

Views of Gordon Higgins CPA, MBA, CFA,

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The Markets

	September	Change in Month	Year -To-Date
S&P TSX	30022	5.1%	21.3%
S&P 500	6688	3.5%	13.8%
Dow 30	45545	1.9%	9.3%
Oil	\$64.01	-2.4%	-12.9%
Gold	\$3516	10.4%	47.1%

Not what you would expect. Historically September has been one of the weakest months. The US government is on the edge of a budget showdown that may close government services. In the face of these concerns equity market rose. They had some support as Central Banks helped by lowering their target rates. Both the Bank of Canada and the Federal Reserve lowered rates by a quarter of a percent. GDP announcements in both Canada and the US showed growth in the face of tariffs. Inflation remained relatively subdued. I guess the adage that the market climbs a wall of worry proved to be true. We will have to see how October plays out, as companies report earnings for the quarter just ended. As a PS, Trump has proposed getting rid of quarterly reporting as it leads to short-termism.

All that glitters is not gold but this month gold and gold stocks outshined other sectors. Gold stocks are a levered play on the price of gold as once they cover their costs every extra dollar is profit. Gold stocks rose more than 20% in September. This led the Materials sector to a return just under 20%. Small capitalization stocks on the venture exchange and high beta, volatile stocks, also had double digit returns this month. The Canadian banks reported solid earnings which allowed them to appreciate by almost 6% in September alone. If high beta outperforms then you would expect less volatile stocks to underperform and you would be right. The weakest two sectors were Communications Services, essentially the telcos, and Consumer Staples. Industrials and Real Estate sectors also had negative returns in the month.

The chart on the next page presents the performance of the S&P 500 and the S&P TSX for the last 6 months.

6-Month Performance S&P 500 and TSX



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

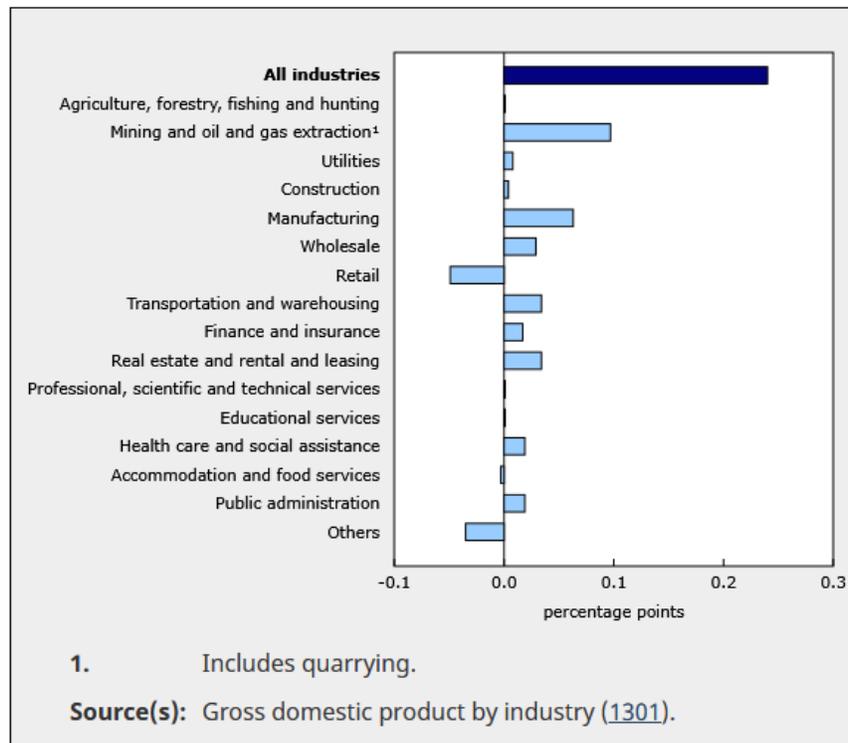
Economic Indicators

1. Canada GDP

Technically a recession is when the economy contracts 2 quarters in a row. The Canadian economy contracted in the second quarter and was widely expected to contract in the third. The economy grew in July and August looks to be flat so we might not have a negative second quarter. This is the technical definition of a recession but if people are getting laid off then we really could be in a recession.

In July, the Canadian economy returned to growth as real gross domestic product (GDP) increased by 0.2. This is important as this is the first expansion after three consecutive months of contraction. The primary contributor to the growth was the goods-producing industries which had growth across all sectors. The goods sector had a 0.6% increase in July. Raw materials from mining, and oil & gas extraction sectors were an area of strength with a 1.4%, growth in the month. Manufacturing also rose significantly by 0.7%. These gains in goods production were complemented by modest growth in services-producing industries, which edged up 0.1%.

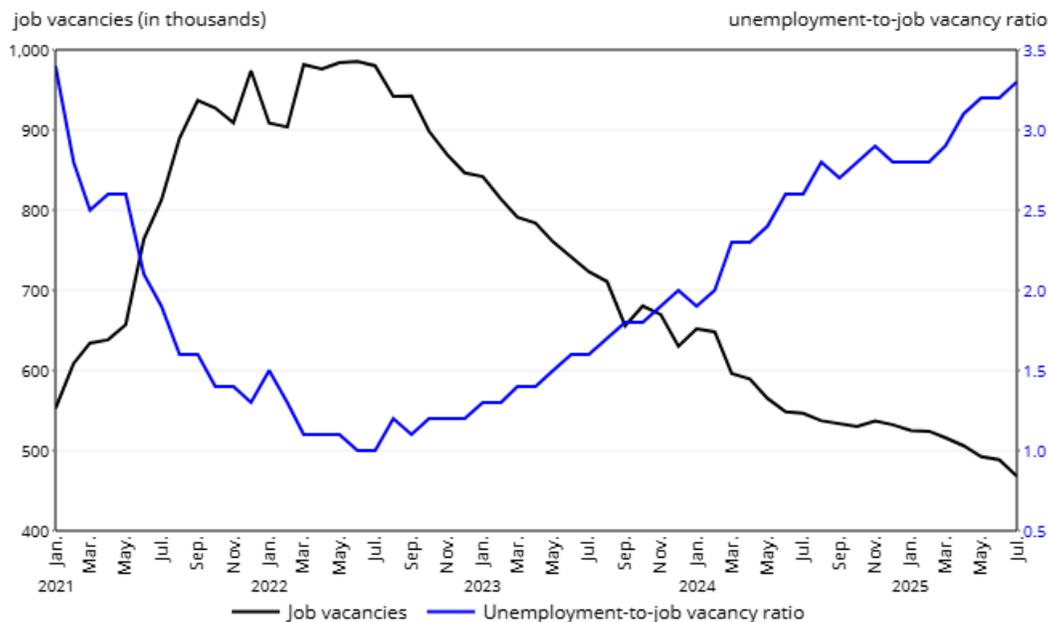
The economic expansion was widespread, with 11 of 20 industrial sectors growing in July. Key contributors included wholesale trade, real estate, and the retail trade sector. As illustrated in the graph on the next page, the main industrial sectors' contributions to GDP highlight the central role played by the goods-producing industries in the July rebound. Transportation, with the latter seeing a notable 0.6% increase. However, this broad-based growth was tempered by a 1.0% decline in



An advance estimate for August suggests real GDP was essentially unchanged, indicating the economic recovery may have paused in the subsequent month.

2. Canada Labour

There are a few ways to look at the health of the labour market. You can examine the number of people collecting Employment Insurance, it used to be called Unemployment Insurance, or you study the level of payrolls and job vacancies. The chart on the next page clearly demonstrates that job vacancies are in a free fall which caused to the ratio of unemployed to jobs available continuing to rise. In short more unemployed people are looking for fewer jobs.



The number of Canadians receiving regular Employment Insurance (EI) benefits continued to rise in July the increase was relatively small with 6,600 added to reach 552,000. This is part of a sustained upward trend with 64,000 new claimants since December. The rise was not uniform across demographics, as the increase was driven primarily by core-aged women, while the number of beneficiaries declined for core-aged men, older women, and young men. Provincially, Manitoba, British Columbia, Quebec, and Alberta saw the largest proportional increases in July.

This rise in EI beneficiaries coincides with a softening labour market. While payroll employment saw a small increase of 21,600 in July, there has been little net job growth since the beginning of the year. The job market is showing signs of cooling, as job vacancies fell by 20,600 in July to 469,900. As seen in the chart above, the unemployment-to-job vacancy ratio has climbed to 3.3, its highest level since January 2017 (excluding the pandemic years).

Sectoral data reveals a mixed picture. Job gains in July were concentrated in health care and social assistance, finance & insurance, and accommodation & food services. In contrast, manufacturing and construction saw payroll employment decline. The occupational groups with the most pronounced increases in EI beneficiaries were education, law, and social services, as well as business and finance. It is interesting that finance showed an increase in employment while having an increase in the number of people in that industry collecting EI.

Reflection

Political, but not

This section normally examines bigger economic trends and their impact on the markets. This month we discuss the housing market, and in particular Toronto condos, and temporary workers. There are differing opinions on the solutions to these problems. We wanted to highlight that sometimes people form their opinions based on their self interest. At times this may seem contrary. This is more of an example of how 2 different people with the same facts can come to a different conclusion. Since the same facts can lead to different conclusions, the same can be said about opinions on the directions of the stock market.

I will show my age as the sources for this discussion are newspapers and tv daily news shows.

One night on the news there was a story about weakness in the Toronto Condo market. The story focused on a senior who purchased a prebuilt condo in North York. He said he had lost his retirement. He purchased a condo with the plan to sell or rent it to finance his retirement. His comment was "I have a \$300,000 mortgage on a condo he did not own". Huh? He explained that he purchased it for just under \$900,000 a few years ago but could not cover the mortgage so he had to sell the unit as the building was almost complete. He sold it for \$600,000. He said they should not allow people to build 600 square foot condos as no one wants them.

Take a step back. He was speculating on the price of real estate using the benefit of leverage. A small downpayment for a few years can lead to a significant gain. It is a great plan. Put down 10%, in this case \$90,000. If the condo appreciates by only 5% per year his investment would have appreciated by more than \$45,000 per year. By just waiting he was going to make \$225,000 in 5 years on his \$90,000. I know why he bought the unit; it was affordable and looked like he could not lose any money. Let's look, he paid \$1500 per foot for the unit. That was expensive even at the time he bought it. He was able to sell it for \$1000 per foot. If you assumed a slow 5% growth rate the condo would have been priced at \$1900 per foot. That was not a retirement plan, it was equivalent to going to Casino Rama and saying \$45,000 on black.

The other problem with his logic was they should not allow them to build small units that no one wants. On the contrary, the building was sold out of 600 square foot units and at the time of the purchase he wanted one of those units.

People talk about the potential crash in the condo market. There is a crash but it is isolated to units that were overpriced. One of my kids purchased a condo in an older building 2 years ago and units are still selling at higher prices than they paid. I guess in their building the crash occurred 2 years ago. There is a new building that is almost complete around the corner from our house. The condo building has a sign out 1- and 2-bedroom units available.

I met a friend who indicated their boss had 5 condos in Toronto. I talked with another person who just purchased a condo for their use but that they had deposits on 2 other units in the GTA. They had a good business case. It is going to take years to complete the buildings and since no one is buying prebuild condos today there will be a shortage shortly after he takes delivery of his investment condo. So, no new purchases will lead to higher prices in 3 or 5 years. I am keeping my wallet in my pocket and will leave the world of real estate to those who know more.

A few months ago, a condo newsletter reported that around their building there were 14 signs showing the proposal to build new condos at each site. Just a few months ago the local Esso station put up a sign that they had applied to build a 30-story unit on the site. I doubt half those building will be erected in the next 5 years. At least the nice man who makes signs continues to prosper.

It depends on who you listen to. I keep reading that there is a shortage of housing available and we need the government to subsidize builders to get more houses built. If there is a shortage you would not see signs that units are available. I bet, not on black or red, that you can find more people who bought, speculated, small condo units who want to sell them. If there is such demand why are prebuild condo sales at an all time low? There is a 40-story building going up a Young and Sheppard, this will be more units available in 18 months.

I saw the premier on the news saying we need to train more people in the construction trades so we can get more housing. If no one is putting deposits down today there will be no new condos started 2 years from now. In other words, we will have too many construction workers who are skilled at building multistory buildings. There is a phrase a general fights the last war. Poland's army was ready for the Nazi invasion with their cavalry. Russia drove far in to Ukraine using tanks but were repelled. It has turned into a war of drones. Training people in the building trades when there are no new orders is the equivalent to making sure your horses are well fed for the next battle.

The next touch point is the temporary foreign workers. I have read repeatedly that the temporary foreign workers are responsible for the increase in the price of housing as they kept taking spaces Canadians could purchase. Yes, they were the ones renting the 600 square foot units the man in the previous paragraphs thought was a great investment. Now the government is in the process of reducing the number of foreign students and workers which should lead to plentiful and cheaper housing. So, they solved a housing problem with the stroke of a pen.

The Conservative say the Liberals continue to exceed their targeted level of TFW. In the first half of the year the Liberals issued 105,000 new TFW permits despite a cap of 82,000 for the year. The Conservative shadow minister for immigration stated. "They (young Canadians) can't buy homes or start families without good-paying jobs, but they can't get those jobs without experience, lost to competition from temporary foreign labour."

This is where we get fun with numbers. In the second quarter of 2025 Canada's population grew by 47K or 0.1%. It doesn't sound like things are out of control. This is the slowest growth since 1946, if you exclude the pandemic when no one could enter the country. During the quarter we may have added temporary foreign workers, but we lost 59K non-permanent resident who chose to leave.

Remember we discussed the need for new construction workers in the section on the condo market. Well... a senior economist indicated that the construction sector will be hit as it heavily relies on foreign workers. Hold on, these people, to quote Don Cherry, were taking our houses and driving prices up while building houses and increasing the supply of housing.

The front page of the Conservative leaning National Post had this headline "Foreign worker cuts hit rural businesses. The article indicates that 10% of local business chambers of commerce indicate foreign workers are ESSENTIAL for their businesses. One of the best comments I saw just before the election was that Trudeau's policies were as if he were running an employment agency for UBER and Door dash.

In the end we do not know where things will end up. I do know that using leverage can give you superior returns or wipe out your investment. Do we need more skilled trades to replace some of the foreign workers? Do we expect new construction to surge? The 2 main political parties each have the solution to all our problems. I doubt either side had the only answer, but they are raising excellent points for discussion.

Summary

"When the facts change, I change my mind - what do you do, sir?" Keynes

In this month's reflection section, we deviated from our normal analysis of factors impacting the stock market. We looked at the condo and labour markets through the lens of TV news and newspapers. Some people own several condos and others put down deposits on prebuild condos. The condo boom was driven by speculators. One news story profiled an unfortunate man who put a deposit on a condo only to find out that \$1500 per foot was more than the market price when he took delivery. He looked at the camera and said that was my retirement, he lost \$300,000. There does not appear to be a shortage of condos as I see signs up showing units available but not the ones at the price real people, not speculators, will pay. The second section covered the issues related to immigration. One party wants to end the temporary worker program other businesses claim they need the workers, and the government is issuing more rights for this program than the target. What is the right answer, only time and the economy will give the answer. The key to the analysis is that 2 people with the same set of facts can come to different conclusions. That is one reason there is always someone willing to sell a stock and someone willing to buy it, just the price matters.

We have stressed in other commentaries how we believe in creating portfolios and not just a collection of stocks. Our portfolios primarily are concentrated on dividend paying stocks such as banks and pipelines. We like the history of dividend increases that help grow returns over time. We include stocks with other attributes. For instance, Gold stocks provide some diversification from the interest sensitive sectors. This month the gold stocks were outperformers. We understand the market will fluctuate and a diversified portfolio is the best defence to changing markets.

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