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The Markets

	June	Change in Month	Year –To-Date
S&P TSX	26857	2.6%	8.6%
S&P 500	6204	5.0%	5.6%
Dow 30	44094	4.3%	3.8%
Oil	\$65.00	6.7%	–9.4%
Gold	\$3319	0.0%	25.8%

June was the month that refreshes. After the recent roller coaster ride caused by the on again/off again tariffs in April and May we have relative calm in June. The markets were relatively tame given the world events. Tariff man made fewer pronouncements in June. The US markets rallied after the end of the 12-day war between Israel and Iran. Investors were concerned about the potential disruption of the oil markets caused by Iran's retaliation. In the end, Iran sent drones to a US air force base that was so prepared they had already moved all the aircraft from the base. This allowed the markets to rally. A lower perception of risk led to a decline in the price of gold from levels in the middle of the month and a rally in base metals.

The Canadian market was rather sanguine when Trump called off trade negotiations with Canada and when he subsequently reversed his position on Monday. To earn the right to continue negotiations Canada had to cancel its controversial digital services tax. Since the world was a safer place than a few weeks ago investors changed their approach to the markets. Since it seemed likely that the global slowdown, caused by ridiculously high tariffs, might not occur as Trump indicated countries were going to sign trade deals. The Chinese and Americans backed down on their 100% plus tariffs. This led investors to purchase economically sensitive base metals. The base metals were market leaders with more than a 9% increase in the month. The Health Care index, dominated by the Cannabis stocks, also had stellar returns. The riskier stocks including high Beta and small capitalization stocks were strong performers. At the other end of the spectrum were the safe-haven sectors such as Consumer Staples and Utilities. Those two sectors were the only ones with negative returns for the month. Although they had positive returns Low Volatility stocks and Income Trusts were underperformers.

The chart below presents the performance of the S&P 500 and the S&P TSX for the Year-to-Date.

YTD Performance S&P 500 and TSX



TSX, S&P 500 source google.com/finance

Economic Indicators

1. Tariffs. Some data from Statistics Canada

There is great uncertainty created by Trump's bombastic tariff announcements and follow up announcements. One reason it is harder to read the situation from Canada's perspective is we already have a trade agreement signed with the US. The USMCA was signed by Trump in his first term. He now describes it as a terrible agreement. The steel tariffs are not permitted according to the agreement, but the US claimed an emergency measure to implement the tariff. It reminds me of when my daughter was preschool, and we offered a treat if she cleaned her room or some other minor task. After consuming the ice cream treat, she would announce that she would like to undo the deal. Now a deal with the US is not a deal.

Statistics Canada has some interesting details about the size of trade between Canada and the US.

- 76% of Canada's goods exports go to the US
- 63% of our goods imports come from the US
- More than 50% of our exports of services go to the US

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- 2.6 million jobs depend on exports to the US
- 42% of manufacturing depends on exports to the US
- Almost 700,000 manufacturing jobs depend on exports to the US

THE IMPACT

1. Goods exports to the US fell 16% in April. This is the 3rd consecutive monthly decline.
2. Companies rushed to beat the tariffs, so exports rose in January and February which makes the decline from January to April to 26%
3. Imports from the US declined 10% in April
4. 18% of all businesses expect US tariffs to have a high impact on their business
5. 26% of businesses took steps to mitigate the impact of tariffs. This includes ordering or shipping in advance of the tariffs.

Statistics Canada summarized the tariffs perfectly

Import tariffs increase the cost of imported products in the country that imposes the tariff. Businesses reliant on these products—whether for raw materials, equipment or inventory—face higher operational expenses, which can reduce profitability and may in turn lead to increased prices for consumers. This inflationary pressure, in turn, reduces consumer purchasing power and affects demand across industries.

Tariffs imposed on imports have broad economic implications for businesses in both countries that extend beyond those engaged in cross-border trade. All businesses, regardless of whether they are engaged in international trade, may be affected by disrupted supply chains, increased costs for equipment or parts, and decreased market stability. Domestic service providers, such as restaurants and construction businesses, can see shifts in costs, wages and consumer spending because of tariff-driven economic fluctuations. Essentially, tariffs shape the economic landscape far beyond trade, influencing employment, investment and overall business strategy in both countries.

You can see from Statistics Canada's comments that tariffs have a major impact on the whole economy not just the sector exposed to the tariff. This is one reason the chairman of the Federal Reserve states he will not change interest rates until he has certainty on which tariffs will be implemented

Reflection

So don't push me 'cause I'm close to the edge
I'm tryin' not to lose my head



The markets have been so volatile, I now wear a neck brace. The markets declined then they snapped back. The truth is I did fracture my neck but not due to the markets but like the markets it wasn't the fall but the snap back that broke my neck. I heard a line in a movie, it is not the fall that causes the damage, it is the sudden deceleration, that is, when you hit the ground. (the neck brace, like the market movements is only temporary)

The markets collapsed in April when Trump announced his punitive reciprocal tariffs on Liberation Day. He subsequently announced that he would negotiate with the other countries if they wanted to get lower tariffs. Trump made a few other tariff announcements, but the markets learned that these statements might just be negotiating tactics. He even earned the name the TACO president. TACO was an acronym for Trump Always Chickens Out. By the time we got to June investors were in a show me mood and no longer responded to announcements.

The rally was a result of some chickening out, or negotiations. Trump and China got to the point where tariffs were over 100% which essentially brought all trade between the two countries to a halt. Both parties agreed to return to the still ridiculous 25% tariffs.

When Trump announced he had ceased all trade negotiations with Canada on Friday the 27th the Canadian market declined. By the end of the day investors thought cooler heads might prevail, and the index closed less than 100 points lower than the previous day. On Monday, Canada cancelled the Digital Services Tax and Trump agreed to resume negotiations. The press secretary for Trump announced that Canada CAVED. So, the TACO president served up an order of Canadian Chicken.

What if you knew that the US government would increase the deficit and require an increase in the borrowing limits. Would you expect interest rates to rise or decline? My vote was for rising rates. The US 10-year bonds began the year with a 4.57% yield. This was at the point we were told tariffs would cover the new projects and DOGE would save hundreds of billions. DOGE ended up falling well behind its objectives. The Big Beautiful Bill will increase the deficit. That said, the yield on the 10-year is approximately a quarter of a percent lower than at the beginning of the year. The most recent yield was 4.25%.

The situation in the Middle East could hardly be called stable. Israel has been actively battling Hamas in Gaza for more than a year and half. Iran provided funds and weapons to those opposed to Israel. Israel bombed various military facilities in Iran and targeted military leaders. The Israeli market barely budged. Fortunately, the war was over in 12 days. The table below shows the capital returns in local currencies for the Tel Aviv index, the S&P 500 and the TSX. How many of you would have predicted the Canadian market would outperform the US market for the year-to-date and for the past 12 months? Even more surprising is the Israeli market more than doubled the return of the Canadian market for the past 12 months. Remember many workers in Israel are not available as they are called up to the reserves and many Palestinians are no longer allowed to cross the boarder to work.

Jun 2025			
	TA 25	S&P500	TSX
1mth	9.5%	5.0%	2.6%
quarter	22.3%	10.6%	7.8%
YTD	23.5%	5.6%	8.6%
1 yr	49.7%	13.2%	22.6%

Markets seem to have knee jerk reactions then recover after some thought. When the war between Iran and Israel was at its peak oil prices surged to \$78 U.S. per barrel. This is still not the highest price for oil this year. Within hours oil closed below \$74. This is 11% lower than the price of oil one year ago. The price snapped up then snapped back down.

Summary

" It's like a jungle sometimes It makes me wonder" The Message by Grandmaster Flash

After spending months avoiding comments on tariffs, we finally capitulated and provided some details in our reflection section. We still have to say analyzing the market is difficult when you do not know when or where the random tariff wheel stops. Even as we were working on this commentary Canada cancelled the Digital Services Tax which was forecast to bring in \$2 billion in tax revenue. That might explain why we still do not have a federal budget. It is like a jungle when you think that the US gave 90 countries 90 days to negotiate a trade agreement by July 9th. Given how often the tariff rates change in a few days this analysis may be as useful as buggy whip for your electric car. It does make me wonder.

It is getting a bit boring, but we have not changed our approach to the markets. We do consider world political events but focus on the long-term potential for the companies in which we invest. When looking at a stock we consider the total return. The total return captures the dividend and the capital return. Dividends provide a couple of advantages including when a client needs cash, they can just take the dividends and not trigger tax by selling a stock. In a similar vein, it helps when rebalancing a portfolio as the dividends can be invested in an area that is below the target level, again without having to trigger tax or commission expenses. Despite the whipsawing markets stocks like the Canadian banks still look attractive and offer the potential of higher dividends next year.

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