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It's all fun and games, until someone loses at AI

KEY INSIGHTS

- New highs put smiles on investors' faces
- Valuations put butterflies in their tummies
- Gold puts a glint in their eyes
- Lower yields put a dent in their bank balance
- Stay the course...but manage risk and expectations



Figure 1: Gold price in USD, 5-year history to October 15th (Factset)

There's an old saying in the investing world – *the market climbs a wall of worry*. Rarely has this been truer than right now. I think we would all agree that there are enough concerns on the horizon to sink a battleship, yet markets continue to flirt with all-time highs. Equities and precious metals are seeing strong buying interest and record levels. Let's break down the reasons for each.

Precious Metals

This one isn't too hard to understand. The current political climate in the US is causing global central banks and investors alike to seek other safe haven

assets. Concern over US debt levels and a possible return to higher inflation are in focus. We have seen consistent selling of US treasuries in favour of gold this year, driving the price of bullion up more than 50% since January to over US\$4,000 at time of writing (see Figure 1). Silver, generally trends along in gold's wake and this rally is no different, seeing gains of 70% in 2025.

Bitcoin has slowly gained legitimacy over the past 15 years and has grown to become a \$3 trillion asset class. The use cases for it seem to have faded from the forefront, replaced with its value as a store of wealth, a digital gold so to speak.

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Despite the growing acceptance, volatility will continue to be a reality for bitcoin (and the crypto world in general). We continue to believe that cryptocurrency assets are speculative, extremely high risk and should be avoided in conservative portfolios.

Equities

The strength in US equities is a bit of a head-scratcher to all. Valuations of S&P500 businesses are at a lofty 25x, with the most expensive being those exposed to the AI build-out. The top 10 companies have grown to represent a concerning ~40% of the index (See *Figure 2*). Any kind of trouble in paradise could kick-off a market correction.

The bull case for equities centres around outsized growth in earnings for those companies that are building the infrastructure upon which AI will run. Also, there is optimism for the growth in productivity and earnings from all the other companies that will use AI to become more efficient (don't worry, we still write this newsletter ourselves).

The problem with this thesis is that it is based on blind faith to some degree. It is impossible to know what return-on-investment the AI infrastructure build-out will yield. There is

little doubt that current expectations are lofty, and tech seems priced for perfection.

Canadian and International equities are outperforming their US counterparts (see *Figure 3*), but in a less concerning way to us. Canada has a significant weighting to mining companies and these are rising along with the prices of gold, silver, and copper. International equities started from much lower valuations after a decade of being shunned in the face of the so-called US exceptionalism. So even though they have risen faster this year, they remain at lower valuations.

Interest rates

The trajectory of shorter-term interest rates is pointing down, with the Fed now officially in a rate cutting cycle. Canada has been reducing rates since mid-2024. It's uncertain how low we will go, but the current expectation is for one more cut in Canada and 4 cuts in the US by end of 2026 (note: this expectation literally changes by the day).

Lower rates are good for borrowers and bad for savers. Canada has a huge swath of 5-year mortgages maturing over the next year that were first entered into around 2%.

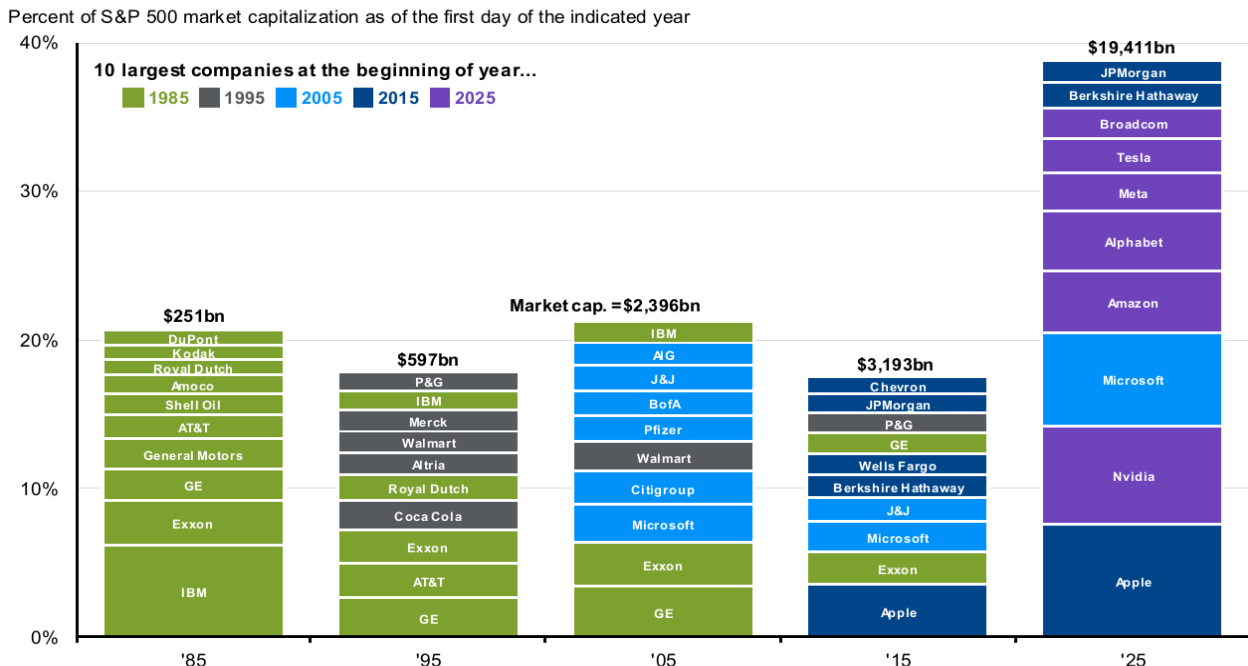


Figure 2: S&P500 Top 10 companies by market capitalization (source: JP Morgan)

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These borrowers will do very well to renew at something in the 3's, versus where we were in the 6's last year. This will keep many homeowners onside, along with the banks that lent them money. Savers on the other hand have seen a real drop in income as rates paid on bonds and cash holdings have fallen into the 2% to 3% range.

We made the decision to lengthen our average bond maturity when rates were higher, and that action is paying off now as we have higher yielding bonds going out into the 2030's. Locking in higher rates a couple of years ago will serve us well for several years to come.

Falling rates can be supportive of the equity and gold markets. If the yield on holding cash is going down, perhaps investors will start to look for alternatives; maybe a telecom or a utility yielding 5% (with the potential for growth) will appear more attractive on a relative basis. We point this out because even though equities seem overvalued (as discussed above), there is \$7 trillion of cash in money market funds (see Figure 4) that could continue to flow into equities and other asset classes such as gold. In other words, there is a case to be made for this rally having legs.

Manage your expectations

In the short term we will not be surprised to see a return to volatility in the equity market. This current run that began in April feels a little long in the tooth to us. We would advise staying the course but managing exposure to the highflyers.

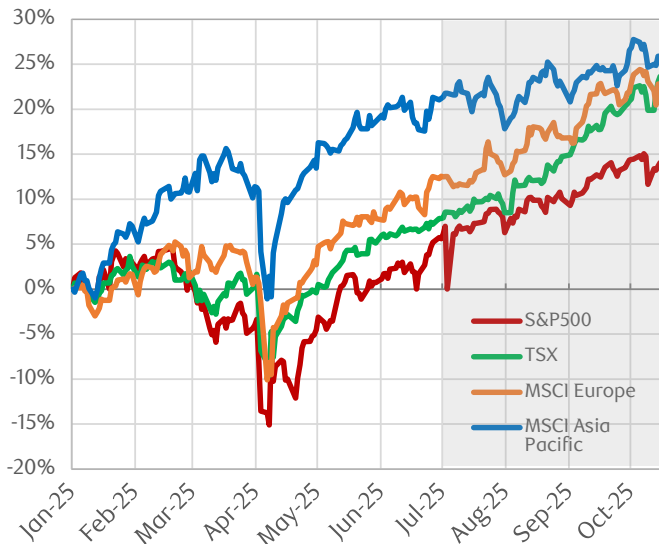


Figure 3: US, Canada, Europe and Asia YTD Price Return (Factset)

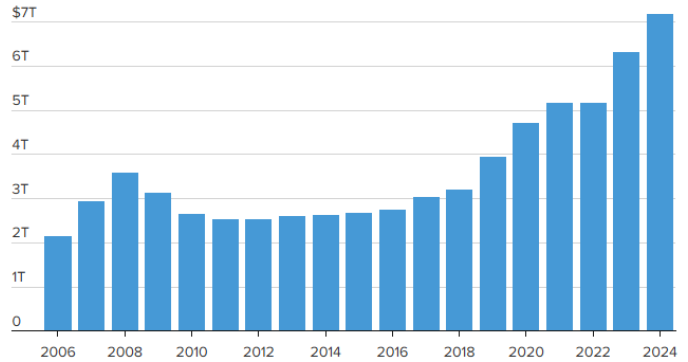


Figure 4: Total money market fund assets in the US (Crane Data)

There appears to be good value in the defensive sectors, with telecoms, utilities, REITs and financials all having reasonable valuations and yields. We do maintain holdings in several of the large cap tech names but will monitor our weights carefully.

As the old saying goes, markets go up the stairs and down the elevator. Let's not be caught off guard when the volatility returns, as it always does. Being prepared will allow us to take advantage, as we did in April, of a market correction. To reuse a Buffett quote from a recent newsletter, "the true investor welcomes volatility ... a wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses". Without volatility, we would never have the opportunity to invest in companies at discounted prices.

While a correction in the short term seems inevitable, we remain positive in the medium term. As always, we are optimistic for the longer-term market trajectory.

What all of this means for you

Good things!! Your Q3 portfolio report is now available. Please review it to see your personal rate of return on page 3, and asset class exposures on page 2. If you still receive this report by paper mail it will get caught up in the Canada Post strike. If you would like to switch to electronic reports, please let us know.

We closely manage your portfolio to adhere to your stated asset allocation targets. Keep in mind that these targets must be regularly reviewed, and it is essential that you inform us if there have been any changes to your financial needs or your capacity to handle risk.

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Team Update

As we have recently reported to you, The Sandler Wealth Management Group has undergone some changes. After a decade of working together with our good friend Ronan Clohissey, we are pleased to be supporting him in his launch of the Ronan Clohissey Wealth Management Group at RBC DS. Both teams have moved into new offices and are engaged and excited about this next chapter. Ronan and I will continue to work together closely on business strategy and direction, investment research and client communications. We will continue to share the task of making sense of the constantly evolving financial landscape and managing our clients' investment portfolios with appropriate caution.

We wish our friends and former partners nothing but success in their new endeavor. We also want to recognize you, our clients, for your continued support. We are so grateful and fortunate to have this relationship, and we never take that for granted. Thank you.



Scott Sandler, CIM
Senior Portfolio Manager

	Q3	YTD
Indices		
S&P/TSX	11.79%	21.4%
Dow Jones	4.28%	9.1%
S&P 500	7.91%	13.7%
Nasdaq	12.16%	17.3%
Euro Stoxx	4.69%	12.95%
Japan Nikkei	12.37%	12.63%
India Sensex	-4.10%	2.24%
VIX (Volatility)	-3.27%	-6.17%
Commodities		
Gold	17.10%	46.7%
Silver	28.94%	59.5%
Copper	-4.45%	20.6%
Oil	0.50%	-11.7%
Natural Gas	-5.36%	6.6%
Currency		
CAD	-2.24%	3.3%
EUR	-0.46%	13.3%
JPY	-2.64%	6.3%
AUD	0.50%	6.9%
GBP	-2.10%	7.5%

Values as of September 30th, 2025



Wealth Management
Dominion Securities