



George Stedman, CFA
Senior Portfolio Manager

RBC Dominion Securities Inc.
1501 McGill College, Suite 2150
Montreal, QC, H3A 3M8
Tel: 514-840-7626
Fax: 514-840-7639
george.stedman@rbc.com
www.georgestedman.com

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Third Quarter 2025

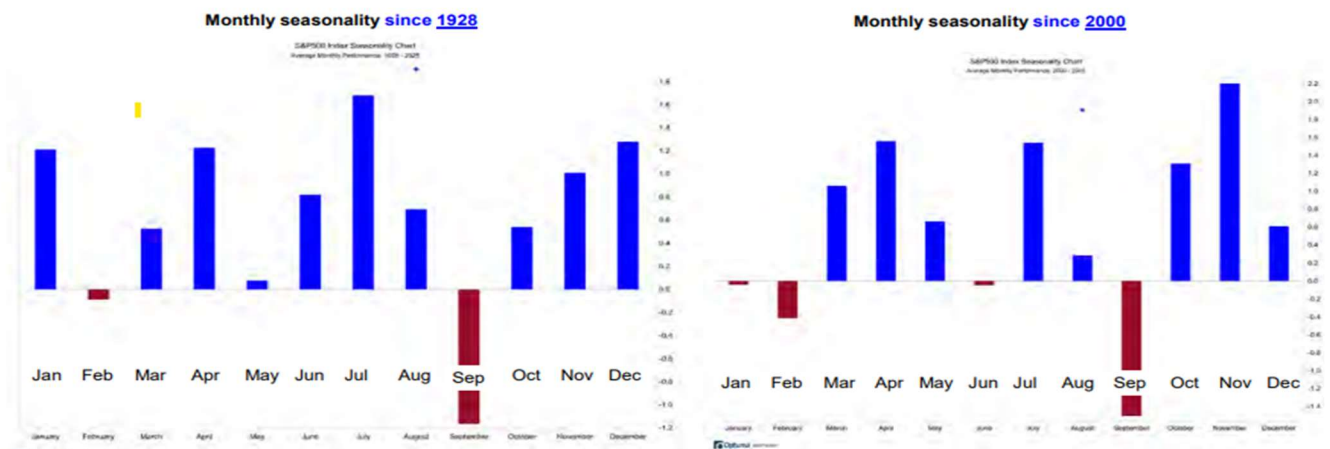
The meteoric rise in stock prices that started in April continued in September. The S&P/TSX was up 5.4% and the S&P 500 5.0% (in Canadian dollars, 3.6% in US dollars). This was somewhat surprising as September has historically been a down month, much more so than any other month. September’s return was not what was predicted: “Monthly seasonality data varies widely depending on the start date, but September is historically weak.” (Robert Sluymer, CFA, Technical Strategist, RBC Capital Markets, September 2nd).

After having been on pause since December 2024 the United States Federal Reserve (Fed) announced on September 17th an interest rate cut of 0.25%, bringing its benchmark rate to 4% to 4.25%, with another two cuts forecast for this year, marking the beginning of a new easing cycle. In his 1970 book *Winning on Wall Street*, Marty Zweig coined the phrase “Don’t fight the Fed” to explain the link between the Fed’s monetary policies and the stock market’s direction.

Seasonality varies from year to year just enough to keep markets interesting but much as September is usually weak (although not in 2025), the period from October to year end has historically been strong. On October 4th Fundstrat Head of Research Tom Lee noted “Since 1950, stocks have notched a median gain of 4.9% in the period from October to December, with a win ratio of 81%.

S&P 500 – Seasonality

- Monthly seasonality data varies widely depending on the start date but September is historically weak.



Source: RBC Wealth Management, Bloomberg, Optuma

September 2, 2025

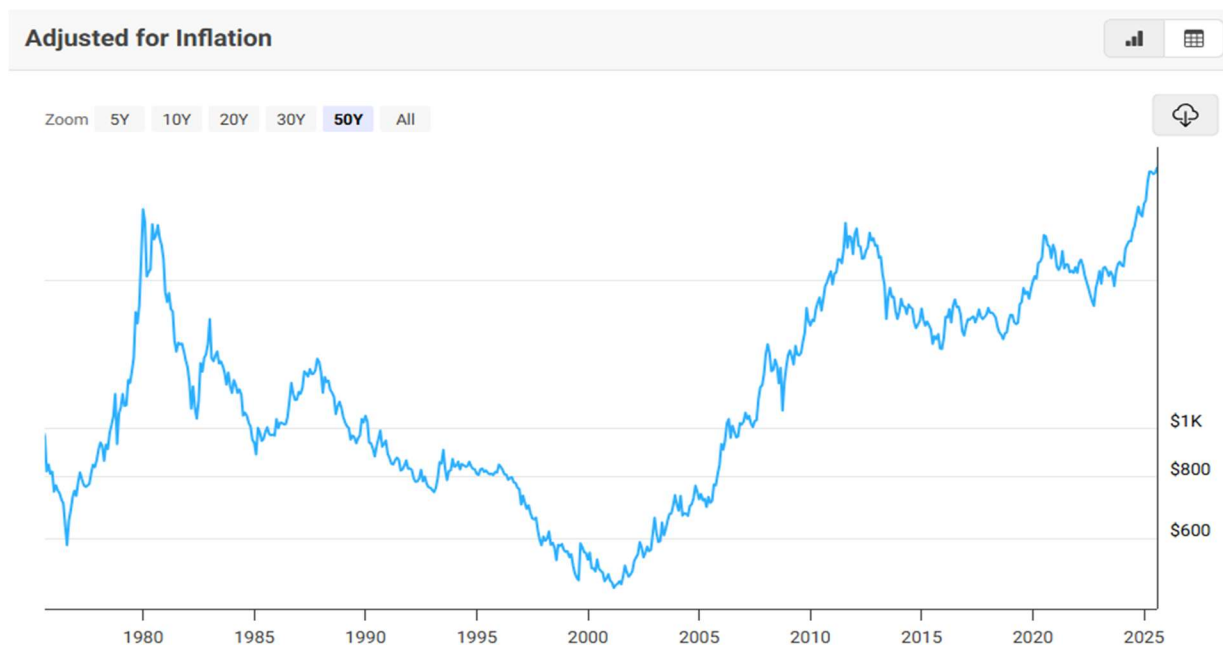
RBC Wealth Management Portfolio Advisory Group | Robert Sluymer, CFA – robert.sluymer@rbc.com

The strong stock market in September wasn't the only surprise in the third quarter. The Canadian stock market's performance has been outstanding despite tariffs. In the first 9 months the S&P/TSX total return is 23.9% versus the S&P 500's 11.2% (in Canadian dollars). The two heaviest weighted sectors in the Canadian stock market year to date have been sensational: Materials up 79.3% (from gold's surge) and Financials 22.5% (mostly banks).

Gold and bitcoin are having a moment. Gold began to surge in 2023 after Russia invaded Ukraine in 2022. Central bank buying to diversify reserves away from U.S. dollars and the unpredictable threat of U.S. sanctions and asset freezes may have provided some impetus. But now FOMO (fear of missing out) may be a driver, as gold has doubled in two years.

This quarter the price of gold adjusted for inflation has surpassed the peak from January 1980. I well remember people lining up to buy gold bullion in -20 temperatures. Buyers in 1980 had to wait 45 years to break even, adjusted for inflation. Timing, and entry prices, matter.

Gold Prices - 50 Year Historical Chart



<https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart> Oct 6, 2025

I wish this year's buyers of gold and bitcoin all the best, but I prefer to invest in profitable companies, especially ones that make things and pay dividends and that offer growth at a reasonable price. Call me a boomer but this approach has worked for me for many years and has avoided nasty drawdowns that can jeopardize a comfortable retirement or patrimony.

The other major enthusiasm this year has of course been for Artificial Intelligence. Last quarter I wrote about the many ways we are investing in that mega trend, from the hyperscalers building data centers, the companies building components for data centers and companies supplying electricity and water to them. Our AI stocks have continued to perform well as large sums continue to be spent on

AI infrastructure. Remarkably Alphabet had its best quarter in 20 years, up 38%. GOOGL is now trading with a Price to Earnings (P/E) ratio of about 26, near its historical average.

Many have compared investors' enthusiasm for all things AI to the internet stock boom of the late 1990's. Valuations are high now but were much higher at the peak of the dot com bubble in 2000. As a simple example, networking gear company Cisco's P/E ratio peaked at about 200 in March of 2000 and now Cisco's P/E is approximately 27.

One thing I have learned over the years is the danger in getting caught up in what I like to call investors' enthusiasms. However, bubbles can get bigger and go on longer than expected. Federal Reserve Chair Allan Greenspan issued his famous warning about 'irrational exuberance' in 1996 and the tech stock bubble only got bigger for years before it finally burst in 2000.

We will continue to be mindful of Marty Zweig's Trading Rules of which number 2 is "Let profits run and take losses quickly".

We have an outstanding streak of good weather, and frighteningly low water levels in Lac St Louis to show for it. I hope the good weather holds to Thanksgiving.

Happy Thanksgiving to you, thanks for reading and thanks for being a client.

Regards,

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