

Episode 1: Standing at the Precipice?

John

[00.00.00]

Hi everyone, and thanks for tuning in to Buy The Way. This is Guardian Capital LP's new podcast series, delivering your regular dose of honest and unscripted investment conversations with portfolio managers, thought leaders and various industry experts with the quote unquote Reddit driven investing on the rise. Everybody seems to have a voice these days, whether online or an opinion and even a podcast. But when you were looking for trustworthy insights with a bit of a dash of entertainment value, we're going to strive to make this your go to place. We plan to release fresh episodes every couple of weeks with discussions that are intelligent yet accessible. We really want to bring a refreshing take on market insights for people with an appetite to improve their financial literacy, and for investors and advisors alike that are really hungry for thought provoking ideas. I'm your host, John Pagliacci. I am VP of Investment Programs and National Accounts here at Guardian, and I am so excited to be here recording episode number one with Mr. Macro himself, numero uno for practical and pragmatic insights around the intersection of economics and the potential impact on investment portfolios, our very own VP of Economics and Portfolio Manager, David Onyett-Jeffries. Well David, we are here. We did it after all this time. They told us that the market for podcasts was really strong, so the two guys with faces for radio, made it happen. Thank you so much for joining me.

David

[00.01.22]

I can definitively say that I am here.

John

[00.01.24]

It's safe to say now that, you know, chainsaw wielding Elon Musk has been out of the news cycle for a little while now. You're okay with me calling you DOJ? Is that fair?

David

[00.01.34]

Yeah, I've got no problem with that. I've been DOJ for a lot longer. And to borrow from Michael Bolton in the movie Office Space, why should I change my name when he's the one who sucks. I kid, obviously, I kid

John

[00.01.45]

Fair enough. We're gonna keep that in. Don't edit that out. So, you know, folks, listeners, thank you for tuning in. David and I are going to be huddled here, to record an episode every month centered around broader macroeconomic analysis. I think that word, though, for some people, macroeconomics, particularly those that are not in the investment industry, is a term that might seem inherently boring or perhaps intimidating. But David, you live and breathe this stuff every single day. So I wanted to sort of get your take, give our listeners a sense of what they can expect when we say macroeconomics and why it's an area that you are so keen to focus on.

David

[00.02.24]

Yeah. For sure. So macroeconomics in like the simplest possible term, it's the view from 10,000ft. We get bogged down in our everyday lives. You know, you can talk about losing sight of the forest through the trees, where when you assess the macro backdrop, you're looking at how all those individual pieces come together. So you're looking at the full picture of the puzzle rather than any specific piece. And so that influences our daily life, because it allows you to give a broad assessment of how everything is going on, whether it's business cycles, economic momentum, how it relates to employment markets, changes in prices, interest rates, government policies, geopolitical backdrop, how everything sort of comes together in the big picture. Because again, our everyday lives are very much bogged down by the micro rather than the macro. And it is the macro factors like, so again, this big picture views that really serve as the fundamental driver for broad financial markets, which is really why we're here.

John

[00.03.20]

Love it. Yeah I mean you and I both, I've been in the industry now for a long time, and I think that's one of the reasons that really got me excited about doing this podcast, is that I find that people often lose

sight of the forest from the trees, and you're so far into the weeds sometimes. And if you take a step back and look at sort of where macroeconomics plays into things, it really does have an overarching impact on just about every element of daily life that people aren't, you know, necessarily connecting those dots, but I find really fascinating. So great to have you on. I love that we're doing this initiative monthly. I think we're going to have a lot of engaging discussions. Today though, we certainly have a lot to cover and, you know, maybe I'll just preface the conversation by saying that I am worried. I'm worried about a number of things. You know, the state of democracy is right up there but maybe that's an episode down the road. Another episode perhaps. But today, you know, really want to focus on more of the economic side of things, you know, worried about institutions like the Federal Reserve and the BLS or the Bureau of Labor Statistics losing their independence. I'm worried about, you know, the Trump administration potentially stubbornly pushing forward with these broad-based tariffs despite recent rulings that they are illegal. I'm worried about the US and really, by extension, the broader global stock market, because I feel and I'm seeing more and more of this rhetoric out there. It just seems so heavily reliant on this, sort of, singular theme of AI and big tech. And maybe lastly, I'm just generally worried that the economy is now starting to show weakness, and there is a growing possibility that the US goes into recession in the not-too-distant future. Of course, that's not a given outcome. I think we're inching towards that. But I want to get your take on a number of those elements. So, maybe to start, let's touch on, you know, these institutions that I brought up, like the Fed and the Bureau of Labor Statistics. Can you give us a quick sense of what's going on with these two institutions? Why they're in the news?

David

[00.05.16]

Well, the Fed's always in the news because they are the arbiters of monetary policy. Right now, there's a lot more of a political backdrop going on. The current administration in the US is definitely trying to exert sort of more influence than it traditionally does, whether it is sort of in traditional government institutions such as Bureau of Labor Statistics, which is, quite frankly, just a boring, traditionally boring, entity that collects data and gives us an update on sort of the health of various areas of the economy. The Federal Reserve, who is supposed to be an independent body that makes decisions that ultimately benefit the broader economy or whether or not it's individual companies as well, which is, I'm sure, something we'll discuss a little bit later. But talking about the BLS and the Fed in particular. The economies are best served when the public servants are focused on, forwarding the best interests of the economy, whether or not they're the civil servants working at collecting data. So there's no political bias in there, they're trying to show something that doesn't actually hold up. Or in the Federal Reserve, it's people who are, you know, ultimately, the policy makers in the Federal Reserve are charged with trying to control the supply and demand within the economy. Right? And we've done tons of studies over many generations that show that if you have, sort of, stable price growth, healthy economy where demand and supply are roughly in balance, you have an environment that is strong for investment, it's strong for economic activity. If you have a situation, however, where these policymakers are making decisions not because what they view is in the best interest of the long run health of the economy, but are trying to push a very specific policy agenda that a government is laying out. You know, those ultimately, you know, those decisions aren't being made in the best interest of the economy. It is short run focused. And when you focus on the short run, it typically is the detriment to the longer run. Situations where we typically see this kind of, lack of independence between sort of the executive body, legislative body and the monetary policy setters. It's something that tends to happen in emerging or frontier markets, where you have a government that is trying to exert more authority over what's going on. And because typically you have sort of a counterbalance between fiscal and monetary policy, if you have them both moving in the same direction, it can create problems. Mainly with regards to inflation. So in a situation where you have a government that is really trying to push a pro-growth agenda, they are putting highly stimulative policy in place, which means that governments are spending money to, you know, either build infrastructure or to give tax cuts to businesses or individuals to sort of push growth. If you have an environment where the monetary policy is also highly stimulative, so interest rates are very low, which means that there's more money flowing around the economy because there's more willingness or demand for lending. It can create this long-term situation where demand is outstripping supply, which creates an inflationary environment. And we have seen that historically that when inflation and inflation expectations become unhinged, to get sort of bogged down in the minutia, you have this spiraling and inflation and it creates huge issues in terms of demand in investment. And it really is not healthy for the broad, again, the longer term benefit of the overall economy. So, ideally, you want to have this independence in place, so you know that as an investor, as a business that, you know, interest rate policy is going to be set in a very specific way. They're going to react to specific aspects of the economy that they're watching. But when you lose that credibility, you know, a lot of stuff has a tendency to become unhinged. Right? That's the big concern, is when you lose these traditional anchors within an economy and financial markets.

John

[00.09.04]

Yeah. That's great. I mean, I'm glad you touched on it, on the emerging market side of things. I was going to ask. You know, we've seen this movie before, have we not? Where sort of an executive branch call it cedes control of something like the Federal Reserve of a certain country. And to your point, yeah, it's pretty rare, in sort of the developed but certainly in emerging markets, we see it and, you know, you give a lot of great context there. If I was to kind of distill it down, it would sort of be the playbook, reading like, you know, they lose their independence rates get pushed too low, they stay low for too long, inflation kind of runs hot, can get away from, you know, the government, the currency starts to lose its value more and more. And then you're back in a situation where you need to materially hike rates again to get that inflation under control. So there might be some short-term stimulation. But then to your point, longer term, likely going to lead to some chaos. Hopefully we don't get to that, but like I said, we've seen this movie before in other places and it doesn't always end so pretty. We did talk about the fed a little bit there, so I wanted to just sort of segue into that quickly and get your sense of, you know, what the market is expecting right now with regards to the US Federal Reserve in terms of interest rate cut projections over the next little while. What are you seeing there?

David

[00.10.14]

Well, there's been a fairly seismic shift over the last month with respect to interest rates and interest rate expectations. So with all the uncertainty that's followed, the introduction of tariffs in the US, central banks, not just in the US, but pretty broadly, have been taking a very reactive approach to policy setting, because implicitly tariffs raise prices and they restrain economic activity. But the timing and magnitude of those two, you know, are uncertain. So the viewpoint has been that, given that underlying economic growth momentum has been generally fine, central bankers have this capacity to sort of sit and wait and see, to see which was the bigger lever being pulled by sort of this change of policy, whether it was slowing growth because when growth slows and supply stays the same, all else the same, the balancing factor is prices. So prices will start to moderate or decline. In contrast, if the bigger aspect was on the tariff side, that puts upward pressure on prices. So that's inflationary. And central banks you know, would have to wait and see that in the event the policy prescription is different, right? So there was this really focus on being reactive. So seeing what happens and then reacting to it. But what we've seen develop in the past month or so, and there's been a lot of, you know, you can argue that there's some prodding from the White House. But another aspect has been we've had, you know, the data has changed. We've had a softer flow of particularly data related to jobs. And the focus has shifted no longer, that we're starting to see that, alright, the threats to the demand side, the jobs side are starting to materialize. And we're moving back into what is traditionally the approach to policy setting that central banks will have, which is they're more proactive. Right? They want to get ahead of the curve. If they can see that, you know, a recession is on the horizon, they want to take steps now to try and mitigate that. And as a result of this, you know, we've seen expectations shift where markets, you know, go back a few months, we're expecting interest rates in the US to hold roughly steady for the remainder of the year. And similar with Bank of Canada. We've moved to a situation where lower is the path of least resistance. And so we have the policy decisions on Wednesday. We're currently recording this on September 15th. On the 17th, we have both the Bank of Canada and the US Federal Reserve making their policy announcements. And it's universally expected that they're going to cut rates. Right? The main question, the consensus at the moment is 25 basis points, so one quarter of 1% each. But there is a risk that they're going to do more, right? Go big or go home and take this approach. Right? And so you know, we've seen this shift where there's a lot more rate cuts in the profile. So, you know, go a year from now the expectation is a 150 basis points with the cuts for the fed and another 50 for Canada. Right? So this is lower rates from this point on.

John

[00.12.59]

Interesting. Yeah, I love a point that you touched on there because I think for people listening to this that don't spend their day to day, you know, looking at the markets or economics and so on, but are sort of inundated with this political stuff that's always in the news. You know, the cynic might say, oh, this is just the Fed chair, Jerome Powell, caving to Trump's pressure. And there he is cutting rates because Trump told him to. Again, I think that's the cynical view. To your point, a lot has changed over the past month. And I think, you know, ironically, we're now at a point where, yeah, he needs to cut rates for very real reasons rather than political pressure, which we're seeing. So I think that's a good segue into what I wanted to ask you about next, which was sort of what's feeding into the Fed's decision. You said they're taking sort of that wait and see approach to get more data. but one of the things that's really changed over the past month or so has been these jobs, the job creation numbers, or really the lack thereof. Can you get into that a little bit for us? And, as you're speaking to that, I

wanted to ask you as well, because obviously there's a new head of the BLS that Trump recently put in place. He fired the last one. How much confidence are you going to have going forward in these job creation reports as they're put out, under sort of Trump's appointee, and are you looking at any alternative data points as well that you're going to need to rely on instead?

David

[00.14.16]

Yeah. So for starters, the mindset or the thought process that you can have politically motivated people making changes and guiding the data at a government statistical agency is really overlooking sort of the level of bureaucracy that exists. And all these agencies have existed for a long time. There are many, many checks and balances within them, but no single person has the ability to really guide anything. Right? Like a lot of the stuff is, like, if you look at any sort of data report, there are a whole bunch of individual data points, and there are going to be teams that are charged with finding those individual data points. Right? And there's stuff in place to make sure, mainly like the credibility of the data is the most important thing. And to ensure that the quality exists. You know, we've gone through so traditionally in the economic cycle, revisions to data don't get that much attention. But we're in an environment where everybody is hyper fixated on sort of the developments. Right? We want to see the impact of tariffs. We want to see if growth momentum is going to be sustained. Is a recession on the horizon? But there are always these tons of revisions and adjustments to the data, and there's tons of issues with data collection. But the reality is, as much as we want to pay attention to private third-party indicators, which, you know, you create this mosaic and make sure that everything is telling the same story. But the reality is, and this is to paraphrase Winston Churchill, the data that we get from the BLS or the BEA or StatsCan is the worst that there is, except for everything else, right? There's no private sector data collector that has the scope and scale to provide better data. Right? They make adjustments to their methodology regularly. But again, this is sort of the pinnacle of data collection. So from that point of view, like there's no change in sort of my view of the credibility of the data. Right? It is as credible now as it always has been. And, you know, you can make the argument about political influence and whether or not it was influenced by the previous predecessors, appointed head of the BLS or the current predecessor. But the big changes and revisions that we've seen have come since this changeover. Right? Which does also emphasize how little impact the individual sort of director of the organization has. Yeah. But like, it does boil down to the credibility of the data, I think is still fine. We'll start to see if there's more discrepancies that start to arise. But at that point, you know, we do get tons of other indicators that exist, and you have to pay attention to them. That's the nature of this industry. You figure out what actually carries value from a predictive sense. You have to be a huge nerd like myself to just dive into sort of the underlying methodology and see whether or not they're covering a broad enough sample. One of the issues, obviously, in the last few years is they traditionally would do surveys over the phone, but nowadays a lot of people, especially specific subsectors of the population, do not answer phones from unknown numbers. Right? So just making these adjustments as these go, but you know, you have to pay attention to the whole spectrum because you get any given day there is a fire hose of data that is being released. You have to figure out, you know, is it all telling the same story or something roughly equivalent?

John

[00.17.27]

Okay, so the job numbers that we've seen recently have been revised down considerably. Like we just touched on. So, you know, there does appear to be a fair amount of weakness there. But I want to get a sort of sense of how we interpret that in a second. And as we pivot into sort of, what, it looks like there's a slowdown in some current economic readings. And, you know, just for example, I was listening to a recent interview with Mark Zandi, who is the Chief Economist of Moody's Analytics, and he was saying that their recession model currently puts the probability of a recession in the US over the next year, over the next 12 months, at 49%. What I found particularly interesting in his remarks, though, was that historically, whenever that figure climbed above the 50% threshold, their model was 100% accurate in predicting a forthcoming recession, and that dates all the way back to 1960. So according to Moody's, you know, we're right here on the brink of a potential recession in the next year. So I want to get your take in sort of how you're looking at the world through your macroeconomic lens and hone in on what I think are two substantive economic indicators. The first one I wanted to ask about is, you know, manufacturing. So are these broad-based tariffs that we've seen implemented really across the board. Having the desired effect of creating increased manufacturing activity in the US.

David

[00.18.51]

No, not as of yet. Again, a lot of government policies, just like monetary policies, they take time to come to fruition and to adjust people's, you know, supply chains and everything isn't something that's done

immediately. But as it stands, there's no real indication that the US manufacturing sector is really seeing a lift. Talking about the job reports and jobs data, manufacturing employment is down year to date and has fallen in four consecutive months. US auto production is down roughly 3% from a year ago levels. And if we look at broader gauges of manufacturing activity, it's basically treading water. A good sort of indicator bellwether for markets and the economic cycle is something called the ISM Manufacturers Index, which is a survey of people who are involved sort of in the supply chain, specifically related to the factory sector. And that indicator has been in negative territory for the past six months. And now it's not necessarily its levels aren't indicative of a outright recession, but it is showing relative stagnation within the factory sector. Right? Which, you know, the factory sector isn't as important as it was in the 1930s, 1940s, 1950s, but it still, you know, carries weight and can be viewed as a leading indicator. So yeah. Talking about the tariff impact, that's something that's going to be further down the road, especially when we have a little bit more clarity on what the policies are going to be, which is arguably something that has, you know, we've started to see more of in the last, let's say six weeks or so.

John

[00.20.22]

Okay. Well, the next part would be moving to sort of the stock market, which is a lot more prevalent, I think, in people's lives as they track sort of what the values look like there. And, by all accounts, it appears to be in pretty good shape. Based on the, let's just say, the level of the US market right now at sort of, you know, record highs, is that generally being reflected in sort of Main Street and the health of the consumer? Like, is the consumer still spending at a healthy clip? Can you correlate those two with the stock market, or is there a bit of a break between those two?

David

[00.20.55]

Yeah, so over longer periods of time, there is a correlation between movements in the broad economy and the economic cycle and stock markets, and you can argue right now, so one of the reasons why, especially over the last five years, I tend to be more optimistic than a typical dismal scientist of an economist would be, has been the general health of the of the consumer. Right? This has been a very unique cycle where we had a whole bunch of involuntary savings, which is provided, you know, this fodder, this capability for consumers to continue to be resilient. Right? The financial health overall consumers, in Canada and the US, Europe, even Japan are the wealthiest they have ever been. And when you tie that with generally strong job markets, which they have been for the last five years, and we are definitely seeing the slowing, you know, there is that underlying cyclical health that is providing a support. And we're seeing consumer spending remain fairly resilient even now. But it is important to note that the economy is not the market and the market is not the economy. So the economy typically focuses on the here and now, and a lot of our data is backward looking, where the nature of financial markets is that they are trying to be forward looking. And a lot of what's been propelling markets to this all time high. Despite these numerous headwinds that we've been dealing with and uncertainties so far this year is really the forward looking expectations about what is going to happen, right? Especially with the US, which is, you know, accounts for about a half of global equity market capitalization. And it's really boils down to the investments and the productivity gains that are tied to artificial intelligence, which has this potential to have a massive transformational benefit for years to come. Right? Which would then stoke earnings growth and support, you know, the markets as a whole, which then in turn also you know, we're seeing the benefits across the overall economy. So just right now you know the market is focusing on the benefit of AI, you know 5, 10 years down the road, right? Which is still highly uncertain. But there's a lot of opportunity there because it's been a very concentrated market environment. So it's not quite the same thing.

John

[00.23.09]

Yeah, I mean that's one of my areas of worry maybe warranted or not, but just the amount of investment activity we've seen, and sort of, again, this sort of singular theme of AI really driving the markets, which in and of itself is a good thing. I'm all for technical technological advancements and improvements and so on. But when you have this amount of money chasing one thing, you know, I start to worry a little bit and just, fun fact here for you that, you know, in the first half of 2025, the amount that was spent on AI, so the AI capital expenditures, added more to US GDP than all of consumer spending. So everything that everybody spent in the US, from a spending standpoint on the consumer side, was dwarfed by how much companies were spending on building out their AI capabilities. I mean, to me, that's a staggering statistic when you consider that the consumer, sorry, that consumer spending alone typically accounts for about two thirds of the US economy, but it's been eclipsed by AI spending. And another fun but maybe alarming fact is that the largest ten companies in the S&P 500,

the US market now, now account for about 40% of that index. So again, my worry here is that maybe there's too much reliance on this AI theme, and investors are potentially overexposed to a concentrated set of companies. So, I guess with along that that line of thinking when you think about valuations and what you're seeing in the US with these stocks both at the top end of those top seven or top ten names compared to the bottom 493, what do the valuations look like? Are the other 493 cheap, and the top heavy part is expensive or how do you see it?

David

[00.24.52]

Yeah. It actually is a situation where, you know, the magnificent seven stocks, those mega cap US AI-adjacent companies that have been driving market performance over the last five years in particular, especially in the last couple of years. They are richly valued. But if you're going to draw a parallel because you're seeing more and more, one of the things that people try and do in times of uncertainty, when you're trying to predict the future, you try and overlay it over previous periods. And one of the comparisons that's often used is the tech boom at the turn of the millennium and you can argue that we're seeing, again, because it's tech-adjacent companies that are getting bid up and there are these elevated valuations. But that's basically where those comparisons stop. These companies are revenue generating machines. They are cash cows. They have firm good management and strong business plans. And they are leaders in potentially a secular investment theme. Right? And importantly too, yes, their valuations are high, but they're nowhere close to those nosebleed levels that existed at the turn of the millennium in that tech bubble. Right? It is a very, very distinctly different environment. But of course, at the same point, and this is an issue that comes with any bubble that exists or potential bubble that exists is, if growth that comes out of AI is as transformative as people are estimating, then it's possible that you're going to continue to see these companies perform. If they're able to churn out that earnings growth. And the question really becomes, are companies able to grow at this rate? Right? Is it going to be sustainable in perpetuity, or to the extent that market participants and investors are thinking, right? That is the big question. But what I will say is that if you do drill under the hood, talking about the S&P 493, and even if you go more broadly, so looking at the MSCI All Country World Index, which is the benchmark for DM or developed market and emerging markets, or the MSCI World, which is strictly developed markets, overall metrics aren't that expensive. You know, the overall measures, if you're looking at the S&P 500 or the MSCI ACWI PE ratio, it may seem, you know, a couple of standard deviations above its historical average, but a big chunk of that is tied to a that narrow subset of companies. And if you remove those names from the equation it actually shows that things are far more reasonable. Now a big concern from markets in talking about market stability, is if everything is expensive, that is a big fallout that can come out of there. But all this does right now is there are opportunities especially, you know, in those S&P 493 and outside the US for investors who are a little bit more, you know, willing to fall behind the curve in the event you don't have the same exposure of those mag sevens. If you're more, so one of the big reasons why a lot of active managers have been trailing sort of the passive indexes over the last five years is because risk restraints prevent them from holding that concentrated portfolio in that high of weight. Right? So if we get a situation, you know, because any passive investor who's buying a market index, you have a high concentration in those companies. And so our viewpoint is, you know, there is potential, especially this AI trade. It looks like it has the definitely the capacity to continue going, especially if we can continue to see the earnings growth that is sort of being penciled in. But the market as a whole isn't expensive. It isn't particularly scary, and there are opportunities elsewhere.

John

[00.28.15]

And I think the interesting point about that elsewhere, I mean I appreciate your comments there, the elsewhere that piqued my interest recently is this discussion that, you know, after quite a long stretch now of small caps, really underperforming, there is this potential tailwind for small caps to sort of come back into vogue a little more. You know, for those that aren't as close to markets, you know, small cap stocks, the small guys, you know, the mom and pop type shops versus the Walmarts, those are the kind of companies that are really impacted a lot more by things like, you know, tariffs and interest rates. And so if the US government is now moving towards a regime of, you know, putting pressure on lowering rates further and further, you know, I think that that's going to be a potential tailwind for small caps. And they are trading right now at pretty material discounts to, you know, the larger cap stuff. So that's we're going to keep an eye on that. But that could be an interesting, potential trade for the foreseeable future. But I wanted to pivot quickly to Canadian equities and look at our domestic stocks up here, David, because they have been having a fantastic year so far in 2025, which I think might be sort of at odds with what people expect. You know, if you look at the headlines, you're really seeing a lot of the again, the AI talk and the US market must just be on a tear, and Canada is being left behind by things like tariffs and so on. Yet, the reality is that our stock market, the S&P TSX Composite, is up about 17.5% so far this year. While the US market, once you convert it back into Canadian dollar terms, is

only about 6%. So there is a big divergence there. What is behind that? Is there a main thing that you would point to for why Canada's roaring while the US is kind of somewhat stagnant outside of those big names?

David

[00.30.05]

Honestly, the main reason right now is gold. The shiny yellow metal has been bid up by investors that have become worried about long-term inflation in the US and therefore the impact on the US dollar. So the implication for interest rates in the dollar there, and the dollar's been bid up consistently over the last five years. In turn, gold producers, which are heavily weighted on the Canadian stock market to the point that they now account for about 10% of the S&P/TSX, gold producers are up about 90% year to date, which alone accounts for about half of the overall return of the domestic index. Right? You add in the heavily weighted financials that benefit from the interest rate dynamics, so typically a steeper yield curve is beneficial, and that pretty much sums up why we've seen this relative performance in Canada versus the US.

John

[00.30.50]

And so David, sorry I wanted to make this, you know, as accessible as possible. So when you talk about a steeper yield curve for those that aren't as close to markets, can you elaborate quickly on what that means?

David

[00.31.01]

Absolutely. So a steep yield curve refers to when shorter-term rates are lower than longer term rates. And traditionally, what banks will do when they're lending is they borrow in the short-term and lend in the longer term. And so their profit is based on that spread between those rates because they get paid that longer term rate, they pay that shorter term rate.

John

[00.31.21]

Great. Okay. Perfect. Yeah. We'll have to take it back to 101 at some point. I just want to make sure we, don't lose anybody in the discussion here, but that's some great context. We're going to try to keep it to about a half an hour here of remarks, so I think we're moving towards a bit of a lightning round here and to sort of set the stage for the lightning round. I wanted to preface by saying that, David, you obviously sit on our Asset Mix Committee here at Guardian, and for our listeners, just for additional context, our asset Mix Committee or the AMC, consists of investment professionals and really asset class specialists. The group overall is really charged with overseeing the development and the management of our multi-asset investment portfolios. So, obviously nobody better than David to hear the group's views as he's close to this stuff every day. I wanted to get for the lightning round here yours, and the committee's view on different asset classes today. So for each asset class, I'm hoping you can just quickly tell us are you bullish, neutral, or bearish on the asset class. And maybe give us sort of a sentence rationale in each case. So maybe we'll start off with equities and I want to bucket it into Canadian equity, US equity, and international. What are yours and the team's thoughts there?

David

[00.32.34]

Just as a starting point, emphasize that at this juncture, there's not a lot of pessimism in the marketplace or among the AMC members, right? So we're not outright bearish on anything because we're thinking that there's opportunities that exist. But as it comes to it, and our time horizon tends to be within the 6 to 12 month horizon, so we're not day trading on our decisions, we're looking for, you know, playing a little bit more of a macro and macro themes that we think will play out. So talking about Canada, we're actually fairly neutral against our strategic weights. You know, we think there's tailwinds that are likely to come from commodity demand, especially as it relates to gold, because there's still more room to run there. Relative valuations are attractive. There's relatively lower interest rates in Canada. And we're seeing a new wave of government investment that's going to help at least partially offset a slack that's developed in other places. But the reality is still that the proximity to the US, even if it sees continued resiliency, is going to be problematic because of the combativeness of the administration to international trade, right? And Canada is, the old adage is that if the US sneezes, Canada catches a cold. Well, you know, that has big implications from a tariff perspective, right? If you put those big barriers up, even if you get the USMCA carve outs. On the US, we maintain that we are still modestly bullish. They are, like, you know, talking about the concentration in the marketplace and how the US has been the leader for a while. They're the leader for a reason. From an economic

perspective, they have stronger consumer finances, stronger consumer spending. They are sort of the epicenter for the AI thematic investment theme, with investment and everything that's going in there, and quite frankly, the move towards lower interest rates going forward is going to be a little bit more constructive for markets as well. Going international, there is again, some modest bullishness in there as well because relative valuations, a lower US dollar, a big push towards more government infrastructure projects there which are much needed, there's been tons of underinvestment over the last 20, 30 years, and if we see movements towards, sort of productivity-improving infrastructure investments, that's obviously going to be a big plus, which sets up that there's opportunities for, you know, say EAFE, so Europe, Australasia and the Far East to start at least, you know, making progress towards narrowing that growth gap with the US. As a whole as it pertains to equity, we are still skewed more in favor of equities than we are fixed income, but we are sort of among the most optimistic about the return prospects in fixed income that we've seen in probably years. The idea that we have lower interest rates and the prospect of the path of least resistance broadly being lower for interest rates, is supportive of government bonds, which are very interest rates sensitive. So the idea that when interest rates go down, bond prices move up, that's how the calculations work. On investment grade bonds, we think there are opportunities there. But valuations are getting a little bit on the tight side. Valuations, it's their yields relative to government bond yields. So what kind of added pickup can you get. And while there is the level of interest rates all in, is among the most attractive it's been in about 15 years. You know, we started paring back our exposures a little bit just because we think there are slightly better opportunities in the more interest rate sensitive part of the market. And as it goes to high yield, we're a little bit more neutral in that space. We don't necessarily see a calamitous downturn in the economic cycle that would cause a big spike up in the credit cycle. So in the wave of defaults. But given sort of the caution that we have and that we're taking a little bit more risk exposure in the equity side of the portfolios, we thought it, view it as being a little bit prudent to move up the quality curve. So, sort of toning down the risk in the fixed income allocations, and providing more of that ballast in the portfolio.

John

[00.36.44]

So to sum up, you know, your slightly overweight equities, but still have a pretty favorable view on fixed income relative to the past, you know, Canada neutral, US and international, slight overweight to bullish there. It sounds like, you know, prudent move to you know look at the portfolio holistically, and I would say this for investors to consider as well, look at your portfolio holistically. And of course this is not advice, just some ruminations, but looking at the portfolio holistically and to David's point saying, you know, yes, equities are strong and you were probably or potentially overweight equities might make sense based on, you know, how richly priced, some of the non-government bonds are these days, just maybe take a bit of profit there and look at, you know, the government bond space as a way to sort of hedge against some of the risks that could be introduced in terms of volatility on the equity side. So, awesome. Appreciate the roundup of asset classes there, David. We're going to get to our last little segment here of the show, which we're going to call, oh, by the way, where we will touch on a few fun facts or tidbits of information. I will start us off, the little tidbit that I found interesting this month was, for the first time since 1996, foreign governments apparently now hold more physical gold than they do US Treasury bonds. You might be asking, well, why is that the case? Why is that a new dynamic? I think it really boils down to the case that these foreign governments, really foreign investors, generally speaking, are likely seeing that the US dollar could depreciate further from here, based on these interest rate cut projections that are being priced into markets that are sort of on the horizon, as well as the potential for further inflation, based on, you know, the tariffs that are pushing prices higher. That seems likely to materialize. And you know we don't at this point see that they're going to run wild. But the consensus seems to be that inflation should likely tick up over the sort of the fall. As more of these tariff-based pressures or influences come more into the mainstream or into the fold of the data, I should say. But, David, what's your tidbit for the month? What did you come across?

David

[00.38.57]

Well, so as an economist and talking about data earlier, we always focus on seasonality. And we know with like retail sales, we see spikes in retail spending in towards the holiday season at the end of Christmas. You don't traditionally think of the idea that there'd be seasonality in financial market data, but it has been the case that September is the only month that persistently has generated negative returns for stock markets, specifically looking at the S&P 500. So if we look at that US benchmark, it has actually been down on average over the last 10, 25 and 50 years. Whereas there's no other month that sees that. So, whether or not it's the doldrums of being back to school that scare people away and the high cost of that or who knows?

John

[00.39.38]

All right. Well, that takes us to the end. I think that went well. I think we'll keep this episode. Let's air this one. Appreciate it, David, that was a great discussion. Looking forward to doing more and more of these with you from month to month. For our listeners, join David and I again in October for another round of our macro musings. Stay tuned for our next episode though, in a couple of weeks where I'm going to be sitting down with Sam Baldwin, who is our Senior Portfolio Manager of our Canadian Equity team for a deeper dive on the market right here at home. Don't miss it. Thanks so much again for listening, and we will catch you next time.

Disclaimer

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