



Wealth Management  
Dominion Securities

Cooper Wealth Management of  
RBC Dominion Securities

# Thoughts on the market

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RBC Dominion Securities Inc.

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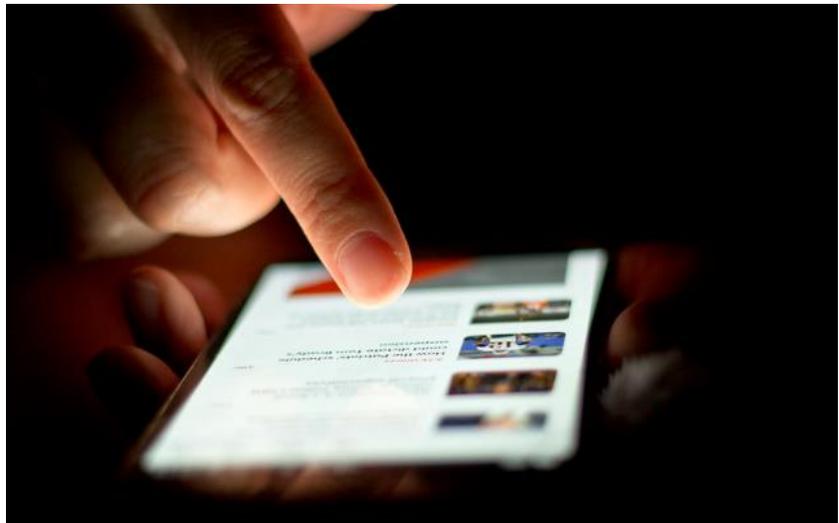
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## Doomscrolling for Optimists



“If you scroll long enough, your phone will become your grave”

- Abhijit Naskar, Neuroscientist and Author

If you have viewed social media, this has happened to you: you read an article on a topic of interest, and it raises a concern. An hour and 20 articles later, your level of concern has grown as you find several different opinions on the same topic. This is known as doomscrolling, and if you're not careful, it can negatively influence how you process information and make decisions, particularly around investing. Our goal with this article is to help people move from being readers to researchers and separate facts from opinions.

Our first example comes from Amazon. On August 4, Amazon reported revenue of \$30.9 billion in its cloud computing division, AWS, which was a 17.5% increase. However, despite these numbers, the stock sold off 8% as the market was disappointed that they were not growing as fast as Microsoft (+26%) and Google (+32%). This is where separating facts from opinion becomes important. To begin with, a 17.5% growth rate is a number that many S&P 500 companies can only envy. Amazon is forecast to spend \$118 billion on artificial intelligence status centres this year as demand continues to grow and most importantly, they are funding this growth through cash flow, and not taking on any additional debt, which makes their growth trajectory sustainable. At this rate, their cloud computing revenue will double in four years and one month. They also beat analyst forecasts on both revenue and net profit. While potential bottlenecks exist such as power supply and chip and hardware availability, this is also true for all their competitors. This selloff was little more than investor impatience and the stock has already recovered over 5% just days later. Compounding growth is eventually recognized in the stock price, and we continue to hold Amazon.

Viewing data on the economy can be even trickier to interpret as the market is trying to figure out two things at the same time: first, what will the effect be on the economy and second, how will it affect stock market earnings. A prime example of this was the weak US jobs report last week, which included a sharp downward revision of the number of jobs created in previous months. The reaction to this news was immediate as US markets sold off sharply, and the US Administration fired the head of the Bureau of Labour Statistics. Needless to say, hundreds of articles appeared, many of which predicted a pending recession. Yet days later, the markets were again moving higher. Why the change of heart? The answer was simple: US corporate earnings were once again coming in strong for the past quarter and concerns regarding the broader US economy quickly vanished.

The strength of US corporate earnings actually highlights the growing disconnect between the stock market and the US economy. This has a lot to do with the US technology boom and the cash they generate. Not only are US companies spending cash to grow their businesses, but they are also buying their stock at a record clip, which helps to boost share prices. In July alone, a record \$166 billion in stock buyback was announced versus the previous record of \$88 billion. For the year, announced buyback stood at \$983.6 billion, \$155.6 billion above the previous record set in 2022 and projected at \$1.18 trillion for the full year.

In terms of wealth creation, the US stands alone. Over the past 50 years, the US has created 241 companies with a market capitalization of more than \$10 billion, while Europe has created 14. For further perspective on the US technology revolution, the average top 10 US company was founded in 1985 while for Europe it was 1911. Even more compelling is that only four of the world's top 50 technology companies are European, despite Europe's higher population and equivalent education level. The European Union economy is now 1/3 smaller than the US and only grew at a third of the US pace over the past two years. Here's where the biggest disconnect is among the US economy, Europe, and US market: The 10 biggest stocks on the S&P 500 account for 1/3 of overall profits across the index, with technology and financials reporting year on the year quarterly earnings growth of 41% and 12.8% respectively. These growth numbers will continue to pull the overall US index is higher, while Europe's growth is considerably less, and the US economy is showing signs of potentially slowing.

So far, the US economy has held up well, despite the uncertainty around tariffs. US Gross Domestic Product grew at 3% annualized in the second quarter, driven by a decrease in imports and an increase in consumer spending. The unemployment rate was slightly higher at 4.2% but the economy is still considered to be at full employment. Inflation remained at 2.7% annualized. Taking out the volatile food and energy components, core inflation was 3.1%. Over the past year, the three major causes of inflation in the US were shelter, accounting for 48% of the increase, food was 14% and car insurance 6%. This economic data has left the US Federal Reserve with a dilemma: their principal mandate is to reduce inflation and their target is 2%. They have so far chosen to keep interest rates at current levels, even though higher rates keep housing costs up, as they don't want to overstimulate the economy. Their secondary goal is to keep the economy running smoothly, and they have publicly stated that they fear the inflationary impact of tariffs, which was

another factor for not cutting rates. It is widely viewed that the Fed will have to cut interest rates if the US economy slows, and this is now being priced into the market.

There has been much written about the negative effect of tariffs on the US economy. We have already started to see a decline in exports and investment in the US, and the tariffs have just been officially put in place. It is easy to take a negative view of the US economy from all these headlines, but there are key counter points to consider: first, tariffs will have little impact on two key US industries: technology and financial services. US companies also showed great earnings resilience during the inflationary Covid crisis. Finally, and most importantly, if the US economy does falter, the Fed can step in and lower interest rates further to provide additional stimulus.

Canada's GDP grew at 2.2% in the first quarter this year but is expected to shrink by 0.8% this quarter due to trade uncertainty. Inflation came in at 1.7% annualized for July, thanks to lower energy costs and buying domestically. The government is working on reducing interprovincial trade barriers and increasing international trade deals, but these initiatives take time. Given our low inflation rate, the Bank of Canada is expected to lower interest rates to help the economy, which will directly benefit our fixed income and interest rate sensitive portfolio holdings such as the banks and pipelines. The uncertainty of tariffs and the randomness of US government policy remain a threat, but with Canadian government policy moving in the right direction and room to lower interest rates, we remain optimistic that the Canadian economy will continue to grow.

On the portfolio side, we continue to focus on technology and financials, while balancing risk with higher dividend Canadian stocks. Portfolio highlights for the month include MasterCard (+\$27.72), Apple (+\$15.91), Waste Connections (+\$9.43) and Dollarama (+\$8.95).

Sifting through all the raw data and endless opinions on a monthly basis can leave even the most optimistic investor with a negative viewpoint. It is vital to recognize that opinions can change quickly and that there is a large and growing disconnect between the stock market drivers, and the overall economy. Our focus firmly remains on actual corporate earnings and growing businesses and avoiding the noise. If you catch yourself scrolling through endless articles on the economy and the markets, our recommendation is to give us a call instead, and then go out and enjoy the remainder of the summer. Until next time, stay well.

As always, questions, concerns, comments, and feedback are always welcome.

PS: If you haven't had a look at your will in a while, we highly recommend reviewing it to ensure it still meets your needs.

Yours truly,

Walter, Trevor, Charles and the Cooper Wealth Management team



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