

September 12, 2025

Global equity markets moved up again in August as investors looked past US tariff rates now at their highest rate since the 1930s. The S&P/TSX Composite Index notched another all-time high at the close of the month while other major indices also gained before pulling back slightly in the final days of the period. Gold reached new highs. US Q2 corporate earnings reported in August indicated that the average growth rate at S&P 500 companies inched into double digits for the third quarter in a row, with strong results at big tech companies in the spotlight again. Q2 operating profit for Canadian corporations fell by \$3.2 billion (-1.7%) from Q1, according to Statistics Canada. The decline was primarily driven by lower profits in non-financial industries. Despite the quarterly drop, operating profit rose by \$2.9 billion (+1.6%) compared to the same quarter last year.

For the month, the S&P/TSX Composite Index rose 4.96%, the S&P 500 Index climbed 1.99%, the Nasdaq Index gained 1.65%, the MSCI World Index rose 2.06%, and the MSCI EAFE Index gained 2.10%. In the U.K., the FTSE 100 Index rose 1.22%, while Germany's DAX Index declined 0.68%. In Asia, Japan's Topix index gained 4.17%. Canadian and US bond yields dipped in August as prices rose, with the FTSE Canada Universe Bond Index inching up 0.37% for the month. Gold ended the month at a record high, up 3.92% while Brent crude slipped -7.58%.

## Monthly market developments

- A wide array of US reciprocal tariffs was applied globally on August 7<sup>th</sup>, making the effective US tariff rate approximately 18%, the highest since the 1930s.
- The deadline for US/China trade negotiations was extended from August 12<sup>th</sup> to November 9<sup>th</sup>.
- US inflation for July came in at 2.7%, slightly below expectations for 2.8%.
- Core Personal Consumption Expenditure inflation (excluding food and energy) for July was up 0.3% from June, bumping the annualized rate to 2.9%.
- Wholesale prices, what businesses charge each other, climbed 3.3% in July from a year earlier, the biggest increase since February and well above expectations of 2.5%.
- Total nonfarm payroll employment rose slightly in July, by 73,000, but has shown little change since April, according to the US Bureau of Labor Statistics. The unemployment rate, at 4.2%, also changed little in July. Employment continued to tick up in health care and in social assistance while federal government jobs continued to decline.
- US real personal spending rose 0.3% in July, month-over-month (MoM), with autos and furniture activity in front. June data was also revised higher.
- The second estimate of US Q2 GDP was pegged at a solid 3.3% annualized growth, led by business investment and net exports.
- Donald Trump nominated Stephen Mirin to a temporary seat on the US Federal Reserve, and later in the month launched an aggressive campaign to fire Fed governor Lisa Cook. If Cook is replaced, Trump appointees will have significant presence at the Fed. Cook launched a legal challenge in response.

- Late in the month, US Treasury Secretary Scott Bessent commented that customs duty revenues from tariffs may top \$500 billion a year, with a substantial jump from July to August and likely a bigger jump in September.
- The Canadian economy shed 41,000 jobs in July following a strong gain in June, but the unemployment rate held at 6.9% in July, according to Statistics Canada. Based on payroll data, manufacturing employment has fallen every month since December, leading to 26,600 job losses since then.
- The Consumer Price Index (CPI) rose 1.7%, year-over-year, in July, less than the 1.9% increase in June. Falling gas prices led the slowdown but, excluding gas, CPI was up 2.5%, the same as May and June, with food and shelter prices up more than 3%.
- June retail sales ticked up 1.5% after a 1.2% drop in May, with broad-based gains led by clothing and food. Monthly sales excluding autos and gas rose 1.9%, beating consensus estimates. However, Statistics Canada's preliminary July estimate is for a fall of 0.8%.
- Q2 GDP fell 1.6% on an annualized quarter-over-quarter basis due to a sharp drop-off in exports and business investment, according to Statistics Canada. The Q2 decline was slightly more than the Bank of Canada's forecast of 1.5%. StatsCan also revised previously reported Q1 growth of 2.2% downwards to a 2%.
- However, when net trade and inventory components are excluded, domestic Q2 demand actually rose after a weak Q1. The drop in business investment was offset by a jump in household consumption (up 4.5% from a 0.5% gain in Q1) and a recovery in residential investment. Statistics Canada's advance estimate for July GDP foresees a modest 0.1% increase.

- Existing home sales rose 3.8% in July, the 4th consecutive monthly gain, led by strong activity in Ontario, BC and Alberta, but price levels remained flat.
- August ended with solid quarterly earnings reports from Canada's largest banks. Most exceeded expectations despite an uncertain economic picture and the ongoing trade war with the US. Loan loss provisions dropped at all banks except RBC.
- Canada removed retaliatory tariffs on a range of US consumer products that comply with the existing US-Mexico-Canada Agreement (USMCA). This was widely interpreted as seeking to ease trade tensions before the upcoming USMCA review. Tariffs on US steel, aluminum, and automobiles remain.
- In the eurozone economy Q2 GDP rose 0.1% after a decline from 0.6% in Q1.
- Eurozone inflation held steady at 2%, annualized, in July. Within Europe, German inflation for the same month was 1.8%, Italy reported 1.7%, and Spain's was 2.7%
- In the UK, Q2 GDP inched up 0.3%, quarter over quarter, better than expected. Industrial production in June rose 0.7%, month over month, the best monthly gain since early 2024. However, inflation climbed to 3.8% in July, annualized, an unexpected increase from 3.6% in June.
- The Bank of England cut its key policy rate from 4.25% to 4% after a close 5-4 vote, in the face of labour market softness but persistent inflation concerns. The economy lost 26,000 jobs (0.1%) between May and June, with the Q2 unemployment rate at 4.7%.
- The German economy, Europe's largest, shrank by 0.3% in Q2, more than previously estimated.
- Japan's GDP rose 1% in Q2, quarter over quarter, annualized, better than expected and the 5<sup>th</sup> consecutive quarter of growth. Solid domestic demand and a strong rebound in exports lifted overall performance.
- Japan's annual inflation rate eased to 3.1% in July from 3.3% in June, the lowest reading since November 2024.

- China's July trade performance beat expectations as exports jumped 7.2% year on year and imports rose 4.1%. However, shipments to the US were down 22% year over year. Key export gains were seen in Asia, Africa, and the EU.
- However, China's broader economy weakened in July, with retail sales, industrial production, and fixed asset investment all below estimates, and the residential real estate sector continued to deteriorate.

### **How does this affect my investments?**

Equity markets rose again in August as investors focused on positive corporate earnings and relatively benign inflation despite continued uncertainty about the longer-term impacts of substantially higher US tariffs on global trade and prices. US stocks, however, are relatively expensive, with the S&P 500 trading at 22.5 times its projected earnings over the next 12 months at the end of August, compared with the average of 16.8 times since 2000. And US market concentration, particularly in the profit-rich big tech stars, has risen, with the 10 largest companies in the S&P 500 accounting for 39.5% of its total value at the end of July, a record level. In Canada, the latest big bank earnings were reassuringly solid, bolstering their long-standing reputation for steady performance. On August 31, the S&P/TSX Composite Index continued to outperform its US counterparts on a one month and rolling one year basis.

Thank you for your continued trust in me to guide you through these disruptive times.

Sincerely,

John S. Bruce, CIM



**Note:**

All index performance is in Canadian dollars.

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