

WEEKLY STRATEGY Perspectives



Private Wealth

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Building a Bubble?

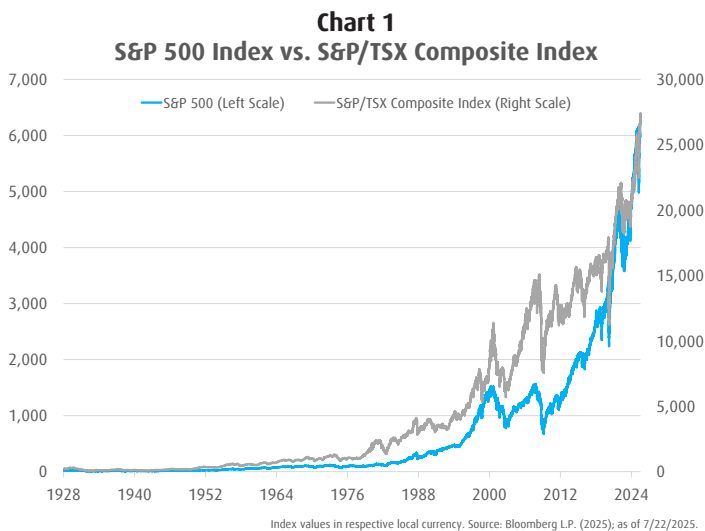
"Stock market bubbles don't grow out of thin air. They have a solid basis in reality, but reality as distorted by a misconception."

– George Soros

The Through Line: With Canadian and U.S. stocks trading at all-time highs despite the glut of mercurial headlines year-to-date, investors are nervous. Is it a bubble about to burst – or does the uptrend have staying power? While acknowledging a few fizzy factors at the margin, we point out a number of encouraging underpinnings that support continued progress.

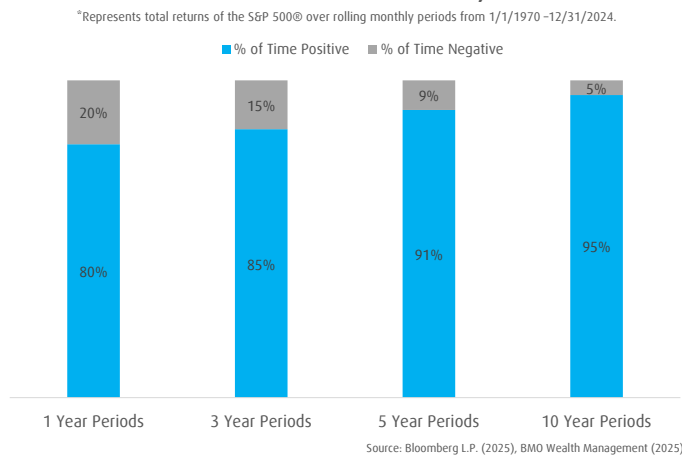
Who's afraid of a big bad bubble?

Funny thing about stock market bubbles: they're a bit tough to define when you're in one, yet REALLY easy to see once they've burst. Of course once the air is out, everyone will claim that they clearly spotted the signs that were so obvious in the final stages. If only converting hindsight to foresight were that easy. It is helpful to start by understanding that over the long-term **the equity market's natural state is an uptrend** (chart 1).



Looking at it another way, the market has batted well above .500 in most longer time periods for more than 50 years (chart 2), though past performance is no guarantee of future results.

Chart 2
Percent of Time S&P 500 Was Positive, 1970 - 2024*



Yet the downside to "long term" is it that takes a lot of individual "short terms" to get there and those day-to-day swings can be brutal on psyches and stomachs. Behavioral science tells us that we feel the pain of loss twice as intensely as we feel pleasure in gains.¹ This loss aversion prompts us to want to exit – or at least pull back – when markets seem to be headed for bubble territory. Chart 3 shows that markets have historically generated positive returns in more years than they've declined. However, it also illustrates that large upward spikes tend to appear before each downturn.

very early innings. The bill helps put an initial framework in place and there's more to come, providing the broad strokes of industry boundaries.

- **The IPO and M&A markets remain largely dormant. Trillions of dollars of cash are sitting on the sidelines, waiting for an opportunity to be unleashed.**
- **Rumors of the death of U.S. exceptionalism seem to have been premature.** Treasury Department data showing \$330 billion in foreign investor inflows during Mayⁱⁱ lends credence to that presumption as do recent announcements of physical deals and plant expansions.

Party like it's 1999

Lest we be accused of only looking at the bright side, more bearish-biased market watchers point to signs of growing exuberance and/or things that could sour the vibes:

- **Meme stocks** are once again making news, boasting rapidly appreciating share prices; in addition, highly levered single-stock ETFs are curating a speculative aura. Crypto currencies have appreciated strongly from their early April lows, also trading new high ground.
- **The Fed's independence is under increased assault.** When the U.S. chips away at the Fed's reputation as a politically independent body, non-U.S. investors may resume their boycott of U.S. assets. Exacerbating this could be the suspicion that reduced/rolled back regulation is weakening the long-applauded comfort that investors take from the idea that so-called adult supervision is overseeing the profit-dominated motives of capitalism and capital markets. Foreign bourses in the UK, Taiwan and elsewhere are already attracting high-profile launches.
- **Could the angst the U.S. has inflicted on its trading partners prompt them to retaliate in reduced services spending** (e.g., fewer foreign visits to the U.S., lower numbers of foreign college students, less consulting)? Services is the largest segment of the U.S. economy and the U.S. runs a surplus with much of the rest of the world here.

- **There is an aggressive push, backed by some of the largest Wall Street firms, to place alternatives such as private capital and hedge funds in 401(k)s.** Investment in such vehicles requires a high degree of care and due diligence, plus investor patience for long lockups. Backers are promising liquidity, but fees will inevitably be extracted for providing it. Illiquidity masquerading as liquidity will often include gates, redemption limits and early redemption fees all at the manager's discretion.
- **AI companies are waging an expensive war for talent.** Rumors of nine-figure pay packages and extravagant stay bonuses for top engineers have all the markings of a bubble mentality. Will it prove a race to the bottom in capital investment – or a wise downpayment on the next big breakthrough? Time will tell. Historically, a key ingredient of bubbles is the presence of excessive debt channeled to the frothy area. In AI, it's a race confined within an industry whose margins, net debt and cash flow can handle the level of investment largely organically – at least among the largest players.

Implications for investors

While there are a number of factors on each side of the bubble/no bubble debate, we believe the "no-bubble-yet" argument is most compelling. Nonetheless, for those who found themselves acutely unsettled during April's volatility, markets in all time high territory provide an opportune time to rethink, rebalance, trim – or gift appreciated shares to your favorite non-profit.

Those with sidelined cash who are feeling like they've missed the run can also take action. That could mean methodically investing a regular amount or percentage each month until you are at desired allocations, which may assuage fears of putting your cash to work all at once.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Trade deal announced between the U.S. and Japan – On Sunday, Japan's ruling coalition lost its majority in the House of Councillors (upper house) on the heels of a similar defeat last October in the House of Representatives (lower house). This outcome will likely force Prime Minister Shigeru Ishiba's ruling LDB party to widen the political tent to form a new coalition. It may also represent a threat to Mr. Ishida's job. In theory, a U.S. trade deal should have become more difficult in the wake of Sunday's election. It was therefore somewhat surprising when President Trump posted on Truth Social Tuesday night that the U.S. and Japan had signed a new trade pact. According to the post, Japanese imports will face a 15% tariff instead of the threatened 25%, up from the baseline 10%. Japan will open its auto and agriculture markets to U.S. imports tariff free. Japan, which is currently the largest investor in the U.S., will invest another \$550 billion to be spent at President Trump's discretion and will take only 90% of associated profits. Japanese national broadcaster Nippon Hoso Kyokai (NHK) reported the 15% tariff would be applied to Japanese auto imports, circumventing the current 25% Section 232 tariff. **In the end, any trade agreement will need approval from Japan's National Diet (parliament) where Prime Minister Ishiba no longer oversees a majority coalition.** Local reporting in Japan suggests a broad deal has not been formally completed; the Ishiba government continues to push for zero tariffs on autos and a mini-deal more likely ahead of the August 1 deadline. The deal terms announced by President Trump may only add to mounting political pressure on Mr. Ishiba.

U.S. administration still displeased with the Fed chair – During a press conference earlier this week Treasury Secretary Bessent and President Trump continued their attacks on the Federal Reserve. Mr. Trump criticized the central bank for the cost of renovations to the circa 1937 building. He also called on the Fed to cut its benchmark rate by three points or more, saying current policy was hurting prospective homebuyers. Mr. Bessent claimed the Fed was experiencing "significant" mission creep, adding officials need to "stay in their lane" and cut rates now. Bond traders are watching the machinations carefully as central bank independence and objectivity are crucial for the smooth functioning of global bond markets.

More U.S. focus on defense spending – the U.S. Congress is expected to finalize the National Defense Authorization Act (NDAA) within the next month. When paired with the \$152 billion allocated to defense in President Trump's OBBB, the total fiscal year budget is expected to range between \$982 billion and \$1.07 trillion, depending on how differences between the Senate and House versions of the NDAA are reconciled. Northrop Grumman (NOC) noted on its Q2 call that the combination of President Trump's budget request and reconciliation bill (OBBB) represents a 22% year-over-year increase in procurement. On earnings calls this week, Northrop Grumman, Lockheed Martin (LMT) and RTX Corp (RTX) each stated that the Department of Defense is accelerating weapons procurement and highlighted the opportunity presented by President Trump's Golden Dome domestic missile defense program. U.S. allies have also committed to increased defense spending, further enhancing the opportunity for U.S. defense

companies. **Northrop Grumman pointed to "a generational shift in defense spending underway in Europe," as NATO countries move to allocate 3.5% of GDP to defense and 5% to overall national security.**

Canadian recession risks receding – While Canada's employment report was not quite as strong as the rip-roaring headline would suggest, it nevertheless represented a big step in the right direction. Specifically, the pullback in the unemployment rate (down 0.1% to 6.9%) is quite encouraging. During true recessions, it's rare to have the jobless rate retreat, even for a month. This space would assert that the unemployment rate is likely the single most reliable figure in any monthly jobs release. Clarity on the trade front could tee up an all-clear signal – but we are not there yet.

Canada's business outlook remains soft – The Bank of Canada's Business Outlook Survey (BOS) softened further, down by 0.3 pts to -2.42 in Q2, extending a 10-quarter streak in negative territory. Investment intentions remain muted and favour routine maintenance instead of boosting capacity or productivity. Even so, the balance of opinion returned to a small positive as fewer firms expected trade tensions to have an impact. With most businesses reporting sufficient capacity, the share of respondents citing significant capacity pressures stayed low. Sales growth expectations weakened: the outlook for future sales growth was down to its softest in a year. In June, the number of new motor vehicles assembled in Canada fell to its lowest level in two and a half years in seasonally adjusted terms. Production was down 4.4% from year-ago levels and fell by 6.4% year over year in the first six months of the year. While Assemblies across North America fell 3.3% in H1, Canada was particularly affected. Tariffs continue to hang over business and consumer sentiment, even if uncertainty dissipated through the latter half of the second quarter. Altogether, there's not much here to lure the BoC off the sidelines and back into the rate-cutting game at next week's meeting.

Next week

Another data and event-heavy week with central bank meetings on the docket in both Canada and the U.S. The U.S. also has many swings at consumer data – several jobs series and the Fed's preferred inflation measure, the PCE, will be out on Thursday. Traders will also be eying progress on trade deals when court hearings on the legality of country-wide tariffs start on Thursday and the Liberation Day pause expires next Saturday.

- **Monday 7/28** – Canada Weekly earnings, Wholesale sales
- **Tuesday 7/29** – U.S. Consumer confidence, Wholesale and Retail inventories, JOLTS
- **Wednesday 7/30** – U.S. ADP Employment, GDP, FOMC Interest Rate decision and Press Conference | Canada BoC rates decision and press conference
- **Thursday 7/31** – U.S. Weekly unemployment claims; hearings begin in the IEEPA Liberation Day tariffs challenge, PCE | Canada GDP
- **Friday 8/1** – U.S. Employment reports, Manufacturing ISM and PMI | Canada Manufacturing PMI

Data scorecard as of July 23, 2025

Equity Market Total Returns						
	7/23/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,359	1.0%	8.9%	25.0%	26.3%	-18.1%
NASDAQ	21,020	0.6%	9.3%	29.6%	44.7%	-32.5%
DOW	45,010	1.5%	6.8%	15.0%	16.2%	-6.9%
Russell 2000	2,283	1.9%	3.1%	11.5%	16.9%	-20.5%
S&P/TSX	27,416	0.4%	12.6%	21.7%	11.8%	-5.8%
MSCI EAFE	9,804	2.1%	21.3%	3.8%	18.2%	-14.5%
MSCI EM	686	1.3%	19.5%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.3%	3.5%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.3%	3.2%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.4%	3.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.4%	5.1%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.2%	2.0%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.2%	-0.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.1%	-0.8%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.2%	1.4%	6.9%	8.2%	-9.5%
Government Bond Yields						
	7/23/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.38%	4.23%	4.23%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.55%	3.27%	3.27%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.63%	4.49%	4.49%	4.56%	3.53%	3.66%
German 10-Year Bund	2.64%	2.61%	2.61%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.58%	1.43%	1.43%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	7/23/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.21	-1.3%	-10.4%	7.1%	-2.1%	8.2%
CAD:USD	\$0.74	0.9%	5.8%	-7.9%	2.3%	-6.7%
Bitcoin	\$117,961.72	0.4%	25.9%	120.5%	157.0%	-64.3%
Gold	\$3,387.29	1.1%	29.1%	27.2%	13.1%	-0.3%
Oil (WTI)	\$65.25	-3.1%	-9.0%	0.1%	-10.7%	6.7%

*Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average (“DOW”) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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¹ What is loss aversion? | GetSmarterAboutMoney.ca

² Private foreign investors bought a record \$330 billion of U.S. stocks and bonds in May - MarketWatch