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**The Markets**

	<b>July</b>	<b>Change in Month</b>	<b>Year –To–Date</b>
S&P TSX	23177	5.8%	10.6%
S&P 500	5528	0.8%	15.9%
Dow 30	41052	4.9%	8.9%
Oil	\$77.92	–4.5%	8.8%
Gold	\$2470	5.7%	19.3%

There is a new phrase to describe the market, the Great Rotation. Finally, the Magnificent 7 large capitalization technology stocks proved they were human and pulled back. To use an Olympic analogy, they began to pass the torch to the other 493 stocks. Markets showed a great deal of indifference to world events. Markets barely moved after an assassination attempt on a former president, the current president announcing he would not seek a second term and a global technology crash. Despite ignoring many significant events the markets pulled back more than 2% in one day, we only pointed out last month how close they were to setting a record for time spent without a 2% decline. On the other hand the S&P finished the last day of the month with it’s biggest gain since February.

To borrow an Olympic theme, the Canadian market led the major markets to take gold this month, thanks to the performance of the Gold stocks. The Canadian market outperformed the US benchmarks as the large technology weights pulled the US markets down. The best performing subsector was, appropriately, Gold. The gold stocks rose 14% due to a rising underlying commodity. Gold rose as interest rates came down and uncertainty rose. As the Bank of Canada lowered rates the interest sensitive Real Estate and Income Trusts both had double digit positive returns in the month. Fears of an economic slowdown in China and poor sales of electric vehicles led to weakness in the Base Metal stocks as the underlying commodities, like copper, weakened. Base metals were the only sector with a negative return in the month. Despite weakness in the price of oil, the energy stocks had a positive month. The energy stocks had not moved up to reflect the increase in the price of the commodity in previous months. Another factor supporting the Energy index is the interest sensitive pipeline stocks are included in the Energy index. In the old days Pipelines had their own sector.

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**



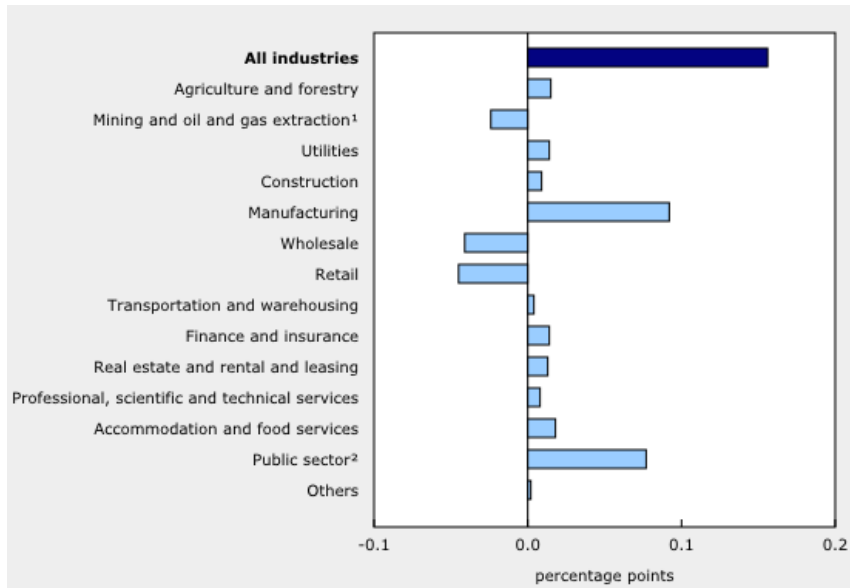
TSX, S&P 500 source google.com/finance

**Economic Indicators**

**1. Canada GDP**

Canada's GDP continues to grow but at a slower rate. This commentary will focus on the report issued by Statistics Canada on July 31st. GDP grew at a 0.3% rate in April, a 0.2% rate in May and, based on a preliminary estimate, 0.1% in June. The detailed report issued by StatsCan covers the month of May. This slower rate of growth will give the Bank of Canada support for lowering interest rates.

The economy showed growth in both the Goods and the Services sectors. Goods producing industries grew at a 0.4% rate in the month while services showed moderate growth of 0.1%. The table on the next page shows the growth rate by industry.



Source: Statistics Canada

Manufacturing was the growth engine for the economy. Manufacturing’s 1.0% growth was the highest it has been since January 2023. Both durable, long lasting products like cars or washing machines, and non-durable, think of things you use once or twice, goods manufacturing showed good growth. Non-durable manufacturing grew 1.4% in the month. Increased activity in petroleum processing was a major contributor. Extracting oil and gas from the ground contributes to GDP but is not included in Manufacturing but processing the oil and gas is considered manufacturing. The month-to-month growth in refinery activity occurs in Spring and Fall as refineries shut down then reopen as they retool to produce summer gasoline then retool to produce more heating oil. On an annual basis this is not a factor.

The Canadian consumer has begun to restrain their spending. Retail sales were the largest offset to the growth in other sectors of the economy. Retail sales declined by 0.9% in May. The decline was broadly based with weakness greater than 1% experienced in food & beverage, health & personal care stores and general merchandise. The only area of strength was at auto dealers.

We might be making more goods but the level of purchases is not keeping pace. As you saw above, retail sales declined. Wholesale activity also declined, Sales of autos and automobile parts to manufacturers or dealers declined by 4%. This offset strong sales activity in the previous month. Sales of machinery and equipment declined by more than 1%.

An interesting tidbit is entertainment spending increased as 3 Canadian hockey teams made the playoffs. You will likely see a similar impact when Taylor Swift comes to Toronto for 6 sold out shows and her Swifties purchase T-shirts and the like.

## **2. CHINA Planning**

China releases 5-year economic plans. These plans detail the expected growth rate and areas of focus for the economy. In addition, China hosts a planning meeting in between the 5-year plans that focus on changes in the governors or governing structure. There is a cycle to these meetings. The first two focus on setting up the governing counsel. The third planning session focuses more broadly on the operations of the country. They just completed the third planning meeting and it left investors a bit flat.

This is a quote from the communique of Third Plenary session of the Central Committee of the Communist Party of China

“It was stated that high-quality development is our primary task in building China into a modern socialist country in all respects. It is essential that we use the new development philosophy to steer reform and ground our efforts in the new stage of development. We must deepen supply-side structural reform, improve incentive and constraint mechanisms for promoting high-quality development, and strive to create new growth drivers and strengths. We will improve the institutions and mechanisms for fostering new quality productive forces in line with local conditions, for promoting full integration between the real economy and the digital economy, for developing the service sector, for modernizing infrastructure, and for enhancing the resilience and security of industrial and supply chains.”

“It was stated that modernizing national defense and the armed forces is an integral part of Chinese modernization. We must maintain the Party's absolute leadership over the people's armed forces and fully implement the strategy of strengthening the military through reform to provide a strong guarantee for realizing the centenary goal of the People's Liberation Army in 2027 and achieving basic modernization of national defense and the armed forces. We will improve the systems and mechanisms for leading and managing the people's armed forces, further reform joint operations systems, and deepen military-civilian reforms.”

This disappointed many economists as the communique did not indicate China would be a consumer of Western goods. In fact, they want to deepen their own supply-side. This means, they want to avoid western sanctions and create their own high-tech industries. They are very clear that they want to ensure the security of their supply chains. The communique clearly outlines the party's desire for military superiority.

The only positive in the communique is they expect to return to 5% growth this year after falling below that level for the first six months.

Reflection

**Some random thoughts**

At times it can be difficult to understand the stock market.

Crowdstrike's software upgrade caused a global technology outage. Many international banks were offline for a day. Some Australian broadcasters were shut down and many using Microsoft services were shutdown for a day. Delta airlines took several days to get their systems back up and running. Delta has indicated the outage cost them \$500 million. Some astute lawyers have suggested a class action lawsuit. Given the extent of the outage you would expect Crowdstrike's stock to collapse. Year-to-date the shares are down less than 9% and are up an astounding 49% in the last 12 months.

Oil prices declined this month on fears of weakness in China's economy. The Republican nominee for President, Donald Trump, stated that the price was lower because OPEC wants Biden to be president, so OPEC are helping by lowering one of the major contributors to inflation. If this is true then OPEC has to decide if a President who wants to increase American production of petroleum is better than a President that wants to wean American off dirty energy and encourage Green Energy. I would think the green energy president is the bigger fear. That said, oil and gas production is higher now than at the beginning of Biden's term. The Green president was the president that oversaw an increase in production. Enjoy the low prices while the conspiracy theory is accepted as fact.

One thing I have learned in investing is to expect the unexpected. A company we were considering for our clients had excellent reviews from the analysts at the respected brokerages. The company had a solid balance sheet with excellent cash flow. They collected royalties from companies they financed and had ample cash on hand to provide growth for several years. Management had an excellent track record. We pondered the purchase but questioned the valuation. Then two members of the management team were accused of padding their expenses and were suspended. The stock dropped 20% in one day. The value of the royalties did not change, nor did the value of the cash on hand but the ability to generate new deals without the key employees was questioned. This is a problem that can crop up with a smaller company and why small capitalization stocks often trade at a discount to their larger peers.

I work with a relatively small company; assets just shy of \$100 million. They have people that want to invest with the company and when I meet potential investors, they say I know a member of management so they are comfortable investing. When I explain that as a small company that relies on a small management team it is a high-risk investment, they say they don't think it is. I explain how if the head of one of the major banks disappeared there is adequate depth that the bank would keep functioning as it was, not so much for a company with 4 key members of the management team.

If you have read this far you deserve to read something not directly investment related. P.S. it is a true story. A person took the equivalent of wheel trans to a hospital for a non-emergency visit. After he got to the department, they told him that they did not provide that service. (bad news). He showed them the hospital website and they said let's help you find where you can get this service (good news). He was hungry and found that the elevator to the cafeteria was broken and he could not grab a bite (bad news). He found a vending machine that sold sandwiches and another that sold drinks (good news). He went to the pick-up point for the wheel trans. Then noticed his sandwich had fallen off his walker. As he turned,

he saw a couple of cars run over his sandwich (bad news). At least he was not holding the sandwich at the time (good news). In the end the wheel trans van never came and he had to walk to a distant subway station. Make that 2 subway stations, as the elevator was out at the first station. At least he did not own any technology stocks this month.

### **Summary**

***“The optimist sees the donut, the pessimist sees the hole.” — Oscar Wilde***

In the reflection section we looked at some random thoughts including the concept of risk and return. We looked at a small capitalization stock that had a significant decline after a change in management. It explains why small capitalization stocks trade at a discount to their large capitalization peers. Then we looked at the risk of purchasing an illiquid private placement and how some people do not see the risks. That is why perception is so important. We took a look at the major technology crash this month and the minor impact on the stock of the company that was responsible. I guess, others have a different perception of the magnitude of the outage.

We have added a new phrase to our lexicon, The Great Rotation. When the large cap technology stocks had a weak month pundits spouted that a great rotation out of large cap technology stocks, the magnificent 7, had begun and investors were now looking at the smaller capitalization stocks that had lagged their large cap peers. We remain focused on dividend paying stocks that will pay the investor whether the stock rises or falls. Consistent dividends help provide stability to a portfolio.

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