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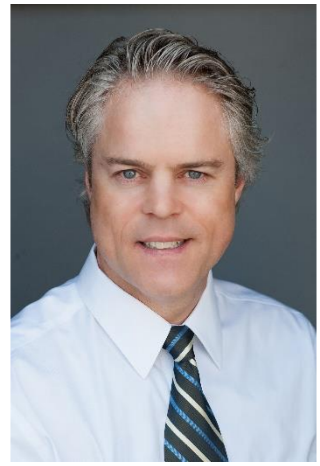

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INSIGHTS & OBSERVATIONS

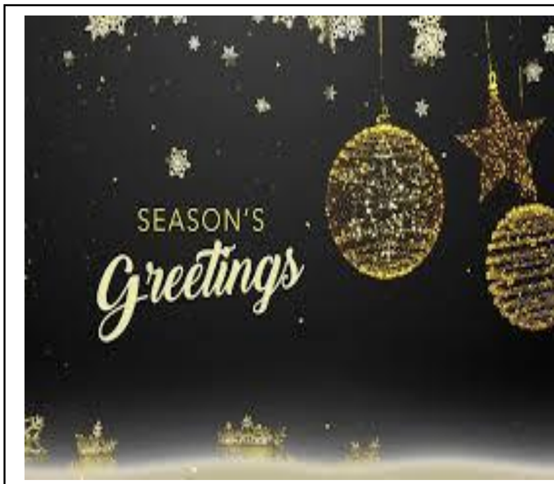
YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS **December/January 2025**

Welcome back. A friend recently commented that the year 2025 still sounds like the distant future, and it reminded her of some science fiction world with flying cars and free energy for everyone. I guess we'll find out in four weeks time…

Stock markets have been anticipating a brighter future lately, moving up on optimism that a new US administration will be better for the economy which would include spillover benefits for Canada. Despite the bluster around tariffs and other warnings, markets feel the reality of any eventual changes will bring good news for business and consumers.

On the interest rate front we are still expecting slightly lower rates, particularly here in Canada, however the directional shift in the states probably means rates will not fall as far as originally expected and could rise again next year if inflation regains a foothold.

In our feature article this month we take a closer look at the incoming US administration, and what it may mean domestically and abroad. Canada remains the leading US trading partner and the US accounts for the vast majority of our exports. The largest of these is energy and if the US economy gains speed, we will be providing more of this to fuel their growth. While no-one knows what may finally unfold with regard to tariffs, there is a view the energy supply will face less or no tariffs given its importance for America. So while we are closely following the conversation on trade and possible rule changes, to us it makes sense to wait and see what is actually enacted early next year.



Lost in the political noise during the past few months is the recession debate. We began 2024 with steadily rising interest rates as central banks scrambled to contain the inflation which badly surprised them. We had many predictions of recession for yearend which thankfully didn't pan out. By late summer we heard quiet forecasts of the elusive 'soft landing' for the economy, meaning enough of a slowdown to rein in inflation without causing recession. Six months later, this happy result appears to be reality.

Combine this rare and pleasant outcome with the US election optimism and you have the explanation for record stock prices. We continue watching inflation and would not be shocked to see it return next year, but investors should be grateful for the path we are on now.

I will be away from the office from December 16th to the first week of January. Yuki and Charlie will be here watching everything for you as usual. So with an early 'Happy Holidays,' I wish you all the best of the season and a very happy New Year!

Philip

December's Articles

Ray Dalio's thoughts usually appear in our newsletter during times of change. Following last month's US election we certainly have another of those moments now.

In the essay linked below, Dalio takes his characteristic big picture look at the election and provides ideas of what is likely to change in the upcoming months and years. While politicians always promise more than they achieve, the incoming US president is already busy making significant staffing changes across the board which will guarantee new outcomes.

While most of the new appointments are domestic we have also heard talk of tariffs and other restrictions on regions and countries which are not doing what the US wants. Some of these are blustery negotiating tactics but they do indicate real policy changes that will ripple around the world. Canada being the largest US trade partner means we will be on the front lines of this battle.

So far investors are quite optimistic about the proposed change in direction and US stock markets at all-time highs confirm the upbeat mood. Stocks do not favor all the potential new policies, but definitely like the smaller government, more pro-business policies announced to date.

As it seems I say every year lately, next year promises more of the interesting times and even greater changes than we've seen in recent years. Finally with our own federal election less than a year away, investors will track all of the US policy shifts very closely to see whether we may soon get a few of our own.

https://time.com/7177760/trump-administration-changing-world-order/

Jim Grant is the longtime author of the investment newsletter **Grant's Interest Rate Observer**. His focus is suggested in its title, and by closely following rates he provides commentary on stock markets, economies and commodities.

Grant typically takes a long-term view on investment and eloquently presents forecasts and predictions with a welcome touch of humility. He has long worried about growing debts within and external to government, and given the worsening of this issue in recent years his warnings have intensified of late.

As you will read, he is expecting inflation to be more stubborn than expected which could push interest rates higher in the years ahead, potentially leading to more serious debt problems. This interview is quite timely as this month we've seen France face a budget crisis over its excessive debts, with other countries like Britain in similar circumstances. Jim's decades of experience and detailed knowledge of history mean his concerns are worthy of close attention.

https://themarket.ch/interview/interest-rates-are-not-sticking-to-the-central-banks-script-ld.12580

WHAT THEY SAID

"No amount of sophistication is going to allay the fact that all of your knowledge is about the past and all your decisions are about the future."

Ian Wilson