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Q2 2025 Market Commentary

Benchmark performance as of June 2025

Index	June	3-Month Trailing	YTD Return
S&P/TSX Composite TR	2.9%	8.5%	10.2%
S&P 500 TR	5.1%	10.9%	6.2%
Nasdaq Composite	6.6%	17.7%	5.5%
WTI Oil	5.9%	-9.4%	-10.1%
Natural Gas	20.9%	-15.9%	1.7%
Copper	4.3%	4.2%	15.3%
Gold	0.3%	5.5%	26.0%
10-Year US Treasury Bond	1.8%	0.9%	5.0%
USD/CAD FX	-1.0%	-5.4%	-5.4%

Source: FactSet

June's equity performance served to complete a remarkable V-shape recovery that allowed the broad US indexes to regain their previous highs (see Chart 1).

The S&P TSX continues to outperform the S&P 500 by a wide margin and more so when adjusted for the 5.4% foreign exchange gain in the Loonie relative to the US Dollar YTD 2025.

This broad equity market momentum is likely to continue due to positive seasonal trends although valuations may be a limiting factor. Historically, July has been the best-performing month over the past 20 years (up 2.79% on average, including ten straight Julys higher), while the Nasdaq Composite was up sixteen straight Julys before last year's 1.68% loss.

At the 6,200 level, the S&P 500 was trading at ~ 23x forward price to earnings near the pre-Covid highs and at a significant premium to International Equities (See Chart 2).

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However, contrary to popular perceptions, and despite the powerful recovery, there are few signs of strong bullish sentiment and risk appetite.

Equity positioning has risen significantly off the bottom but is still far below February levels and remains underweight. So, if positioning is still underweight and inflows only modest, how are equities back to the highs?

Seen through the lens of a demand-supply framework, it reflects continued robust stock buybacks, with companies showing no signs of retreating from their capital planning. S&P 500 buybacks may reach about \$1.1 trillion gross in 2025.

Higher equity markets can be supported by a surprisingly robust labour market, a consumer that continues to spend on services, and lower recession risks. Further, corporate profits for US multinationals will benefit from a lower US Dollar and the US Federal Reserve (Fed) will act to lower interest rates later this year. Finally, there are a few contrarian indicators that may fuel higher markets. As noted above, bearish sentiment as measured by the current AAI Investor Sentiment Survey remains elevated at 33% (although down from 40% in the last week of June) suggesting that the V-shape recovery is accompanied by investor skepticism.

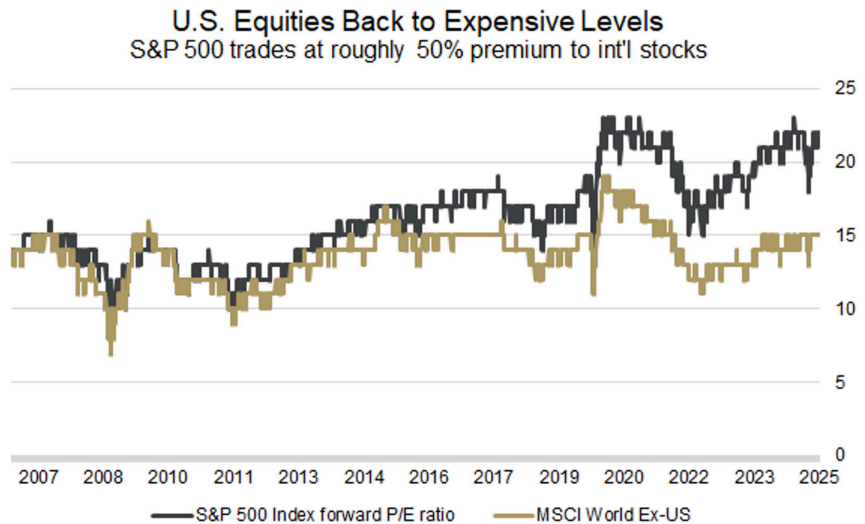
There is over USD 7.0 trillion in cash and money market on the sidelines that will start to recycle into equities or fixed income once short term money market rates decline later this year.

Chart 1: S&P 500 and Nasdaq V-Shape recovery from Feb 19th highs



Source: Factset

Chart 2: S&P 500 trading at a Significant Premium to International Equities



Source: Bloomberg

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The outlook for the US economy has improved dramatically in recent weeks. According to Polymarket (see Chart 3), the odds of a U.S. recession this year have fallen from 65% in May to 22% in July.

Solid labour data, stable growth forecasts and rebounding consumer sentiment form a constructive backdrop for the US economy. The June US Nonfarm Payrolls report underscores this dynamic, with 147,000 jobs added – well above consensus expectations of 106,000 – and the unemployment rate declining to 4.1%, ahead of forecasts calling for 4.3% (see Chart 4).

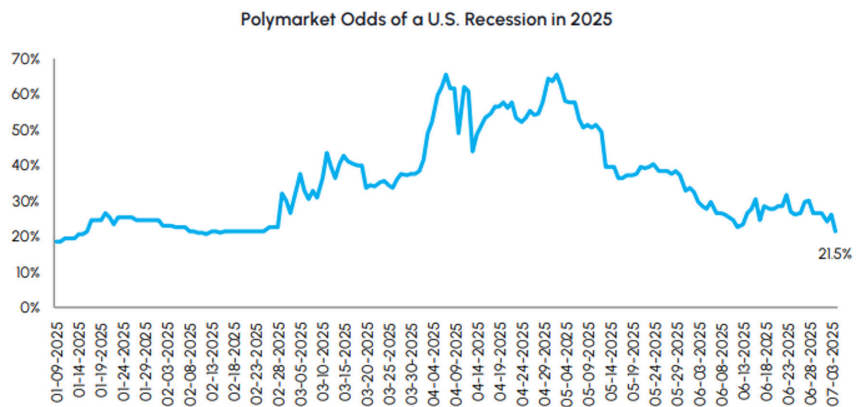
One question that needs to be resolved: the case of the missing tariffs.

The US tariffs are currently raising about \$30 billion a month for the US Treasury, or almost \$400 billion at an annual rate. The mystery is that these big numbers are not showing up in the inflation data—the consumer price index rose a smaller-than-expected 0.1% in May, the month after April 2 Liberation Day—or in corporate profits.

The \$400 billion in annualized tariffs, meanwhile, make up about 20% of the \$2 trillion in aggregate profits made by S&P 500 companies. Yet, analysts have been lifting their earnings estimates for the S&P 500 in the past two months. Earnings conference calls should shed light on who is paying the tariffs and how much they are being passed along. More clarity also may come after 90-day tariff suspension ends on July 9.

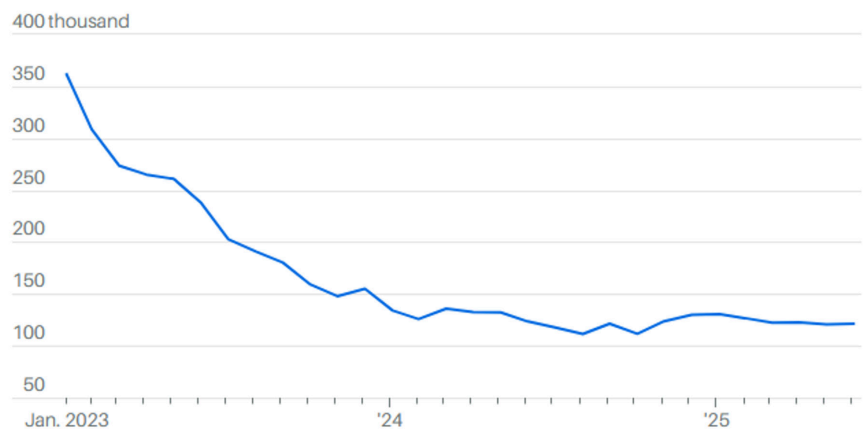
The expectation is for tariff rate imposed by the US on other nations to increase from 3% to 15% and higher if the European Union accepts a more asymmetric deal. Simply put, these are not really

Chart 3: US Recession Risks Plunge



Source: Polymarket

Chart 4: Trend in YoY Monthly Non-Farm Payrolls Slowed, US Economy near full employment.



Source: Bloomberg

negotiations but an attempt to avoid an all-out trade war with the US while minimizing the impact of tariffs.

The uncertainty regarding the final tariff levels keeps the US Federal Reserve (Fed) on hold despite Trump's persistent bullying of Chairman Powell's lack of action of monetary stimulus relative to other nations.

Odds still suggest a Fed 25 bps interest rate cut from the current range of 4.25% to 4.5%, in September, with another such move

in December, according to the CME and the Fed's own projections. But the already slim expectations of a cut in the central bank's federal-funds target at its next policy meeting, concluding on July 30.

Meanwhile Trump's "Big Beautiful Bill" has passed and will add \$3.4 trillion to the US federal debt over the next decade and has earned a 60% public disapproval rating. Yet its passage is a win for the White House—and Wall Street, which is hopeful the legislation can boost growth.

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Sector performance broadened out in the first half of 2025 with the Industrial sector leading.

Industrial stocks represent a diverse group of companies that build, move, manufacture, and maintain much of the world’s economic infrastructure. And with reshoring trends, infrastructure spending, and automation driving demand, the sector is seeing strength across multiple segments.

The Information Technology and Communication Services sectors experienced the largest percentage recovery from the April 8th market low.

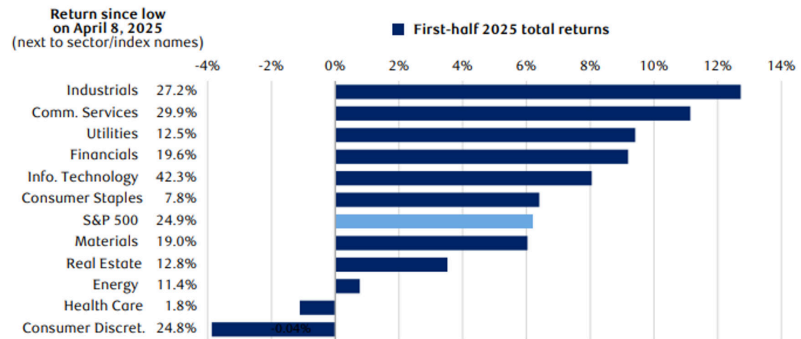
Utilities have performed well as robust AI data centre energy demand has added a new growth element to a historically sleepy sector. The Health Care and Consumer Discretionary sectors have lagged.

The healthcare sector is underperforming due to a combination of factors including policy uncertainties, post-pandemic operational challenges, and shifting investor preferences. While long-term fundamentals remain strong, driven by demographics and chronic disease, short-term pressures have impacted profitability and investor sentiment.

The consumer discretionary sector is underperforming due to a combination of factors including high inflation, rising interest rates, and economic uncertainty, which have led consumers to reduce spending on non-essential items. This sector is sensitive to changes in consumer behavior and economic conditions, making it vulnerable during periods of economic downturn or uncertainty.

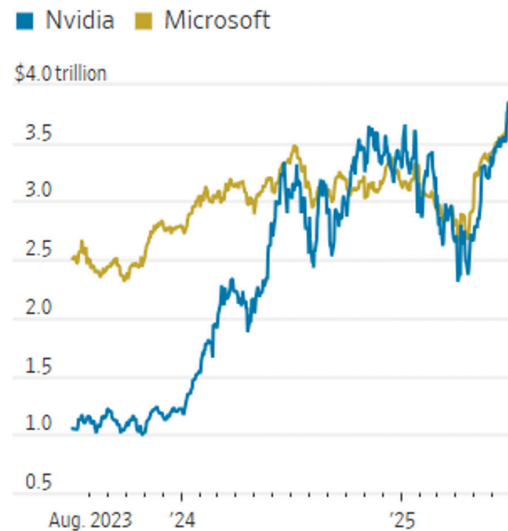
The Artificial Intelligence (AI) trade has come roaring back after

Chart 5: All but two S&P 500 sectors rose in the first half of 2025



Source: Bloomberg

Chart 6: AI Race: NVDA and MSFT Market Capitalization each approach \$4 trillion



Source: Factset

crashing in early April. But this is no longer a Magnificent Seven story: YTD 2025 to June 30th, Microsoft is up 19%, Nvidia 14% and Meta 23%, thanks to renewed AI excitement. But Amazon and Alphabet are down modestly. Tesla is still down 16% due to multiple factors; heightened competition from Chinese electric vehicle (EV) manufacturers, the loss of EV tax credits, and Elon Musk distractions and public disputes with President Trump. Apple is off 16% due to its stumble in integration an AI solution in its iPhones.

Nvidia and Microsoft dominate the hardware and software AI value chain respectively (both companies are held across my discretionary models).

A much bigger company than Nvidia in terms of annual revenue, Microsoft also sits in a different spot in the AI value chain. Nvidia is booming because any company that wants to work with AI must buy Nvidia chips first. Microsoft’s boom will depend on the willingness of a high number of the customers it depends on—both businesses

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and consumers—to pay a premium for AI services. For that to occur, AI will have to become a more transformative corporate tool fully woven through everyday life—much like Microsoft’s Windows operating system or Word office software became decades ago.

There is a more speculative element to the US Equity market emerging exemplified by the sharp increase in select Initial Public Offerings (IPOs) in the technology and crypto currency sectors. This activity has been attributed to retail investors that tend to concentrate their bets on a narrow group of companies showing near term momentum without applying traditional

valuation analysis to their investments. This is a concerning trend because it undermines the tenet of rational investing that supports a healthy equity market. It also harkens back to the meme stock trend prevalent during Covid that failed after causing financial damage to institutional and more so retail investors that were subject to social media influences.

As we enter the summer months, I am aware of the liquidity vacuum created by lower volumes.

I am constructive on the equity markets for the balance of the year. I expect periodic volatility spikes and shallow market dips

in a low volume environment. Any pullback will create the opportunity for institutions to raise equity exposures while retail investors who were buying any weakness from Liberation Day forward will continue to be rewarded for their patience.

Wishing you and your family a relaxing summer.

-R.K.



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