

Royds Report

Mid April 2025

Topics in this Newsletter

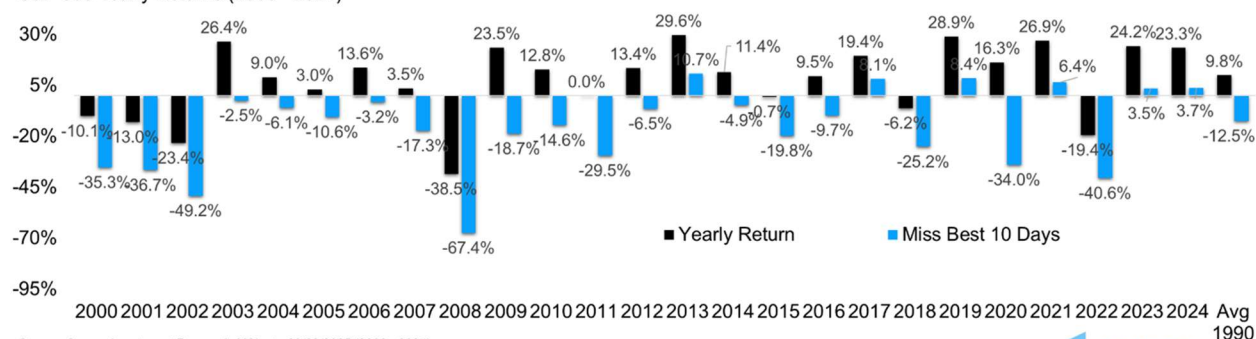
The Danger of Hopping In and Out of the Market
Market Outlooks

The Danger of Hopping In and Out of the Market

The following chart shows you the difference in annual returns that you would have experienced over the last 24 years, if you had missed the best 10 days of each year. Often the best returns occur right after the worst days in the market. So, **if you panicked and jumped out of the market and missed even some of the early recovery days, your returns could have been substantially different. It's best to ride out bumpy markets.** Of course, **if you have short-or medium term needs for cash, then we need to prepare in advance, in good market times, to protect that specific money against bumpy or bad markets. We find income matching is a great way to do that.** Then we don't have to worry about short-or-medium term market ups and downs. If you'd like a refresher on our income matching strategy, or want to see its status in your accounts, give us a call.

Missing The Best 10 Days Of The Year Can Crush Returns

S&P 500 Yearly Returns (2000 - 2024)



Market Outlooks

Here are some highlights of recent market outlooks and some economic tidbits from National Bank, AGF, a top Fidelity fund manager and RBC. There isn't total consensus by any means. And, it's sure not all roses, but it also isn't all bleak. It's not necessarily worse than normal corrections.

On Mar 27, 2025, National Bank just released their updated market outlook. They're forecasting a 10% chance of a bull market with a strong labour market, only 3% inflation, economic growth over 2% and less market uncertainty. They feel there's **30% chance of a recession, with a weak labour market, households spending less, inflation up due to tariffs, Trump policies backfiring and counter-tariffs prevailing. They feel the most likely scenario by far though is Growth at a Sub-Trend rate, with tariffs, with a slightly weak labour market at 4.5% unemployment, inflation around 3%, GDP growth around 1.5%, interest rates dropping a bit and increased government spending/aid around the world cushioning global economies.** Let's hope National Bank's forecast is right. Source: CIO Office (Q2 2025), Quarterly base-case scenario, National Bank Investments.

AGF Management, the fund company, has a similar yet different outlook. They make the point that the old "idea that the U.S. President will do whatever necessary to keep equity investors happy has all but dried up as a viable trade in stock markets. That's not so much because promises to deregulate industry and extend tax cuts have been abandoned, but because they've taken a clear back seat to tariffs, deportations and government job cuts in the U.S. Those are seen by many economists and investors as negative for the U.S. economy and other global economies like Canada's, which have been caught squarely in the crosshairs of the new U.S. administration's priorities. ... **recent surveys and forecasts that seem to predict gloomier days ahead despite there not being any real signs to date of a significant weakening in actual U.S. economic data.**" The OECD (Organisation of Economic Co-operation and Development) downgraded their projection for global growth from 3.3% to 3.1% for 2025 in March. They **expect Canada and Mexico to have the worst growth drop due to significant trade policy change "that if sustained would hit global growth and raise inflation.** ... even more alarming is the drop in U.S. business and consumer confidence readings, which have both plummeted over the past month. We believe confidence is the cheapest form of stimulus, and it's not a good sign that it has fallen so precipitously in such short order. Indeed, if **confidence is waning from growing concerns about future income, inflation and job prospects, it's possible that both consumers and businesses may pull back on spending. ... as long as the Trump administration's economic policy seemingly shifts from one day to the next, there is no telling how long this current bout of uncertainty will last or how bad it could get before improving once and for all."**

So, if this is what AGF thinks, what are they doing in their funds to protect their investors? They had this to say: they **"don't believe current events are a crisis comparable in magnitude to the Global Recession at the end of the aughts or the COVID-19 pandemic at the beginning of this decade. It's serious what we're going through, yes, but we believe it seems to be more typical of an ordinary correction than a full-blown meltdown.**

Still, as an asset manager committed to long-term investing, it ... means an emphasis on more defensive sectors of the equity market, like consumer staples or utilities ... some companies that have fallen in price over the past month have strong fundamentals and have only become more attractive to us because of their lower valuation. That's the type of investment we want to seek right now. At the same time, we are carefully weighing our

exposure to stocks that may experience a deterioration in their otherwise strong fundamentals if the current trade war between the U.S. and its trading partners ends up being protracted.

Finally, we haven't forgotten the importance of asset allocation and **diversification** more generally. Owning shares in just a handful of U.S. technology stocks may have worked as a strategy over the past couple of years, but it has been a much different story this year." (The Mag 7 have felt lots of pain so far (at the time of writing) in 2025.) Diversification was always wise. It sure protected this time. Source: McCreddie, Kevin (2025, Mar 24). Scare Tactics: Navigating Through Market Uncertainty, AGF Investments.

On Mar 17, 2025, one of Fidelity's highest profile fund managers (with high long-term returns, but VERY HIGH VOLATILITY), Mark Schmehl, shared his insights. Given his past successes, we wouldn't discount his comments and views. Here are some soundbytes from him:

"US economy is slowing down, been slow for the last two years if you look under the hood of the tech mania, policy shifts from Washington changing every hour makes it hard for businesses to plan"

"Can't be too bearish as he knows tomorrow the market can change and be back up 30%"

"Mark believes market will settle over next 2 weeks now that positioning trades have run their course ... Mark believes **repositioning capital flows to Europe and China is not a short-term phenomenon ... Chinese economy is not great but less bad than it was and less bad is always a great trade ... Europe is a slow-moving battleship that looks like it is turning a corner**"

"Two ways to think about AI: 1) Invest in companies creating computing capacity to run AI: Nvidia, Broadcom, semis [semi-conductors], etc 2) Next phase of AI, who is using AI and how they are using it to make their business better. ... [last] June Mark started moving from hardware to software ... The Mag 7 will have a headwind of people who own them as their largest position now [because those people will be] repatriating that capital to pick their own champion in their own country"

"Structurally underweight the mega caps, **Mag 7 is not where you want to be in a world where the US economy is slowing down...**"

"Defense stocks are ripping and should be, they are going to have to rearm the continent with US not helping – this is a 10-to-15 year capital spending cycle ahead."

"oil prices don't look like they will rally" Source: Schmehl, Mark (2025, Mar 17). Mark Schmehl Notes.

On Mar 24, 2025, RBC Global Asset Management shared some of its outlook in a webinar. They show:

- the **consensus earnings growth for the US to be 13%. Not bad!**
- that **mid cap companies in the US (that's medium size companies which is what most Canadian companies would qualify as if they were in the US) are trading at cheap prices compared to history.** Their Enterprise Value (EV) are trading at a 16% discount compared to the 6% premium that is the average price they usually trade at and are trading at a 28% premium Price Earnings ratio (P/E) compared to the 40% they normally trade at. This is a sector of the market trading at historically cheap prices which could spell opportunity

- the **US's already high and rising debt level is a huge threat to economic growth.** Spending cuts won't be enough to permit tax cuts and get debt under control too, so Trump is trying to fund his campaign promises through tariffs
- **market uncertainty spiked hugely in 2020 (Covid) compared to at any time since 1985**
- Saskatchewan, Alberta and Newfoundland/Labrador are the provinces with the greatest % exports as a % of GDP. Ontario, Nova Scotia and PEI have the lowest % exports compared to GDP
- house prices in the US increased at roughly the same rate as wages in the last 20 yrs. In Canada house prices grew 2.5% faster per year than wages and almost 2% faster than house prices in the US. In Canada house prices grew an incredible 56.7% from Apr 2020 to Feb 2022, but then from Mar 2022 to Mar 2023, there was a 15.1% correction in house prices. From Apr to June 2023, there was a 5.3% house price rally, but there has been about a 3.8% correction since then. **It may be a while before housing prices in Canada can grow very significantly again, especially since population growth has slowed, due to a change in immigration policy. In the GTA, condo completions are expected to fall. Vacant units are expected to increase from 2025 – 2028 which should put downward pressure on condo prices and rent prices.**
- Canadian house prices have risen 2.7% compounded less from 2005 to Jan 2025 than Canadian stocks have and that doesn't take into account the cost of maintenance, property tax and the difference in liquidity and selling costs between stocks and real estate. Source: Chiera, Christian (2025, Mar 25). A good time to be thinking about diversification, RBC Global Asset Management.

So, there's far more uncertainty than there is bad economic news so far, and this may be no more than a regular correction for stocks in the end. It's not fun to live through, but the world isn't ending economically. **As long as we are holding competitive businesses with strong balance sheets that are in growth or essential industries, we just hold on to our quality investments. Strong businesses will not only survive, but keep making money.** After the situation is stabilized, the value of quality businesses will be recognized again. **Call us if you are nervous or want to review what kind of great businesses you are part owners of through your funds.**

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