



Wealth Management
Dominion Securities

Cooper Wealth Management of
RBC Dominion Securities



Thoughts on the market

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Elevators and Escalators



“Risk is not defined by volatility, but rather ill-conceived investment.”

- *Michael Burry*, Hedge fund manager, “The Big Short”

When market volatility increases, investors most often associate this with risk. Volatility is a daily occurrence as stocks rise and fall constantly. The best definition of risk is a permanent loss of capital while volatility should always be viewed as a buying opportunity. One of the chief reasons investors have a tough time buying during volatile markets is a perceived imbalance between a further decline in the market and potential future gains. The classic market saying is that stock prices take an elevator down and an escalator back up. April’s stock market action was a classic example. Up until April 9th, when the US government announced a 90 day pause on tariffs, the major US stock indexes dropped between 7 to 10%. Since then, all three major US markets have recovered most of that loss, with the NASDAQ actually showing a gain for the month. This month, we will review current economic conditions in search of potential volatility elevators, and where the growth escalators are located.

The biggest issue that drove the market lower at the start of April was tariffs again. As the day they were to be imposed came closer, stocks headed lower and US bond yields rose. On April 9th, the White House decided to postpone the tariffs for 90 days and the market's escalator ride began, with almost daily gains. While escalator rides are usually slow and steady, the April recovery was very fast. The S&P 500 recovered 11.78% from the April lows, while some of our core portfolio holdings such as MasterCard (+14.1%), JP Morgan (+16.3%) and Apple (+23.2%) rose even faster. It is widely believed that the decision to pause the tariffs was due to the sharp increase in US bond yields, which rose over 70 basis points in a week, translating to an over 15% increase in bond yields. International investors were selling their bonds at a record pace and taking the money out of the US. Higher rates mean higher future interest costs for the US and is bad news for the growing debt levels. While the US Administration may not care about the direction of the stock market, they definitely have to react to the bond market, and we believe this will ultimately cause them to reduce and/or abandon their tariff policy.

Let's start our economic review on the ground floor with US corporate earnings. First quarter 2025 earnings are coming in positively. With 72% of the companies reported, 76% came in with earnings increased by 8.6% on average. This is definitely a good sign as a strong earnings season helped the market recovery in April. One cautionary note has risen in that companies that are subject to US tariffs are suspending guidance until the US Administration provides further clarity. While this will not impact all companies in the same way, we expect cost increases to be passed on to customers. How much this may slow down the overall US economy remains to be seen.

On the next level, we now consider the US economy. First quarter US Gross Domestic Product came in at -0.3%, down significantly from the previous reading of 2.4%. Much of this is attributed to companies rushing to build up inventory levels prior to the tariffs being imposed. If tariffs remain in place, we do expect another negative quarter, which would technically put the US into a recession. We believe sales will remain fairly stable as pre-tariff inventory is sold, but merchants may not re-order as much product if they don't believe consumers will pay the new higher price. Sales data from Visa and MasterCard show the US consumer is continuing to spend but they are increasingly falling behind on their bill payments according to JP Morgan. One interesting point to note is the possibility that the second quarter US GDP could come in slightly higher in that the US tariffs pause doesn't expire until after the June 30 end of quarter so buyers may rush in to make purchases ahead of tariffs being implemented.

Unemployment remains unchanged at 4.2%, despite the mass firing of over 200,000 civil servants. It is a sign that US economy was maintaining a healthy growth rate, but the potential effect of tariffs has yet to be felt.

Inflation has been steady, with the US consumer price index for March declining 0.1%, and increased 2.4% over the last 12 months. Last month's decline was driven by a 6.3% decline in the price of gasoline. This quiet period for inflation will come to an end if the broad-based tariffs are implemented. However, the US may be able to avoid a recession, even in a tariff scenario, as over 70% of their economy is based on services rather than goods, but growth, if any, would be at a fraction of its previous pace.

The choice between keeping interest rates steady to help combat inflation, and lowering rates to help stimulate growth is the position the US federal reserve finds itself in with the tariff situation. So far, the Fed has kept rates steady as most tariffs are on hold, but the negative first-quarter GDP result could lead to an interest rate cut by this summer if the US economy contracts again. The market is currently predicting three US interest rate cuts this year, but it is dependent on whether the US can strike any trade deals or if the tariffs are actually implemented.

Another key element to watch is the US dollar. Since April 9th, the Canadian dollar exchange rate has improved by approximately five cents. More US interest rate cuts would likely weaken the dollar further. If the dollar continues to

fall, foreign bond, investors could decide to sell their US bonds to lock in their currency gains, which again would send bond prices lower and yields higher, as we saw last year. This outcome could be even more likely if there is no resolution to the US tariff policy as we move closer to the end of the 90-day pause and depending on US trade negotiations with China. Remember that the US also wants to acquire or shut down the popular internet application, TikTok. The US passed legislation to shut down the application unless it was American controlled as they don't want user information going back to the Chinese government. The president has previously extended the deadline by 75 days and that deadline expires prior to the 90-day pause on tariffs. As of February, it is estimated there are 136 million active monthly users in the US and a shut down would be extremely unpopular. Given the unprecedented 145% tariff on goods from China, it is difficult to see how the US will be able to achieve either a trade deal or the acquisition of TikTok. However, both sides recognize the importance of their respective economies to global trade so we will be monitoring this situation closely as trade talks begin. The US Administration boldly stated they expected to strike 90 deals in 90 days on trade and after 27 days, the number stands at one.

When we see the short-term chaos caused by the US tariff policy, it is easy to lose confidence in the market. The good news is that the US has so far backed down from their aggressive stance when the markets, particularly the bond market, reacts negatively. There have been pauses on TikTok and tariffs. We have even seen them reverse their stance on the Ukraine and renewing their shipments of materials for the war effort. The US consumer will definitely be hurt by tariffs, but it does create investment opportunities elsewhere. The next big test for the tariff policy will be in early July. If we get another quarter of negative US GDP growth, the pressure will mount on the US administration to rethink tariffs all together.

Given the continued uncertainty of the US political situation, we remain focused on defensive holdings. We are buying companies that have little to no tariff exposures such as banks, Visa, MasterCard, and Microsoft and companies that can pass on those costs such as Loblaw's and Dollarama. All the companies in our portfolio, have a history of compound earnings growth and as history has shown us, these earnings get positively reflected in the share price overtime. Our main short-term focus is generating dividend and option premium cash flow to help maintain and enhance returns. Patience will remain key as we work through these uncertain times.

Enclosing, investing is always subject to ups and downs, but we have to keep our eyes on our long-term goals and not confuse risk with a buying opportunity. Confusing times eventually end, and the compounding mass of the market will again assert itself. 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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