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Q3 2025 Market Commentary

Benchmark performance as of September 2025

Index	September	3-Month Trailing	YTD Return
S&P/TSX Composite TR	5.4%	12.5%	23.9%
S&P 500 TR	3.6%	8.1%	14.8%
Nasdaq Composite	5.6%	11.2%	17.3%
WTI Oil	-3.1%	-5.9%	-15.5%
Natural Gas	14.7%	1.3%	-9.5%
Copper	5.1%	2.6%	18.6%
Gold	11.6%	16.4%	44.6%
10-Year US Treasury Bond	1.0%	1.7%	6.8%
USD/CAD FX	1.3%	2.3%	-3.2%

Source: FactSet

September bucked its historical weak performance trend to extend the equity markets winning streak to five months. Since the fateful April Trump Tariff announcement, the S&P 500 has rallied by 35% off the lows.

Global equities also posted gains as investors focused on moderating inflation, easing monetary policy, and solid corporate profit growth. The S&P 500 TR posted a 3.60% gain in September its best showing since 2010. The Nasdaq advanced by 5.6% as enthusiasm for the Artificial Intelligence (AI) trade boosted technology shares.

Since the mid-1990s, the US Equity Markets have outpaced both the European and Japanese equity markets. The US weighting of the MSCI World Index now represent a 75% weighting due to the US's dominant

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position in information technology (See Chart 1). Nvidia, the largest market cap stock in the S&P 500 at \$4.45 trillion, now has a market cap three times larger than the entire German stock exchange (DAX).

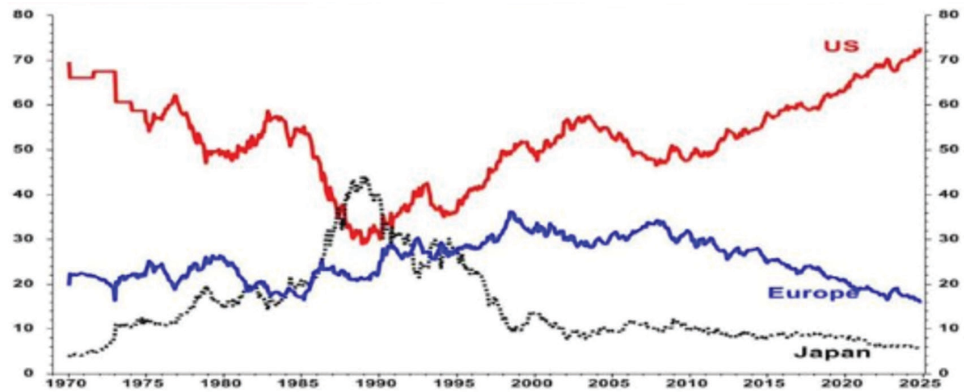
The S&P/TSX TR delivered a 5.4% gain in September its best showing since 1997 due to the strength of gold equities. YTD 2025, the S&P TSX Gold sector has contributing to 36% of the S&P/TSX YTD gains and the sector is up 109% (See Chart 2).

Central bank easing bolstered risk assets as both the US Federal Reserve (Fed) and the Bank of Canada (BoC) delivered twenty-five basis point rate cuts. The Fed signaled that the rate cut was a step towards normalizing interest rates into a neutral position rather than an act of accommodation and a response to weak jobs data. While the BoC rate cut was due to weak economic growth and cooling inflation.

Further gains into Q4 2025 are possible but the S&P 500 is now trading at a forward price to earnings (PE) ratio of twenty-four times (24x) that historically proven to be an upper limit for valuations. A high PE ratio does not portend an imminent correction because equities can remain expensive provided earnings growth continues, and interest rates are declining. In fact, a high PE ratio has been a poor predictor of short term potential equity performance.

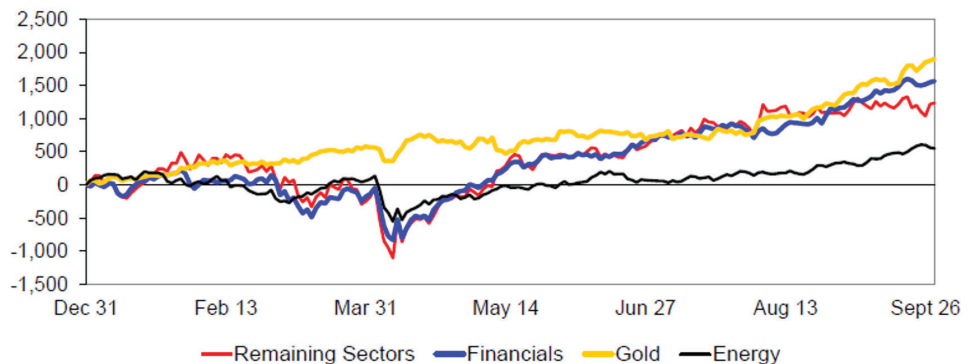
The higher S&P 500 PE ratio is a function of the heavy index exposure to information technology and communication services companies that have both

Chart 1: US is now 75% of MSCI World Index, a 55 Year High



Source: Datastream

Chart 2: S&P TSX Gold Sector Shines in 2025



Source: RBC CM

higher valuations and earnings growth rates.

I am always on the lookout for any data point or event that could upend a terrific year for equities.

One area of concern is US Consumer confidence that weakened in September, declining to the lowest level since April 2025. This is a critical measure given that the US consumer drives two-thirds of US Gross Domestic Product (GDP).

The Present Situation index focuses specifically on how

consumers feel about their current economic situation and job market, in contrast to the Expectations Index, which measures future expectations (See Chart 3).

The Bureau of Labor Statistics (BLS), Present Situation component registered its largest drop in a year. Consumers' assessment of business conditions was much less positive than in recent months, while their appraisal of current job availability fell for the ninth straight month to reach a new multiyear low. This is consistent with the decline in

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job openings. Expectations also weakened in September, but to a lesser extent. Consumers were a bit more pessimistic about future job availability and future business conditions but optimism about future income increased, mitigating the overall decline in the Expectations Index.

Interestingly, the decline in consumer confidence and a weaker jobs market of late has not increased the odds of an impending US Recession (See Chart 4).

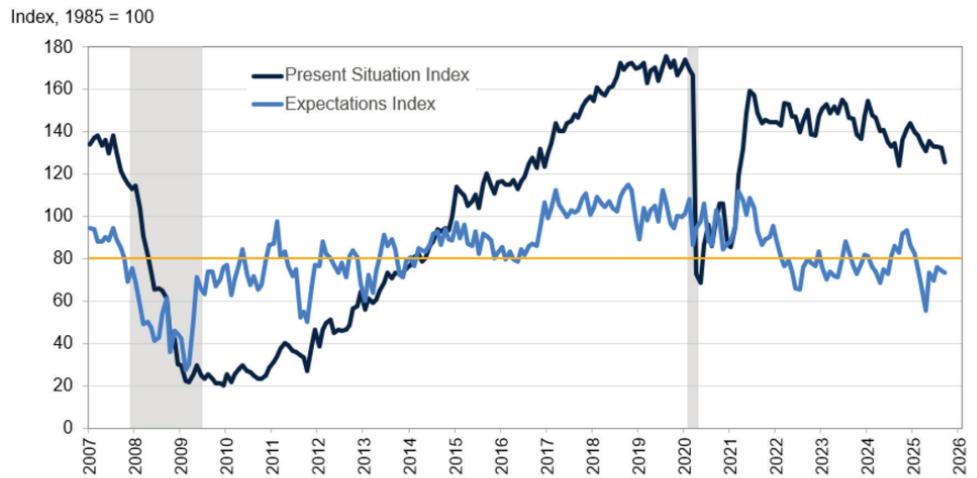
With the US Government’s ongoing shutdown (Polymarket is showing a 68% probability of a one month closure) the dissemination of economic data will be limited keeping the Fed in a dovish position.

The S&P TSX is trading at a 17x PE, expensive by historical standards by two (2x) multiple turns. The S&P TSX multiple expansion is partly due to the gold equities that offer highly cyclical earnings that will keep rising if gold continues its stellar rally.

The Canadian economy remains weak having posted a negative Q2 GDP print and there are low expectations of any economic expansion in Q3. The Canadian Banks, that are exposed to the domestic economy, are trading at a two standard deviation PE premium to their 20 year average.

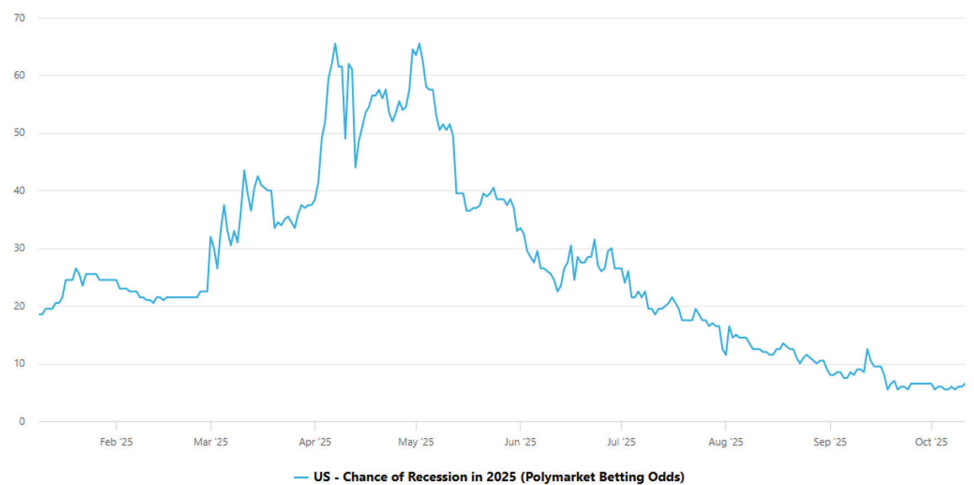
It is possible that the S&P TSX PE ratio will remain supported by fund flows from foreign investors attempting to reduce their US Dollar exposure by adding to Gold and Gold equities. YTD 2025 Gold is up 50% and the US Dollar as measured by the USD Index (DXY) is down by 10%.

Chart 3: US Present Situation and Expectation Index



Source: Bureau of Labor Statistics (BLS)

Chart 4: US Recession Risks are Low Compared to April 2025



Source: Polymarket

Gold is experiencing its best annual rally in forty years. The Trump Administration’s erratic trade policies and its interference with Fed independence, spiraling US Debt, a weaker US Dollar, simmering inflation, easing monetary policy, and Central Bank buying to diversify their reserves away from USD has put a bid into gold. Investor interest in gold as a momentum trade is also driving

prices higher. Like Bitcoin, gold is a difficult asset to value but can move higher on positive investor sentiment alone and the US Dollar debasement trade is exceedingly popular with investors and sovereign nations alike.

There are two main constraints to the advancement of the AI revolution – semiconductors and power.

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Early winners in the AI trade include semiconductor companies such as Nvidia, AMD and Broadcom. Second derivative trades on the AI trade include utilities, uranium producers, natural gas producers, industrials involved in electrical power, and real estate companies with a data centre focus have also produced strong returns. We have exposures to these AI themes across my discretionary managed portfolios.

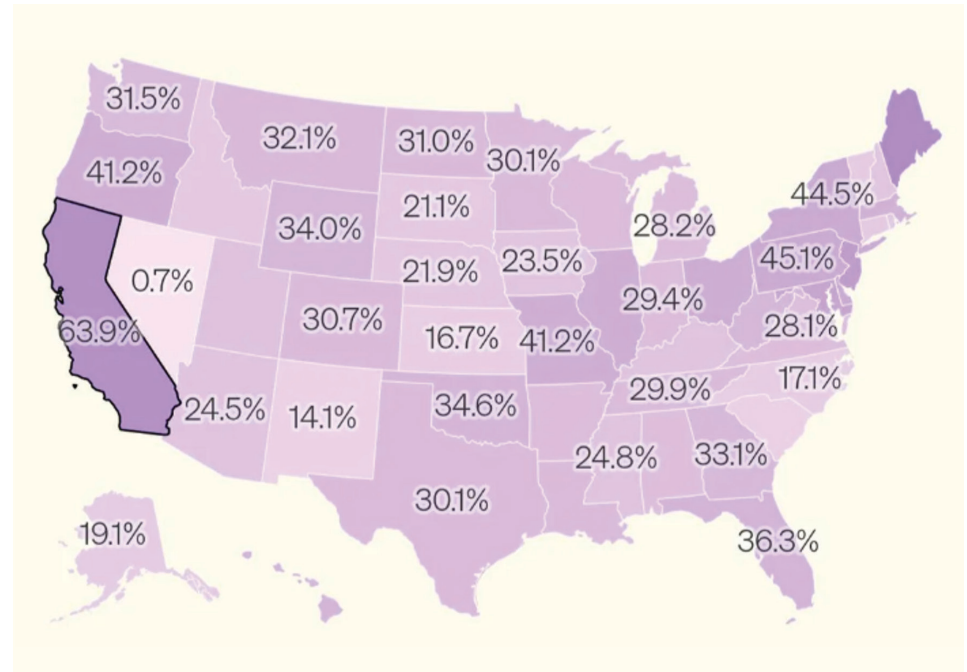
Although the AI trade may be vulnerable to these constraints access to capital is not one of them as the semiconductor manufacturers (including Nvidia, AMD, and Broadcom) and the Hyper scalers, the companies that provide massively scalable cloud computing services from a global network of data center (including Amazon Web Services, Google Cloud, Microsoft Azure, IBM Cloud, and Alibaba Cloud) continue to invest in their customers such as Open AI.

Unlike industry giants of past eras, OpenAI is privately held. Its financials are mostly secretive and its ability and willingness to spend other people's money is unrivaled.

And as OpenAI has proven recently, through a dizzying array of mammoth deals and product rollouts, the AI lab is investing up and down the stack — from the picks and shovels of data center development to consumer applications, coding tools and even devices. Its flagship ChatGPT chatbot has reached eight hundred million weekly users.

The AI industry's circular financing relationships are concerning and echo the late 1990s internet

Chart 5: Percentage Increase in US Electricity Prices by State from 2020 to 2025



Source: EIA

infrastructure build out but on a more massive scale. At that time, many of the internet infrastructure companies went bankrupt due to excess leverage. For example, Global Crossing, a telecommunications company laid fiber-optic cable around the world went bankrupt after racing to build a network to support the internet. Other networking suppliers saw their shares slump into a multi- decade decline post the tech wreck. For example, Cisco, a networking hardware and software, telecommunications equipment, and IT services company saw its share price peak in 2000 and twenty five years later it still trades below that level.

The unparalleled balance sheet strength and innovation of the technology companies leading to

the AI ecosystem today supports a more positive outcome when compared with the internet build out of the late 1990s.

Chart 5 above highlights the increase in electricity prices across US states as AI power competes with traditional consumer demand. California has experienced the greatest increase in electricity prices and this is unsurprising given that they are the state with the greatest number of data centres at just over 300.

Water is another resource that is in demand from data centres.

Morgan Stanley expects that by AI-related data centers will use 1,068 billion litres of water per year by 2028. This is an 11-fold increase compared to 2024. Although this accounts for less than 1% of total

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global water use, it is growing rapidly and is highly concentrated in some regions (See Chart 6).

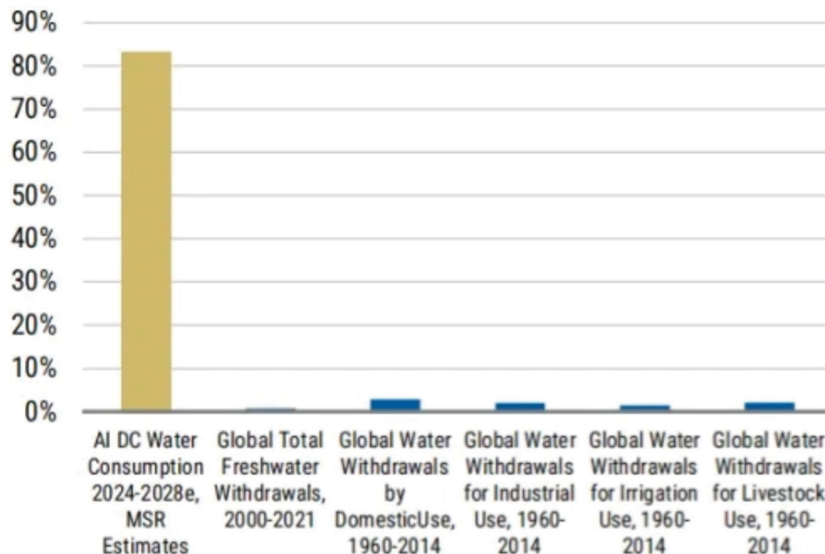
All this to say that the environmental costs associated with the AI Industry may be a limiting factor to a smooth build out. Power demand cannot be readily supplied by renewable sources such as wind and solar due to their intermittent nature, so the natural gas and nuclear industries are going to be the beneficiaries.

For equity investors, the YTD 2025 gains have been spectacular based on improving global economic data and the robust spending by the AI industry.

It is possible that earnings will soften in the face of tariffs and policy uncertainty, inflation will resurface due to fiscal and monetary stimulus, valuations may compress, and/or the AI trade loses its momentum.

When equity markets are ebullient and rallying, I always recall the famous 2007 quote from Citigroup’s former CEO Charles Price, “When the music stops, in terms of liquidity, things will be

Chart 6: AI DC Water Consumption versus Global Water Withdrawals by Industry



Source: Morgan Stanley

complicated. But so long as the music is playing, you’ve got to get up and dance. We’re still dancing.”

With low US recession risks, easy monetary policy, robust fiscal spending, and solid corporate profit growth, we can give equities the benefit of the doubt and remain invested to the upper band

of our equity asset allocation into the upcoming seasonally strong period from November to May.

-R.K.



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