025 to the same degree as this past year. Yet the path ahead still seems ripe with opportunities for potential gains."
- "tariffs and deportations, both of which have the potential to restrain growth and drive up the U.S. dollar, ... could help offset any inflationary impact. A pro-energy policy ... could also dampen inflation."
- **"fears of a recession are at the lowest levels in the past few years."**
- "we see a solid runway for Canadian stocks in 2025, supported by valuation upside and the potential for stronger global growth to propel cyclical sectors higher, leading to renewed interest in the Canadian market. ... landscape as it relates to growth, inflation, interest rates and consumer spending has improved on all fronts from this time last year and looks likely to get even better as we enter 2025. Inflation is now back to the Bank of Canada's target range and is finally putting less pressure on consumer spending, which is showing early signs of starting to pick up after 18 months of weak readings. As a result, interest rates have been lowered and are on track to see several more downward adjustments over the first half of 2025. This could further alleviate concern around elevated debt levels across the country or the ability for consumers to simultaneously service those loans and spend to create economic growth. Lower rates should also help spur on the housing market, which has seen a lull in activity for the past 24 months. ... On the earnings growth side – the primary determinant of long-term stock market movements in most global regions – the picture for Canadian equities is getting a little brighter. Recent consensus estimates (as of November 11, 2024) were that TSX earnings will expand by 12.8% in 2025, led by a resurgence in cyclical sectors including Materials and Industrials."
- "if the Trump administration implements immediate tariffs in his second term, it would create additional risks for the Canadian market in the next several years. Trade relations between the U.S. and Canada were strained during Trump's first term, with the renegotiation of NAFTA and the imposition of tariffs on several Canadian industries (steel and aluminum) being flashpoints. A second term could see continued pressure on Canada's trade surplus with the U.S., particularly in sectors like automotive and agriculture. However, it's also possible that Trump's desire to further reduce U.S. reliance on China and other foreign producers could result in increased demand for Canadian materials and energy commodities, as well as greater access to U.S. markets for certain Canadian exports. We believe, if the U.S. continues to focus on energy independence, Canadian energy stocks could benefit as increased demand for Canadian oil and gas over other international sources would result in expanded access to the U.S. market. Higher cash flows and profitability would be the likely result."
- Overall, then, we foresee a path to slightly above-trend returns for the TSX composite in 2025. Despite tariffs and other unknowns related to the political environment in the U.S., the Canadian economy is in a much better position than it was a year ago, and earnings growth suggests the TSX has decent upside from here."

- “the perceived shift towards a more business-friendly administration has sparked optimism in U.S. equity markets, with the S&P 500 Index surging to new all-time highs, led by small caps and financials.”
- evolving climate:
- “Small-cap stocks are poised for the potential of significant gain even after, in the wake of the election, notching their largest weekly gain since the COVID-19 pandemic. The Russell 2000 index is expected to continue outperforming. Small caps typically thrive in environments where the Fed cuts rates, and with moderating inflation and easing financial conditions, we believe this sector is well-positioned for growth.”
- “the Republicans’ electoral victory casts renewable energy policy into uncertainty. The Republican sweep could jeopardize tax credits associated with President Joe Biden’s Inflation Reduction Act, leading to downgrades in clean energy stocks.”
- “The reduction in political uncertainty and anticipated economic growth provide a solid foundation for stock market gains, particularly in small caps, financials and industrials. ... **market leaders can quickly become laggards and vice versa in the current environment.**” Source: (2024, Dec 3) The Forecast for the Year Ahead, AGF Investments.

We look forward to continuing to work with you this year. Let’s all have a wonderful 2025.

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