



3rd Quarter 2025 Commentary

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TD Wealth Private Investment Advice

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Waking up to Change Everyday

Sensory overload might be the understatement of the moment as our investors wake up to see new media headlines each day. From a possible Canadian debt crisis to what seems to be a Canada/US Trade war without end, there seems good reason for our investors to see the world as a volatile and potentially hazardous place in which to invest. At the same time, we see companies making tremendous strides in new technologies and great business leaders making great decisions for their companies and shareholders. Advances in science and technology continue unabated and at what seems to be an accelerated pace. A part of this acceleration can be attributed to the use of A.I. (Artificial intelligence) in these fields. It will be interesting to watch, over the coming months and years, as these technological advances diffuse through the economy.

Q: We just want to thank your team for everything you do for us. We are concerned about a market correction and how it would affect our portfolio and wanted to know your opinion on how good or bad a pullback in the market might be?

A: Thank you, we appreciate your ongoing relationship. Market corrections, typically defined as declines of 10-20%, are not unusual. In fact, they occur regularly, on average about once every two years. Historically, diversified portfolios have shown strong resilience to these corrections. A classic 60/40 portfolio has suffered less drawdown in a correction when compared to all-equity allocations and has consistently rebounded as markets recover, including after major global events. A short-term pullback gives the opportunity to add quality investments to your portfolio. Markets have (so far!), always recovered over time to eventually get to new highs following corrections. Our discipline focuses on staying invested and rebalancing, a strategy supported by over 150 years of market data.

[source: Morningstar]

Q: Do you think Canada is still a good investment based on conflict with the US, and is it a good time to reduce Canadian exposure?

A: Despite temporary trade tensions in 2025, the Canada US Mexico Agreement (CUSMA) continues to be in force and many Canadian exporters who had previously not seen the value in applying for CUSMA treatment on their goods with the protected rate not being significantly below the non-protected rate. However, April 2nd 2025 – “Liberation Day” – changed the calculus and more exporters applied for coverage so now most goods are CUSMA covered. Negotiations continue in strategic sectors like steel and autos. Canadian companies remain important to US supply chains and investment, and Canadian investors are still actively buying US equities. Canada is also strengthening safeguards against predatory takeovers and investing in sectors like critical minerals and technology, reinforcing a stable investment climate even during periods of international friction. There is no compelling data suggesting a broad reduction in Canadian exposure is prudent right now.

Q: Why do you think Canada is still a good investment and what evidence do you have that Canadian companies can succeed in this environment?

A: Canadian companies have consistently shown operational strength, especially in banking, resources, and infrastructure. Many leading Canadian dividend stocks have historically maintained or increased dividend payouts through economic cycles, reflecting strong cash flow and prudent management. The Morningstar Canada Dividend Growth Index rose 7.0% in Q2 and over 28% year-over-year, and constituents in this index, like Royal Bank of Canada and Enbridge, have decades-long dividend increase streaks. Canadian firms are also adapting to global turbulence, deploying capital toward resilient, income-focused business models and innovation in sectors like technology and clean energy.

[Source: Morningstar]

Q: Is the Artificial intelligence (AI) investment theme getting a bit long in the tooth and are you thinking of other alternatives in the investment space at this time?

A: AI-driven stocks have seen significant gains, pushing sector valuations to high levels as seen in other thematically driven markets. There is little doubt that the adoption of AI offers long-term potential, both to the system builders and ultimately to the users of the technology who hope to gain efficiency by using AI to automate many lower value functions. The higher valuation of some of these companies do mean that they can be subject to higher volatility. We are maintaining core AI holdings but increasingly tilting sectors that we believe are set to benefit from AI adoption, such as health care, banking, industrial technology, infrastructure, and inflation-linked assets to diversify risk and capture varied sources of return in evolving markets.

Thank you to everyone for your thoughtful questions. If you have questions on any topics we have not covered here, please reach out to Jeff, Andrew, James, Jessica, or Chris. Asset allocation should be set to support you through all market cycles, and we do not recommend changing asset allocation on the basis of trying to forecast market corrections. It is always wise to think about the words of the economist and MIT professor Paul Samuelson who, in 1982 said, “the stock market has predicted nine out of the last five recessions.” We believe that discipline and diversification remain the best defense in unpredictable markets.

Q: Do you expect dividend increases across the Canadian landscape of companies you own for us?

A: The average annual dividend growth rate among established firms is nearly 10%. The top Canadian dividend growth and yield indices are up 22–28% year-over-year, and the list of “dividend champions”, the companies that have increased payouts for at least six consecutive years remains strong. Examples include Fortis (50 consecutive years of dividend increases) and Atco/Canadian Utilities (51 years). Many blue-chip holdings are well-positioned to continue raising dividends if economic and earnings growth persists, though the pace may moderate if economic uncertainty lingers.



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