



Wealth Management
Dominion Securities

Cooper Wealth Management of
RBC Dominion Securities



Thoughts on the market

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Lunchtime in Washington



“There is no such thing as a free lunch”

- Milton Friedman, Economist

The US Administration’s budget bill has just passed the House of Representatives and is now ready to be signed into law. The budget proposes continuing the previous tax cuts introduced in the first Trump administration and increase spending on the military, border security and energy. However, this will lead to a budget deficit of approximately \$3.3 trillion and thereby increase national debt. The bill also contains some unpopular and politically sensitive issues such as work requirements to receive Medicaid, which could leave millions of Americans without health insurance. As Milton Freeman famously quoted, there is no free lunch, and the US Administration must now deal with the consequences of a larger deficit and potentially disgruntled voters. This problematic budget, combined with Israel’s attack on Iran, has created increased political uncertainty, and is a worry for markets. This month, we will explore these issues and discuss our strategies to navigate potentially choppy waters.

The current US budget bill carries some difficult choices. Hardline Republicans wanted to lower the deficit spending, but the budget as proposed will in fact increase it. The theory behind extending the tax cuts is that Americans will use the extra cash to buy more and grow the economy or use the funds to start new businesses. Since the Republicans last term when the cuts were introduced, this has not been proven to be the case as a majority has either gone into savings or the stock market. This flow of cash has been beneficial to the market in recent years, and we expect this trend to continue as US House of Representatives and the Senate have shown little resistance to the President's initiatives.

US trade negotiations are another important political talking point. The rhetoric between the US and China has cooled off and actual talks are being held. Don't forget the US still wants to gain control of the US assets of the popular online application TikTok and the last deadline was June 19th. The president signed another executive order to extend the deadline and there's been no public discussion about any negotiations and shutting down such a highly popular application would not sit well with the American public. Canada has now pledged to try to come up with a trade framework within the next 30 days. Other than the Canada news, there does not seem to have been any material progress on any trade deal with any other country. The next self-imposed deadline as to whether or not to actually enforce the higher tariffs is July 9th. Given the previous extremely negative reactions of the stock and bond markets, we expect another 90-day extension. We actually don't foresee any meaningful trade deals getting done until at least the Fall session of Congress as it will take both Houses to approve any trade deal, and they will have their hands full with the budget.

The geopolitical landscape has also gotten much more complicated. Russia's invasion of the Ukraine continues, and a diplomatic solution seems farther away than ever, as even US efforts to intervene have failed. However, the global hotspot remains the Middle East as Israel decided to attack Iran and attempt to destroy any potential nuclear threat. The stakes were raised considerably as the US decided to assist Israel with bombing Iranian nuclear facilities. This was a historic change for US policy in the Middle East, as they have usually relied on economic support and diplomacy, but after weeks of fruitless negotiations, diplomacy has been forsaken for action. Currently, Iran and Israel are in a cease-fire with the US playing peacekeeper for the region. Iran has little choice but to stand down from hostilities as they have lost control of their air space and any retaliatory action against either the US or Israel would likely lead to a regime change in Iran. In the past, Iran has closed off the Strait of Hormuz, which sees 20% of the world's daily oil supply pass through. As Iran ships most of its oil to China this way, we don't see this as a likely outcome. Saudi Arabia and Qatar would also have something to say. We view the most likely outcome as an uneasy truce between the two, until yet another issue arises.

The good news for the US Administration is that the economy has remained surprisingly resilient. While US gross domestic product was -0.5% in the first quarter of 2025, revised downward from -0.2% in an earlier reading, this result was caused by a surge in imports of foreign goods to beat the tariffs, as well as a reduction in consumer spending on recreation and dining. Consumer purchases still grew at a 1.9% annual pace, which is steady but not as strong as previous. The US core inflation rate was 2.8% in May, as the threatened broad based tariffs have not yet come into effect. Unemployment has also held steady at 4.2%. Even better for the White House is that the market has rallied significantly during this perceived break in the tariff and trade negotiations, with the next major self imposed deadline being July 9, when we expect a continued pause in tariffs as it appears that most countries are trying to come to trade agreements with the US. Another potentially positive development for the US has been the decrease in the value of the US dollar versus other global currencies since the start of the year, making US exports cheaper for other countries. A final positive to consider has been the softer inflation data since the start of the year. With no real effect from the tariffs as of yet, the US Consumer Price Index is down to 2.4% at the end of May and in Canada is down to 1.7%. This leaves room in both countries for interest rates to head lower, which will help to reduce their interest costs.

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In Canada, stocks have posted all their gains for the year since May 1st. Portfolio holdings in financials, such as Royal, National and Sun Life, energy holdings Suncor, Canadian Natural Resources and Tourmaline, as well as consumer powerhouse Dollarama all saw significant growth. As long as Canadian inflation numbers remain below 2%, we see room for the Bank of Canada to lower interest rates further, which should be good for the Canadian market for the balance of the year.

The weaker US dollar has been a drag on portfolio performance this year, but we expect this to stabilize in the coming quarters as US trade policy and US politics in general settles down. Until then, we made some portfolio adjustments this month to increase Canadian exposure by selling US base Eagle Materials and buying Canadian gold miner Agnico Eagle. Agnico is a highly efficient company whose cash flow and future prospects look undervalued to us at the current gold price. Gold has also traditionally been seen as a safer haven during troubled times. Our equity exposure has now moved closer to a 50-50 Canadian/US mix, as we see the Bank of Canada likely lowering interest rates sooner than the US Federal Reserve.

Now that the budget bill has passed both houses, is the US getting a free lunch? No, once again the US is paying for lunch with a credit card. So far, their credit remains good, and they are servicing their debt, but continually running up increasing deficits is a poor way to run a company or a country. Fortunately, we are investing in companies that are increasing profits, not deficits and the US still has some of the best companies in the world. Until next month, stay well.

As always, questions, concerns, comments, and feedback are always welcome.

Yours truly,

Trevor, Walter, Charles, and the Cooper Wealth Management team



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