

## RJL PCS: INSIGHTS & STRATEGIES

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## September 2025 Insights & Strategies: Markets Continue to Climb as Interest Rates are Expected to Come Down

### Macro Highlights for August

- U.S. 2Q25 GDP was revised up to +3.3% (from +3.0%) annualized growth over 1Q25, a sharp rebound from the -0.5% contraction in 1Q25. Net exports' contribution to GDP growth swung from a -4.6% drag in Q1 (as companies stocked up on inventory to front-run tariffs) to a +5.0% boost in Q2. Consumer spending continues to support growth, at +1.6% in Q2, after a +0.5% gain in Q1.
- Canadian GDP weakened significantly to -1.6% in 2Q25 (annualized), broadly in line with the BoC forecast of -1.5% in the July MPR. Net exports were a -8.1% drag to GDP, with exports down 26.8%, reflecting the sharp adjustment in U.S.-bound shipments following Q1's pre-tariff inventory surge.
- The labour market remains of particular interest/concern, as we see uncertainty leading to both low hiring and low firing in the U.S., where the unemployment rate inched up slightly but remains relatively low at 4.3% (up from 4.2% in July) with only 22k jobs created in August (3-mth avg 29k/mth). The Canadian unemployment rate rose to 7.1% in August (from 6.9% in June and July), with jobs declining by 66k in August, after a 41k drop in July, as the labour force also contracted by 0.1% in the month. We see concerns about further weakening in employment data as a key driver behind central bank rate cut expectations.

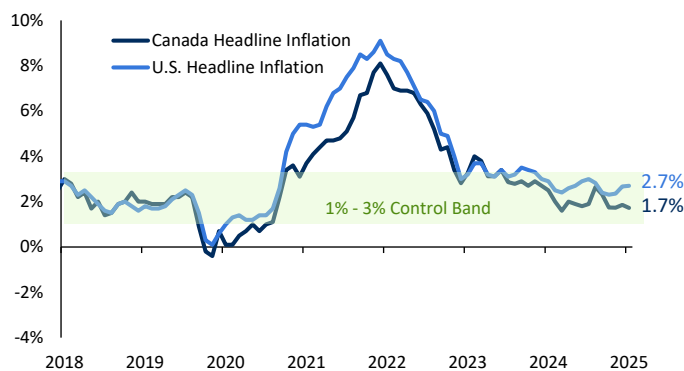
### Financial Markets in August

- The TSX delivered a 4.8% price return and a 5.0% total return (incl. dividends) in August, boosting the year-to-date returns to 15.5% and 17.6%, respectively. Meanwhile, the S&P 500 posted a 1.9% price return and 2.0% total return during the month, with year-to-date returns of 9.8% and 10.8%, respectively, all in local currency.
- U.S. equity markets continued to climb in August as 2Q25 earnings season wrapped up with ~80% of S&P 500 companies beating expectations, with y/y earnings growth of ~12%. The Mag 7 and Tech have remained key drivers in YTD performance, as A.I. enthusiasm and capex spending continues, although we saw some rotation in August as Materials, Health Care, and Energy were top performers.
- In Canada, we are increasing our year-end target on the TSX Composite index to 29,900 from 28,600, as we just completed a positive 2Q25 earnings season and forecasts are rising for 2026. We are also gaining more confidence in a positive outcome from Canada-U.S. trade and security talks and as the USMCA continues to shield the majority of Canada's exports to the U.S. from the effect of tariffs, despite continued pain in certain sectors. We do expect more volatility in 2H25 however, as there remains pressure from trade tensions and headline risks as we advance towards a more stable 2026.

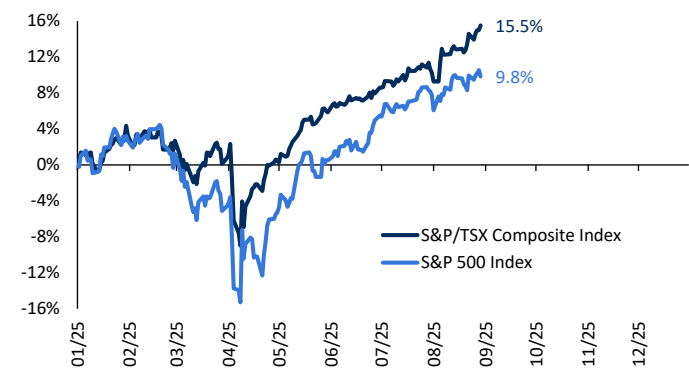
### Upcoming

- Tariff frameworks are becoming clearer for more countries, but we are still waiting for details on any trade and security deal between Canada and the U.S. Multiple deadlines have past, and even once we see whatever framework is established in this round of discussions, focus will quickly shift to the USMCA renegotiation in 2026, since that agreement has effectively shielded many Canadian products and industries from the broader tariff threats and announcements. A new Court of Appeals ruling has supported the U.S. Court of International Trade's ruling that the President did not have the authority under IEEPA to implement the broad tariffs that have dominated headlines for seven months. While Trump has multiple avenues to achieve similar ends, the Supreme Court will ultimately decide the path of these tariffs. President Trump has asked for an expedited ruling, but that would still likely only be revealed in early 2026. A significantly disruptive aspect could be the reimbursement of over US\$62 billion in IEEPA-related tariffs collected so far.

- The BoC forecast is for Canadian GDP of +1.0% in 2H25 as the volatility from tariff front-running normalizes and businesses adjust to new tariff levels and supply chain adjustments, although any major revision to the USMCA, which currently protects 80-95% of Canadian exports to the U.S. from tariffs, could require a revision to that forecast.
- Both the U.S. Fed and BoC are expected to announce any updates to policy interest rates on September 17. We expect to see 25 bps cuts on both sides of the border, with further easing into the end of 2025, plus more cuts from the Fed in 2026.

**Chart 1 - Canada and U.S. Headline Inflation**

Source: FactSet, Raymond James Ltd.; Data as of July 31, 2025. Not seasonally adjusted.

**Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance**

Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025. Price return in local currency.

## Executive Summary

**U.S. inflation is coming.** Since the start of tariff announcements back in February, U.S. companies have been in wait-and-see mode. Many companies decided to front-run tariffs by importing extra goods, while others just absorbed increased costs from tariffs. Now that tariff levels are stabilizing, companies can no longer afford to sit on the sidelines and wait. If the U.S. government is collecting US\$300 billion or more in these taxes, they have to come out of someone's pocket. The options are the exporter (through lower prices), the U.S. importer, retailers, or the consumer. So far, there's little evidence that exporters are lowering prices in USD terms, although some are absorbing FX losses due to USD depreciation. That leaves importers and retailers to eat the margin impacts, or consumers to incur rising prices, and therefore inflation. While the truth is probably somewhere in between, the bottom line is that consumers are going to see price increases on many goods impacted by tariffs. It is also likely that domestic producers, that see their foreign competitors prices going up, are also going to increase their prices and profit margins. In either case, prices are heading higher over the next few months.

**Inflation headlines may not matter as much.** While we do expect to see inflation, as costs are likely to be passed onto consumers, central bankers will have to determine how much of that inflation is really one-time price level adjustments, due to tariffs. Although these increases will phase in over time, and potentially be different for each sector and seller, it will be fair to ignore one-time impacts when determining monetary policy. However, the somewhat chaotic nature of how these tariffs have been announced, delayed, revised, implemented, and rolled back, will make this determination more challenging, but inflation headline numbers won't necessarily preclude central banks from cutting rates, if they can separate these factors.

**Earnings growth could continue to drive the markets.** While we continue to watch for the balance between exporters, importers, retailers, and consumers absorbing the impact of tariffs, we are expecting that upward creep in prices. It is normal to worry about margin squeezes impacting earnings and putting pressure on equity valuations. However, if consumers, feeling safe in their jobs with still low unemployment statistics, continue to spend, then revenues continue to increase (pushed up by inflation) and earnings can continue to go up as costs are passed on to consumers. Additionally, industries across the board are looking at efficiency improvements with the help of A.I. This potentially leads to EPS growth that helps to support the ongoing march higher in equity markets. If the Federal Reserve also lowers rates, as is widely expected, then the markets will have a relatively clear path to continue recent performance.

**Equity markets are marching higher, but volatility concerns remain.** Markets have shrugged off concerns about tariffs and have embraced still resilient U.S. GDP and still positive employment data despite indications of softening. Enthusiasm around A.I., with continuing capex and expectation of efficiency improvements throughout numerous industries, has kept investors optimistic that the bull market remains on solid footing. That being said, valuation multiples, currently 22.4x forward EPS on the S&P 500, remain above historical averages (~17x over the last 10 years, 14-18x over longer periods), although still below the much watched 25.2x peak during the height of the tech bubble in March 2000. While

the longer-term outlook remains positive, volatility could lead investors on a rocky ride in the short-term.

**Trump expanding influence to exports, as well as imports.** President Trump introduced yet another new tactic. Trump previously threatened secondary tariffs, which are additional taxes on goods from countries that purchase certain products (such as oil) from certain countries (such as Venezuela or Russia), that the U.S. wants to control for geopolitical reasons. In August, Trump announced that Nvidia and AMD would pay an export tax of 15% to the U.S. government, on sales of certain chips to China. Exports of these products were previously restricted for National Security reasons. While this is an interesting development in itself, the Treasury Secretary, Scott Bessent, commented that this approach could be expanded to other products and companies, presumably in other sectors and against other countries, which would give the U.S. Administration more direct influence over exports, rather than just taxing imports through tariffs.

**Attention is turning to 2026.** As investors somewhat shrug off tariff pressures and economic uncertainty, a lot of attention is turning now to the benefits of the One Big Beautiful Bill Act (OBBBA) in the U.S. Benefits to consumers could be larger tax refunds (no tax on tips, no tax on overtime), while businesses could benefit from fixed business investment (immediate expensing). The offset is that the OBBBA will add over US\$4 trillion to the deficit over the next 10 years, and raise the deficit to over 7% of GDP. Tariff collections however could ease that to 6.2-6.5% of GDP over the next few years. As we watch for central banks to reduce rates affecting the shorter end of the yield curve, we will also be watching the longer-end as the bond market reflects concerns about government debt, economic growth, and inflation.

## Tariffs

Tariffs remain an overriding concern for investors, but the erratic roll-out has lost much of its shock value. As tariffs are threatened, imposed, delayed, re-imposed, and scaled back, markets have been on a roller-coaster ride for most of 2025. Tariffs however, are certainly here to stay. Tariffs collected by the U.S. government represented approximately US\$30 billion in August and US\$145 billion YTD. According to the Yale Budget Lab, new 2025 tariffs alone represented US\$23 billion of that collection in August, and US\$88 billion YTD. Overall, the average effective tariff rate is estimated to be ~11.5% as of August up from 9.5% in July. As announced tariffs come into effect, that rate is expected to settle into the 15-20% range (currently 17.4% according to the Yale Budget Lab). Canada is faring relatively better than most countries, with an expected rate of ~5% based on the vast majority of goods continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, we include brief updates on key tariff-related items.

### Another legal blow to IEEPA-based tariffs

On August 29, the Federal Court of Appeals upheld the May 28 ruling from the U.S. Court of International Trade (CIT) against President Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose unlimited global tariffs. This has been the Trump Administration's favoured tool to quickly implement massive tariff rates against various countries — including the 'fentanyl' tariffs against Canada, Mexico, and China, that were first announced in early February, and are still being used against non-USMCA-compliant products, as well as all the 'reciprocal' tariffs that were announced on April 2. The Appeals Court did however leave the tariffs in place until October 14, which allows time to appeal to the Supreme Court. This issue was likely heading to the Supreme Court in any event, so there are no surprises there. We see the most likely path as the Supreme Court leaves the tariffs in place until they rule themselves, likely in early 2026.

IEEPA was by no means the only tariff mechanism in President Trump's toolbox, and the other sector-specific tariffs, such as against the automotive industry, steel, and aluminum, that were implemented using Section 232, are unaffected by these rulings. While a ruling against the use of IEEPA could require the reimbursement of over US\$62 billion already collected, we expect that the Trump Administration was already prepared for the possibility, and aside from challenging it, will also potentially use Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits. An existing Section 301 authorization against China could also be used to continue the pressure, and new investigations using Section 301 and 232 are likely to be used against various countries as the Section 122 tariffs expire. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

### April 2 — Liberation Day tariffs

April 2 now seems like a distant memory after multiple delays, revisions, and new deals. The rates that President Trump announced on "Liberation Day" shocked the world. While termed "reciprocal" tariffs based on each country's tariff and non-tariff trade barriers to U.S. products, the rates displayed were instead based on U.S. trade deficits with each country in 2024, divided by the value of U.S. imports from that country. This rate was then halved to derive the tariff rate that the U.S. would apply against each country, subject to a minimum rate of 10%, but escalating to as high as 50%. These rates stacked on existing rates however, such that the 34% "reciprocal" rate on China was stacked onto the 20% rate that

was previously announced under the ‘fentanyl’ tariffs, for a combined rate of 54%. These rates have generally been revised and are summarized in Chart 4.

### De minimis exemption

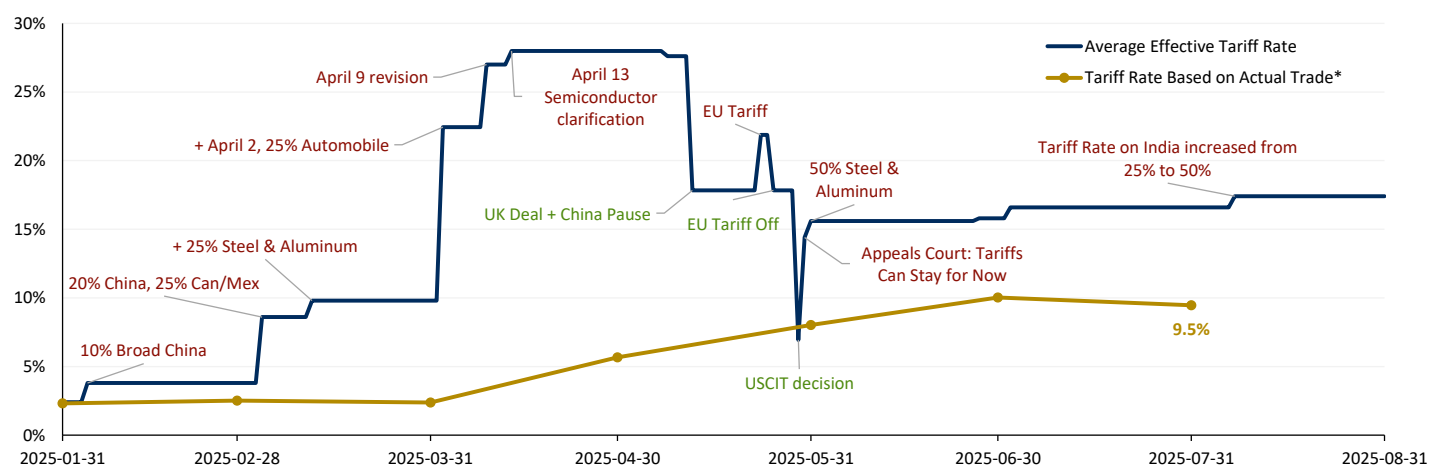
Wrapped up in the tariff discussion was the ‘de minimis’ exemption. A major tax-loophole for American consumers, it had a dramatic overhaul last month. Previously, shipments by mail that were valued under US\$800 were exempt from duties. Now, Americans using e-commerce sites, many of which were primarily sourcing from China, such as Temu and Shein, are going to have to cover taxes, which as in the case of shipments from China, is currently 34%. Packages received from all other countries will be taxed at the country-specific IEEPA rate as of August 29. In 2022, 80% of all U.S. bound e-commerce shipments were covered by the ‘de minimis’ exemption, with the vast majority coming from China, and last year, U.S. Customs and Border Protection (CBP) processed 1.36 billion ‘de minimis’ exempt packages.

**Table 1 - Section 232 Tariffs Summary, as of September 3, 2025**

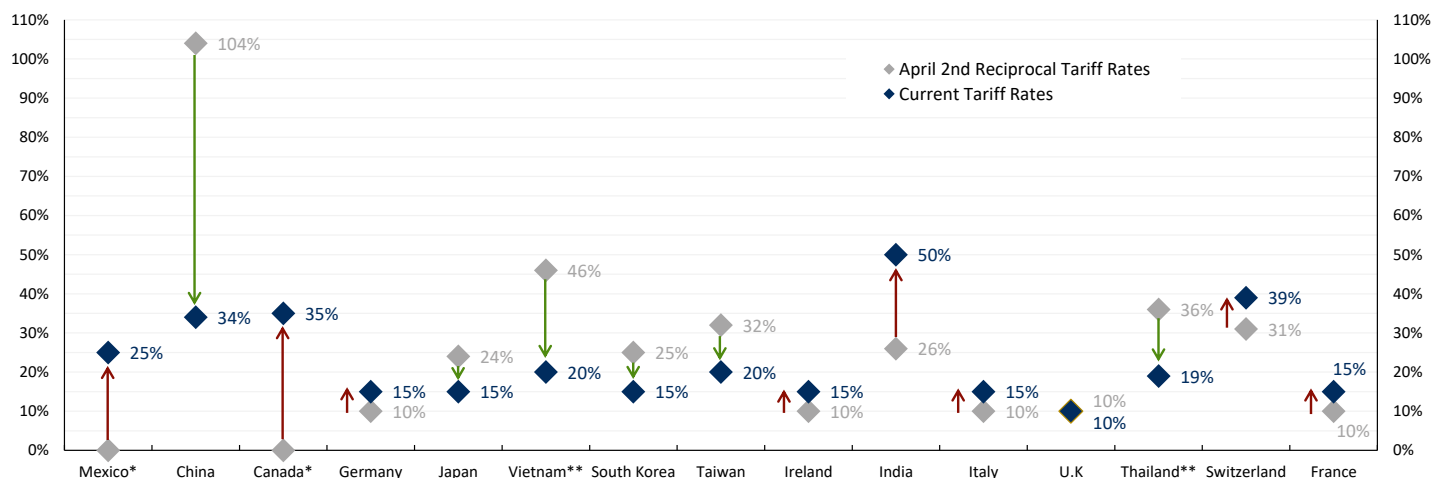
Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Timber and lumber	Investigation initiated March 10	-
Pharmaceuticals and pharmaceutical ingredients	Investigation initiated April 1	Threatened 200%
Semiconductors and chip making equipment	Investigation initiated April 1	-
Heavy trucks	Investigation initiated April 22	-
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its Derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind Turbines	Investigation initiated August 13	-

Source: Bloomberg, U.S. Department of Commerce, Raymond James Ltd.

**Chart 3 - U.S. Effective and Actual Tariff Rate**



Source: The Budget Lab at Yale; Data as of August 31, 2025. \*Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

**Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates - As of September 3, 2025**

Source: U.S. Census Bureau, Raymond James Ltd. \*USMCA-compliant goods remain exempt. \*\*40% tariff rate on transshipments.

## Economics

### Canada – Navigating the Crosswinds

Prime Minister Carney's recent call with President Trump has helped reset the tone of bilateral trade relations, with Canada's retaliatory tariffs on all USMCA-compliant U.S. goods (excluding autos, steel, and aluminum) removed on September 1st. This lowered the effective tariff rate on U.S. imports from 5.7% to 2.5%, and acts as a step towards de-escalation. The evolving landscape now places Canada somewhere between the BoC's "current" and "de-escalation" scenarios, with tariff relief and resumed trade talks offering cautious optimism.

**Table 2 - BoC Scenario Assumptions**

Variation	United States	Canada and Other Countries
Current Tariff Scenario	U.S. tariffs and trade agreements in place or agreed on as of July 27, 2025, are assumed to be permanent The U.S. weighted average tariff rate on the world is 13% Uncertainty remains elevated into 2026	Retaliatory tariffs by Canada and China on the U.S. in place as of July 27, 2025, are assumed to be permanent Other countries are assumed to not retaliate Uncertainty remains elevated into 2026
De-escalation Scenario	The U.S. lowers its tariffs on most countries The U.S. weighted average tariff rate on all countries is 10% U.S. tariffs on Canada are cut in half Uncertainty is lower than in the current tariff scenario	Canada and most other countries remove their retaliatory tariffs China keeps a very small amount of retaliation in place Uncertainty is lower than in the current tariff scenario
Escalation Scenario	The U.S. substantially increases its tariff rates on most of the countries The U.S. weighted average tariff rate on all countries is 28% Uncertainty remains the same as in the current tariff scenario	Canada and China roughly double the value of U.S. goods subject to retaliatory tariffs Other countries substantially increase their tariff rates on the U.S. Uncertainty remains the same as in the current tariff scenario

Source: Monetary Policy Report - July 2025, Bank of Canada.

### Sharp Drop in Net Exports Drives Q2 GDP Contraction

Canada's real GDP contracted by 1.6% in Q2 (annualized), broadly in line with the BoC's forecast of a 1.5% drop under its "current" tariff scenario in the July Monetary Policy Report (Charts 5 & 6). The weakness was driven almost entirely by net exports, which subtracted 8.1% from growth, as exports declined by 26.8%, outpacing a 5.1% decline in imports as compared to the previous quarter (both figures annualized). This reflects the sharp adjustment in U.S.-bound shipments following Q1's pre-tariff inventory surge.

On a positive note, final domestic demand rose by 3.5% (q/q annualized), led by a 4.5% rebound in household consumption, up from 0.5% in Q1. The gain was partly front-loaded, with early-quarter strength in motor vehicle purchases that has since moderated. Residential investment also recovered, advancing 6.3% (q/q annualized), consistent with stronger housing starts and home resales. However, business investment remained weak, with a 10% decline (q/q annualized), driven by a drop in machinery and equipment spending, reflecting the impact of tariff uncertainty throughout the quarter. Inventory accumulation added 3.3% to growth (q/q annualized), partially offsetting the drag from trade. On a monthly basis, GDP edged down 0.1% in June, with weakness concentrated in goods-producing sectors, as the manufacturing output fell 1.5% m/m, led

by declines in motor vehicles and wood products.

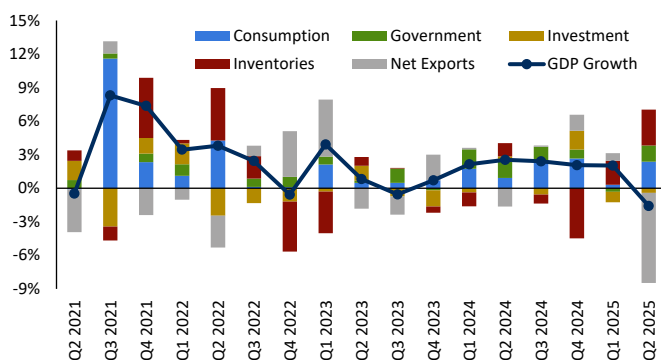
Despite a weak second quarter, resilient domestic demand suggests Canada remains well-positioned to avoid a broader downturn. This is consistent with StatCan's advance estimate for July that points to a modest 0.1% m/m increase in GDP.

### Retail Sales Rebound in June as Tariff Front-Running Effects Fade

Retail sales rebounded by 1.5% m/m in June, following a downward revision to May's decline to -1.2% m/m. The June recovery reinforces the view that May's weakness largely reflected a normalization in spending after April's tariff-driven front-loading. Core retail sales, which exclude motor vehicles/parts and gasoline sales, rose by 1.9% m/m, while sales volumes also increased by 1.5% m/m, indicating some improvement in real consumption in June.

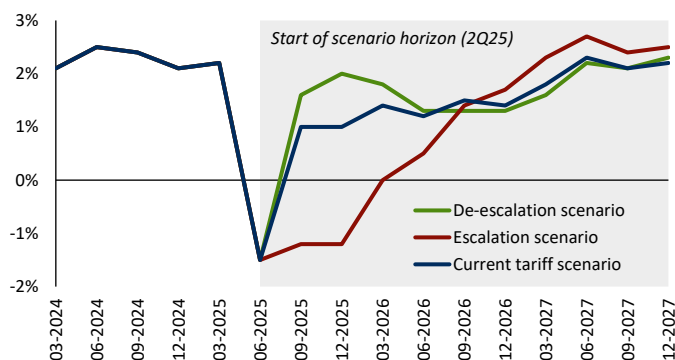
Looking forward, the advance estimate for July points to a 0.8% m/m decline in retail sales. In the near term, we have been expecting retail activity to remain relatively subdued, as the ongoing tariff uncertainty weighs on business conditions. However, renewed efforts toward a trade deal and the restart of negotiations between the U.S. and Canada could help recover business and consumer confidence. According to the survey conducted by StatCan in June, 27% of businesses were affected by ongoing trade tensions with the U.S., down from 32% in May. Reported impacts included price increases, changes in demand, and supply chain delays, though the overall effect appears to be moderating.

**Chart 5 - Contribution to GDP Growth (Annualized)**



Source: Statistics Canada, Raymond James Ltd.; Data as of June 30, 2025.

**Chart 6 - QoQ % Change in Real GDP (Annualized)**



Source: Monetary Policy Report - July 2025, Bank of Canada, Raymond James Ltd.

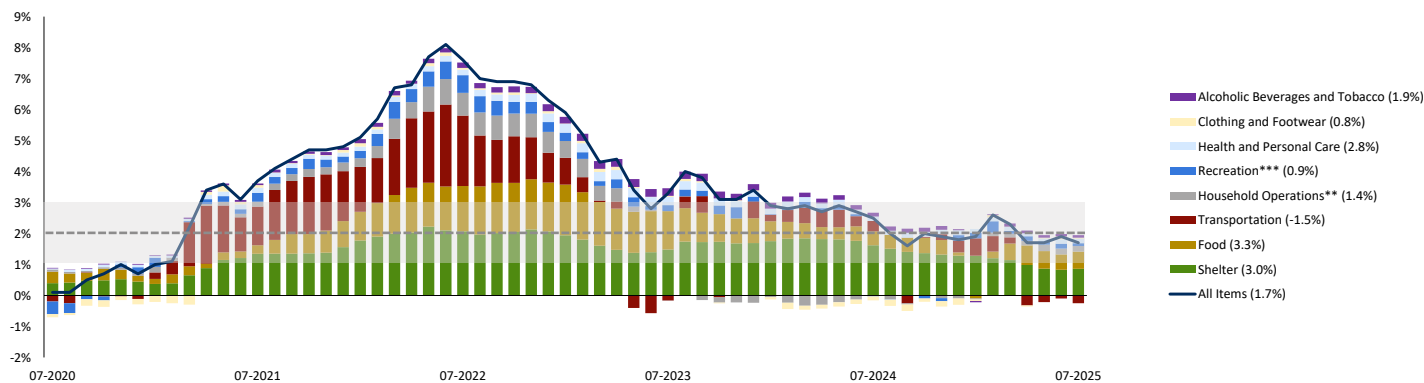
### Headline Inflation Eases, But Core Measures Still Remain Elevated

Headline Consumer Price Index (CPI) inflation eased to 1.7% in July, down from 1.9% in June, remaining below the BoC's 2% target level (Chart 7). The decline was primarily driven by a drop in gasoline prices, falling 16.1% y/y in July, following a 13.4% y/y decline in June. However, excluding energy, CPI inflation remained steady at 2.5%. Core inflation, as reflected in the BoC's preferred measures, CPI-trim and CPI-median, rose by an average of 0.18% m/m in July (Chart 8). With positive revisions to previous months, the three-month annualized rate declined to 2.4%, down from 3.5% in June, indicating a moderation in underlying price pressures.

In July, clothing and footwear prices declined by 0.7% m/m, reversing the increase observed in June that was linked to tariff effects. While some categories continued to reflect impacts from retaliatory tariffs, such as personal care supplies (+0.5% m/m), household equipment (+0.5% m/m), and auto parts (+0.4% m/m), these pressures are expected to ease following the removal of those tariffs. Shelter inflation also picked up, rising 0.3% m/m, with upward pressure from rental costs and natural gas prices, lifting the annual rate to 3.0%, the first acceleration since early 2024. However, continued moderation in mortgage interest cost growth and signs of easing rental prices could help limit upward pressure on shelter inflation in the coming months.

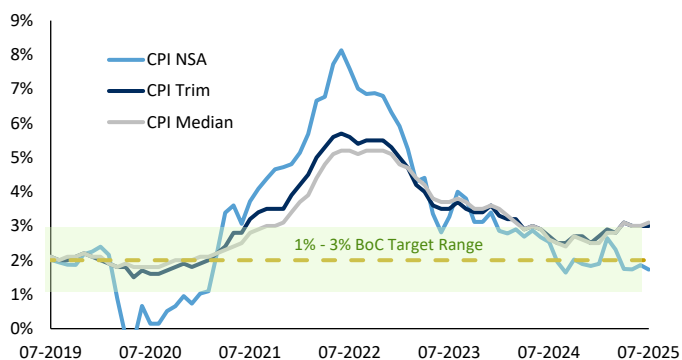
Looking ahead, we continue to expect overall inflation to remain contained, with inflationary risks linked to retaliatory tariffs likely to ease too, following their removal.

**Chart 7 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)**



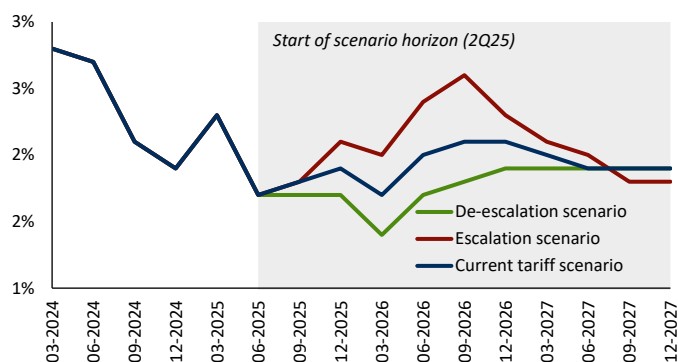
Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2025. \*Assumptions for both scenarios are in "Possible GDP impacts of tariffs in Canada" section; \*\*Household operations, furnishing and equipment; \*\*\*Recreation, education and reading.

**Chart 8 - Core Inflation Remains Elevated**



Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2025.

**Chart 9 - YoY % Change in Inflation (Quarterly)**



Source: Monetary Policy Report - July 2025, Bank of Canada, Raymond James Ltd.

**Canada's Overall Trade Deficit Tightens, While U.S. Trade Surplus Picks Up**

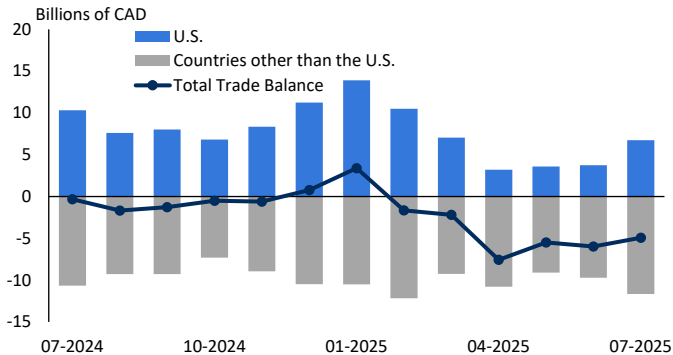
So far this year, we have seen companies front-running tariffs by building up inventories before these taxes become effective. Following that, we expect that many companies have tried to avoid raising prices given the uncertainty about tariff levels and implementation dates. Many companies likely didn't want to risk losing market share and consumer confidence by raising prices prematurely in an environment where the tariffs could be removed the following day. However, now that we are seeing some stabilization in tariffs, and as companies have started to deplete those lower priced inventories, U.S. importers are likely re-evaluating supply chains and starting to implement price increases. As such, we expect to see some kind of normalization in trade levels. For Canada, we can look at monthly import and export data to gauge the impacts of tariff front-running, drawing down of inventories, and then re-alignment of supply chains.

In July, Canada's merchandise exports were up 0.9% from June, while imports fell by 0.7%. That put Canada's exports at \$61.9 billion, imports at \$66.8 billion, and the trade deficit at \$4.9 billion, narrowed from \$6.0 billion in June. Looking specifically at that with the U.S., exports were up 5.0% and imports were down 2.2%, driving our trade surplus to \$6.7 billion from \$3.7 billion in June (Chart 10).

However, the PMI readings for both output and new export orders continue to sit below the 50 threshold, indicating contraction (Chart 11). This suggests that external demand may remain weak in the near term, as we eventually move to the post tariff front-running phase.

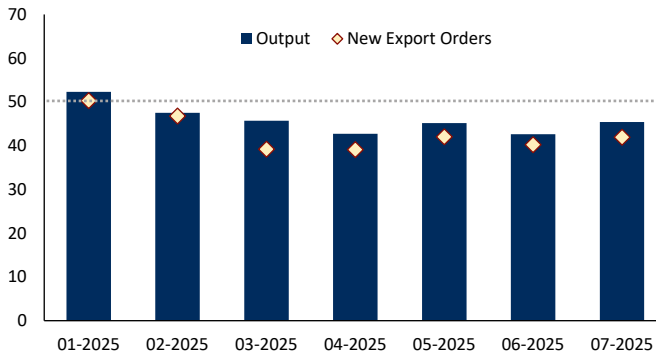


**Chart 10 - Canada's International Merchandise Trade Balance**



Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2025.

**Chart 11 - PMI Manufacturing New Export Orders and Output**



Source: Capital Economics, Raymond James Ltd.; Data as of July 31, 2025. \*A PMI reading above 50 indicates expansion, while a reading below 50 signals contraction.

**Employment Falls for Second Month in a Row**

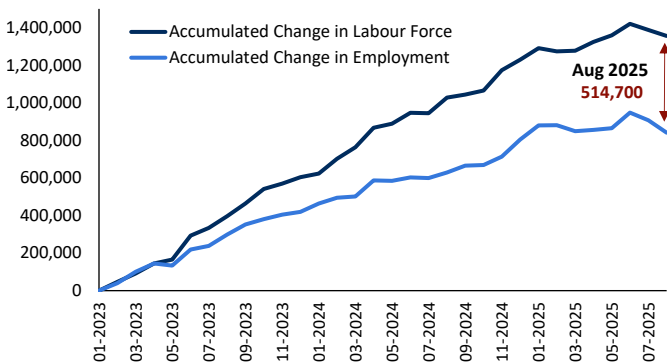
Total employment in Canada declined by 65.5k in August, following a 40.8k drop in July. The participation rate edged down from 65.2% to 65.1%, as the labour force contracted by over 30k. Despite this, labour demand weakened more rapidly than labour supply (Chart 12), pushing the unemployment rate up to 7.1% in August from 6.9% in July.

This soft labour market report reflects the growing impact of U.S. tariffs and related uncertainty, which is now materializing across several dimensions:

1. Industry-level declines were concentrated in trade-sensitive sectors. Employment fell sharply in professional, scientific & technical services (-26.1k), transportation & warehousing (-22.7k), and manufacturing (-19.2k), erasing gains from the previous two months (Chart 13).
2. Core-age (25-54 yrs old) employment saw a notable decline, with the employment rate falling from 83.3% in July to 82.7% in August, now below the 2017–2019 average (Chart 14). While earlier deterioration in youth employment likely reflected hiring freezes (Chart 15), the weakness in core-age employment suggests layoffs, corporate downsizing, and challenges for experienced workers in securing new roles.
3. Regional impacts were more pronounced in areas with strong U.S. trade exposure. Ontario shed 26k jobs, with Windsor and Oshawa, both heavily reliant on automotive and manufacturing, reporting unemployment rates of 11.1% and 9.0%, respectively. Toronto also saw elevated unemployment at 8.9%. In Alberta, employment fell by 14k, with Edmonton and Calgary, vulnerable due to energy trade, seeing unemployment rates of 8.5% and 7.7%, respectively.

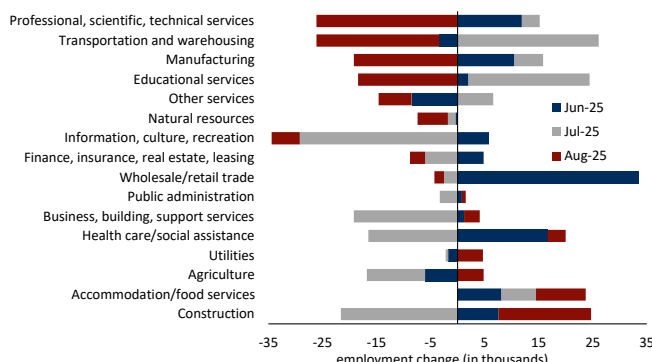
As the effects of tariffs continue to ripple through the labour market, we expect this will reinforce the BoC's case for rate cuts. Market expectations have shifted significantly: the probability of a September cut has risen from 50% pre-release to around 75% post-release, with increased odds of an additional cut in December.

**Chart 12 - Employment and Labour Force Both Continue to Decline in August**



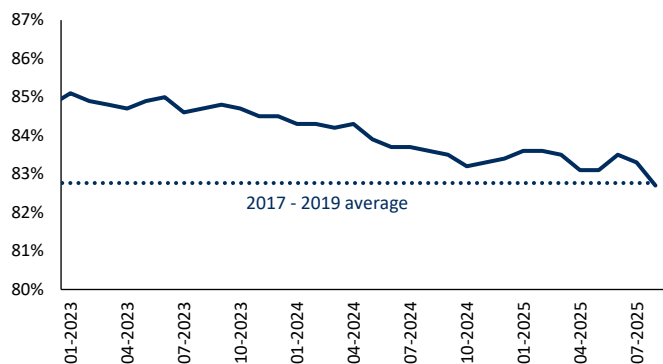
Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.

**Chart 13 - Job Losses in August Erase Recent Gains in Various Sectors**

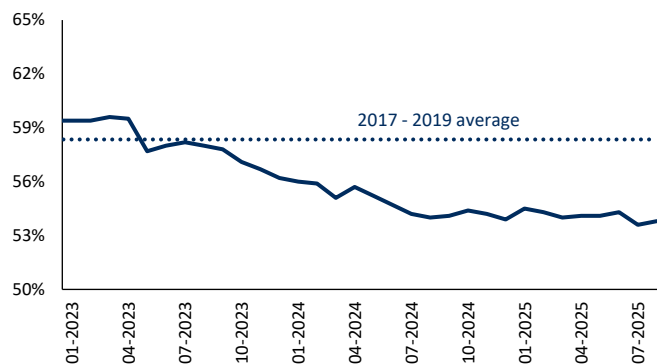


Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.



**Chart 14 - Employment Rate - Core Age (25 - 54 years)**

Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.

**Chart 15 - Employment Rate - Youth (15 - 24 years)**

Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.

### BoC Rate Cuts Back in Focus

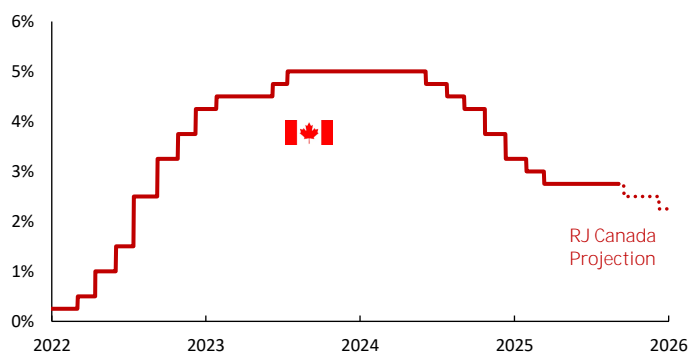
Recent economic indicators have strengthened the case for further easing by the Bank of Canada (BoC). The contraction in Q2 GDP, continuing signs of softening in the labour market, and inflation remaining near target levels have increased the likelihood of a rate cut at the September meeting.

Governor Macklem's recent remarks at Banco de Mexico's anniversary event offered insight into the BoC's evolving approach to inflation monitoring. While reaffirming the 2% midpoint target within the 1–3% control range, Macklem acknowledged the need for more robust measures of underlying inflation in a context of heightened supply-side volatility. This view is supported by recent communications from the BoC, which indicate that underlying inflation is currently assessed at approximately 2.5%, even as CPI-trim and CPI-median remain above 3%. The gap reflects the Bank's shifting focus on a broader set of indicators and a more flexible interpretation of inflation dynamics. A broader assessment may be formalized in next year's five-year framework review and could influence the Bank's policy calibration going forward.

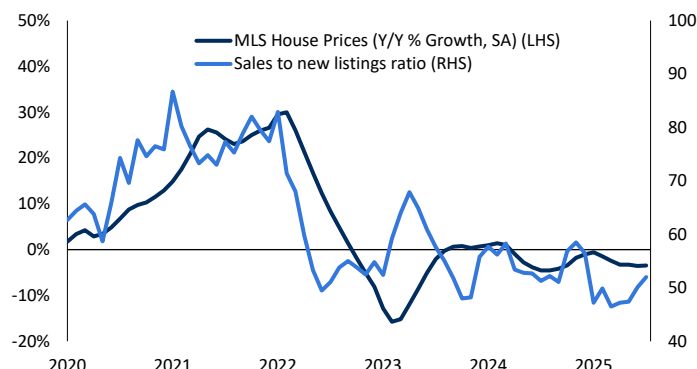
### Housing Market Continues Gradual Recovery

The Canadian housing market extended its recovery in July, with national home sales rising 3.8% m/m. This marks the third consecutive monthly increase, pushing seasonally adjusted sales above 40k for the first time since January. Actual (not seasonally adjusted) activity came in 6.6% above July 2024 levels, indicating upward momentum. Price trends remained relatively stable. The MLS Home Price Index (HPI) was unchanged m/m, and down 3.4% y/y.

On the supply side, new listings were virtually flat (+0.1% m/m), resulting in a tighter market. The national sales-to-new listings ratio rose to 52.0%, up from 50.1% in June and 47.4% in May (Chart 17). While still below the long-term average of 54.9%, the ratio remains within the 45–65% range typically associated with balanced market conditions. Inventory levels continued to decline, with 4.4 months of inventory nationally at the end of July, below the long-term average of five months. Based on historical thresholds, a seller's market would be indicated by inventory below 3.6 months, while a buyer's market would be above 6.4 months. The current trend suggests a gradual tightening in the housing market conditions.

**Chart 16 - BoC to Further Lower Interest Rates**

Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025

**Chart 17 - National Sales-to-New Listings Ratio Maintains Upward Momentum**

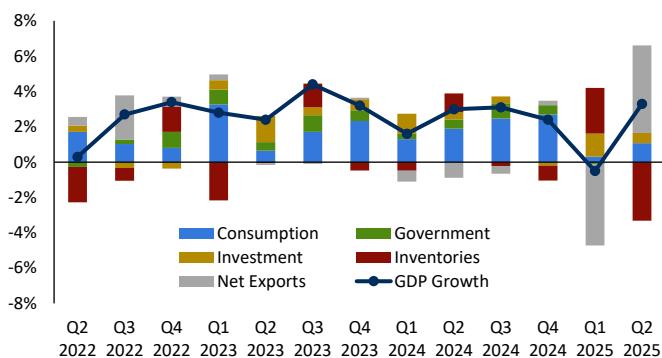
Source: CREA, Raymond James Ltd.; Data as of July 31, 2025

**U.S. 2Q25 GDP Revised Higher, as Attention Shifts to Potential Softening in 3Q25 and Tariff Impacts**

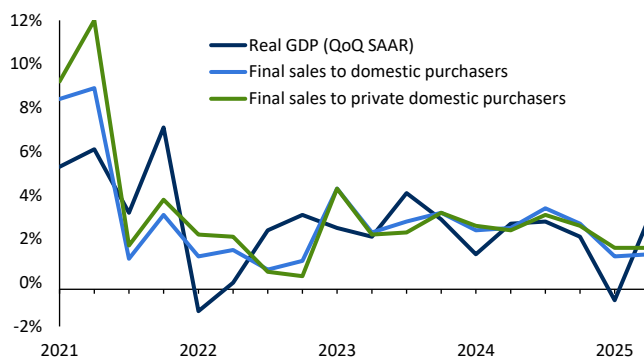
U.S. real GDP growth was revised higher, to an annualized rate of +3.3% (from +3.0%) in the second quarter, a sharp rebound from the -0.5% contraction in 1Q25. Some of the massive swing can be attributed to imports that surged as companies rushed to stockpile inventories ahead of tariff implementations. Net exports' contribution to GDP growth swung from a -4.6% drag in Q1 to a +5.0% boost in Q2 (Chart 18).

The second estimate of Q2 GDP introduced two notable revisions. First, on the consumption side, underlying momentum was better than previously reported. Growth in final sales to private domestic purchasers was revised up to +1.9% from +1.2%, reflecting firmer than earlier estimated domestic demand (Chart 19). Consumer spending was also revised higher to +1.6%, up from +1.4% in the initial estimate, making a significant improvement from the +0.5% gain in Q1. Second, the investment side showed a substantial pickup, driven by accelerating tech-related capital expenditures. Investment in computer hardware surged 61.2%, while software investment rose 26.4% (all annualized).

While consumption, construction, and government spending has been soft, we have seen a boost in capital spending, likely related to A.I., on equipment and software. While this A.I. spending seems likely to continue, we are watching for signs that tariffs, with higher inflation and weaker jobs growth, could hit consumer spending more significantly through the remainder of the year.

**Chart 18 - U.S. GDP Rebounds in 2Q25**

Source: Bureau of Economic Analysis, Raymond James Ltd.; Data as of June 30, 2025.

**Chart 19 - Growth in Private Domestic Demand Revised Higher**

Source: Bureau of Economic Analysis, Raymond James Ltd.; Data as of June 30, 2025.

**U.S. Consumers Continuing to Spend**

Retail sales data for July and positive revisions for June revealed that U.S. consumers continue to support the economy. Retail sales were up 0.5% m/m in July, in line with expectations, following an upwardly revised 0.9% m/m increase in June. Most of the strength in July came from motor vehicle & parts and gasoline station sales. Excluding these two categories, total retail and food services sales rose by just 0.2% m/m, while core retail sales (excluding autos) rose by a modest 0.3% m/m. Control group sales, which feed directly into GDP calculations, rose 0.5% m/m in July, reinforcing the view that real consumption has remained solid so far.

Looking ahead, rising costs from tariffs are likely to begin filtering into nominal retail figures. As these inflationary pressures build, they could start to weigh on consumer demand, potentially revealing some signs of softening in spending momentum.

### Tariffs Hurt U.S. Buyers, but Exporters Also Share the Cost Through FX Losses

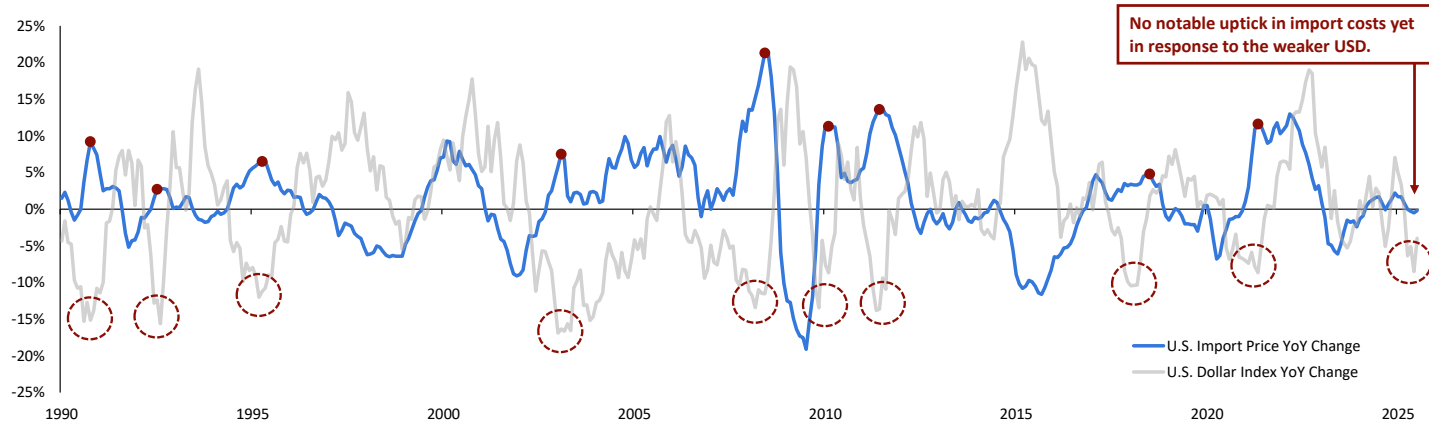
One misconception on tariffs is that the targeted country/exporter pays the tax imposed by the U.S. government. The grain of truth is that the seller in the exporting country might reduce its price to offset (some of) the increased cost to the U.S. importer, but otherwise the tariff revenue (est US\$300B/yr) that the U.S. government is collecting has to come from someone else's pocket. Those pockets belong to either the U.S. importer, distributor, retailer, or consumer. That also includes U.S. businesses that might end up with higher input costs to build products that they then try to export to other countries.

One way that we gauge if, and by how much, companies exporting into the U.S. are actually absorbing those tariffs by lowering their prices, is by looking at the Producer Price Index (PPI), which measures the selling prices that domestic (U.S.) producers are getting for their goods. This makes it an indicator of future moves in inflation as those price increases work their way onto store shelves. The PPI increased 0.9% in July (3.3% annually), well above the 0.2% expectation, and with those rising costs to manufacturers, the pass-through to consumers is likely on its way.

We can also look at U.S. import prices, which increased 0.4% in July, after a 0.1% decline in June. Compared to last year, prices for U.S. imports decreased 0.2% from July 2024 to July 2025 (Chart 20). Excluding the volatile fuel category, all other imports were 0.3% higher in July following a 0.3% decline in June. Compared to last year, non-fuel prices are up 0.9%. This further indicates that imported goods prices, in USD terms, are not being reduced to offset tariff impacts, and therefore it is U.S. businesses and consumers that are funding the extra government revenue.

However, it's also worth noting that the U.S. dollar has fallen sharply this year. The U.S. Dollar Index, which tracks the dollar against major currencies like the euro, yen, and pound, dropped over 8% year-over-year in June. Historically, a weaker dollar tends to push import prices higher, since the index is measured in U.S. dollar terms (Chart 20). However, that hasn't happened this time, import prices have remained relatively stable. This suggests that exporters are also sharing the burden by absorbing currency losses.

**Chart 20 - Limited Pass-Through of USD Depreciation to U.S. Import Prices Suggest Exporters Absorbed FX Losses**



Source: Raymond James Ltd., U.S. Bureau of Labor Statistics, FactSet; Data as of July 31, 2025.

### More Tariff Front-Running in August Widens the Deficit

The U.S. trade deficit widened to US\$78.3 billion in July, from US\$60.2 billion in June, as imports increased 5.9%, after being down 3.7% in June, while exports only increased 0.3% (Chart 21). We expect that this was driven by another pull-forward of purchasing ahead of the additional tariff implementations in August, as imports from China increased 27.3% from June to July, while exports to China dropped 0.2%. We also saw indications in data from the Port of Los Angeles that in July, loaded containers importing goods were up 8.5% over last year. This will feed through into a lower 3Q25 GDP number, but that could then lead to a period of destocking before inventories need to be replenished again. This could cause more volatility in trade flows in the near term.

### Core Goods Drive Inflation While Tariff Effects Remain Latent

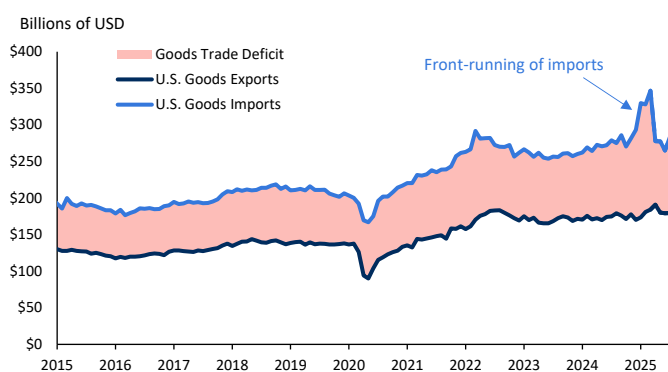
The headline U.S. Consumer Price Index (CPI) held steady in July, rising 0.2% m/m and maintaining a year-over-year pace of 2.7%. The stability in headline inflation was largely due to a 1.1% decline in energy prices, with gasoline and fuel oil falling sharply by 9.5% and 2.9%, respectively.

Food prices remained flat, as a modest decline in grocery costs offset a 0.3% rise in restaurant prices, suggesting that tariffs have yet to materially impact this category.

Core CPI (excluding food and energy) rose 0.3% m/m and 3.1% y/y, slightly above expectations, driven by strength in core goods. Used vehicle prices rebounded by 0.5%, while new vehicle prices remained unchanged. Notably, services inflation remained elevated at 3.8% y/y, although in July, core goods emerged as the primary contributor to monthly inflation. The decline in energy prices helped offset upward pressure elsewhere, keeping headline inflation in check. Additionally, the Fed's preferred measures, PCE (personal consumption expenditures) and core PCE remained relatively stable in July. The headline PCE price index held at 2.6% y/y, unchanged from June, while core PCE edged up slightly to 2.9%, from 2.8% the previous month (Chart 22).

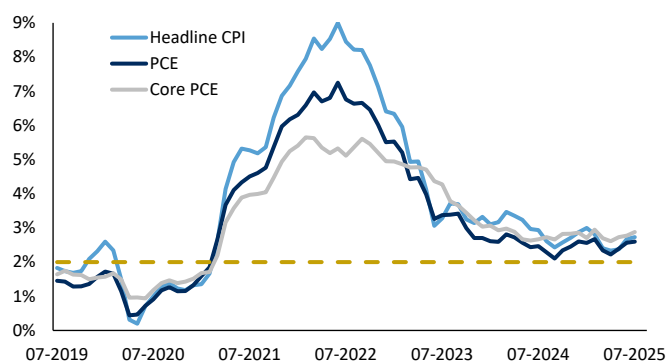
Looking ahead, the most significant tariff hikes took effect on August 7, meaning any pass-through to consumer prices is unlikely to appear until next month's data. So far, many retailers appear to have initially absorbed the cost pressures by compressing margins, likely as a temporary measure while awaiting greater clarity on final tariff structures.

**Chart 21 - U.S. Imports Tick Up in July**



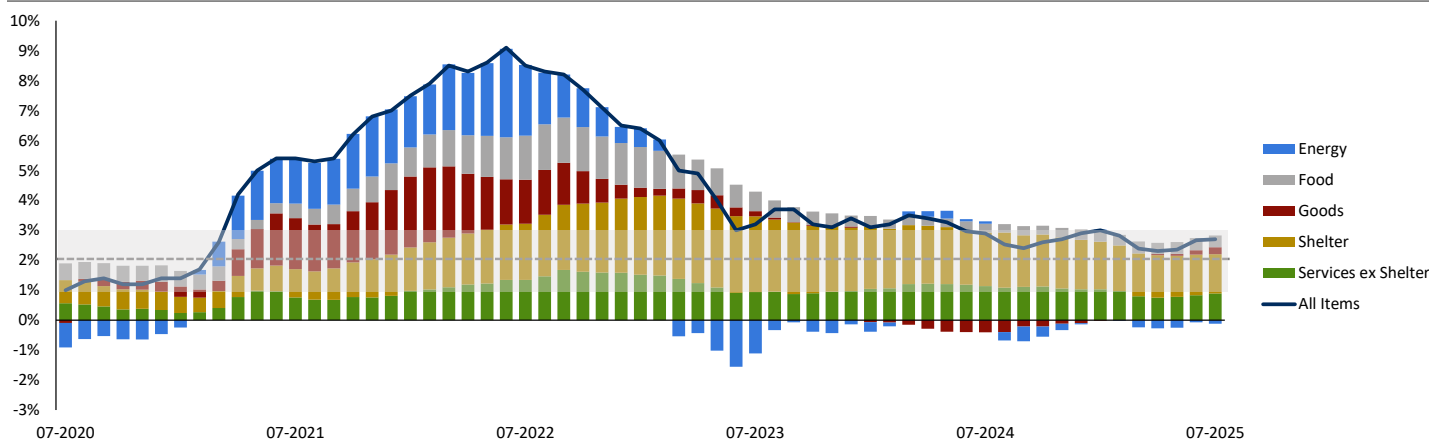
Source: Bureau of Economic Analysis, United States Census Bureau, Raymond James Ltd.; Data as of July 31, 2025.

**Chart 22 - Headline Inflation Measures Remain Stable Yet Elevated**



Source: FactSet, Raymond James Ltd.; Data as of July 31, 2025.

**Chart 23 - Major Components' Contributions to U.S. CPI**



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of July 31, 2025.

### Fed Cut Expected on September 17

At its last meeting/announcement in July, the Fed kept the federal funds target range unchanged at 4.25–4.50%, continuing its cautious stance amid ongoing tariff-related uncertainty. While the Fed acknowledged that the "growth of economic activity moderated in the first half of the year", it reiterated that the unemployment rate remains low and labour market conditions solid, while inflation remains somewhat elevated.

On August 22 at Jackson Hole, Chair Jerome Powell made a speech that was surprisingly dovish and suggested that the balance of risks is shifting and may warrant adjusting the policy stance. Translating into English, we interpret those comments as the employment situation is weakening

in the U.S., and that lowering interest rates may be necessary to keep the economy growing and unemployment from rising. The balance is that lowering rates may allow inflation to pick back up, although this is being viewed as less of a concern. The market has taken those comments as a strong possibility that the Fed will cut rates by 25 bps at its September meeting. As always, the decision could be affected by surprisingly good or bad data prior to that date.

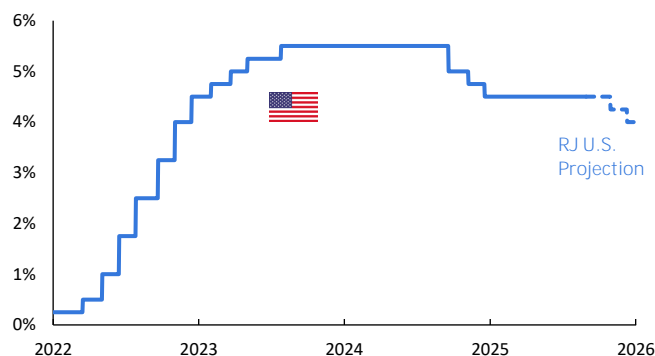
### U.S. Labour Market is Cooling

August's employment report reinforced the view that the U.S. labour market is losing momentum. Non-farm payrolls rose by just 22k, pushing the unemployment rate up to 4.3%, its highest level in nearly four years, but still low compared to historical standards. The more concerning aspect was the revision to June's figure, which was adjusted from a 14k gain to a 13k decline, marking the first month of negative job gains since December 2020. While July's number saw a slight upward revision, the three-month average job creation now stands at 29k (Chart 25). The private sector added 38k jobs, but most of this came from a 47k increase in health care and social assistance employment. Manufacturing and wholesale trade both shed 12k jobs, as tariff pressures continued to weigh on industrial activity. Manufacturing employment has now declined by 78k year-to-date. The federal government, meanwhile, cut another 15k positions, a trend likely to persist as deferred resignations from earlier DOGE buyouts continue to materialize.

Jobless claims in the last week of August were 237k, which was just a little higher than the 230k expectation. The 4-week average was 231k. Continuing claims were 1.940 million (vs. an estimate of 1.959 million), down slightly from 1.944 million. For the first time since 2021, the number of unemployed people outnumbers available jobs. The takeaway is that companies are mostly pausing in their hiring plans - not hiring, but not yet firing either. We see this as related to the narrative that employers don't want to cut excessively and end up being faced with labour shortfalls like they did following COVID, especially as the labour force isn't growing, nor do they want to end up with too many employees as they watch the economy cool and evaluate potential efficiency improvements through A.I.

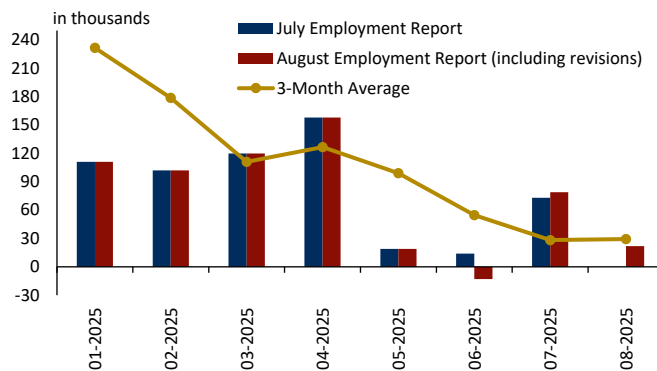
The latest Challenger, Gray & Christmas report on September 4 announced 85,979 job cuts from U.S.-based employers in August, up 39% from 62,075 in July, and up 13% from August 2024. For the year-to-date, that amounts to 892,362 cuts, the highest since the 2020 pandemic fueled elimination of 1,963,458, and up 66% from the same period last year. Pharmaceutical companies, financial firms, and retailers have announced the most cuts.

**Chart 24 - Fed Expected to Start Cutting Rates**



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025.

**Chart 25 - Non-Farm Employment Growth (m/m)**



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of August 31, 2025.

### OBBBA Tailwinds

With the July 4 signing of Trump's One Big Beautiful Bill Act (OBBBA), we saw some uncertainty taken out of the market, in exchange for growing concern over the expanding budget. Investor are also considering the US\$300-500 billion in additional tariff revenue that could partially offset the expanding deficit.

The bill included the restoration of business-targeted tax provision benefits that had expired since originally implemented in 2017 with the Tax Cuts and Jobs Act (TCJA). When we look at the OBBBA's potential impact on corporations and earnings, we should note that there are benefits that could boost things like R&D and capital spending in the short-term, which likely feeds into this A.I. fueled spending rush. For the S&P 500, estimates are for 9%+ boosts to free cash flow in each of 2025 and 2026. This, of course, would be separate from the potential penalties that companies may incur from tariffs, but could also offset some of those impacts.

## Financial Markets

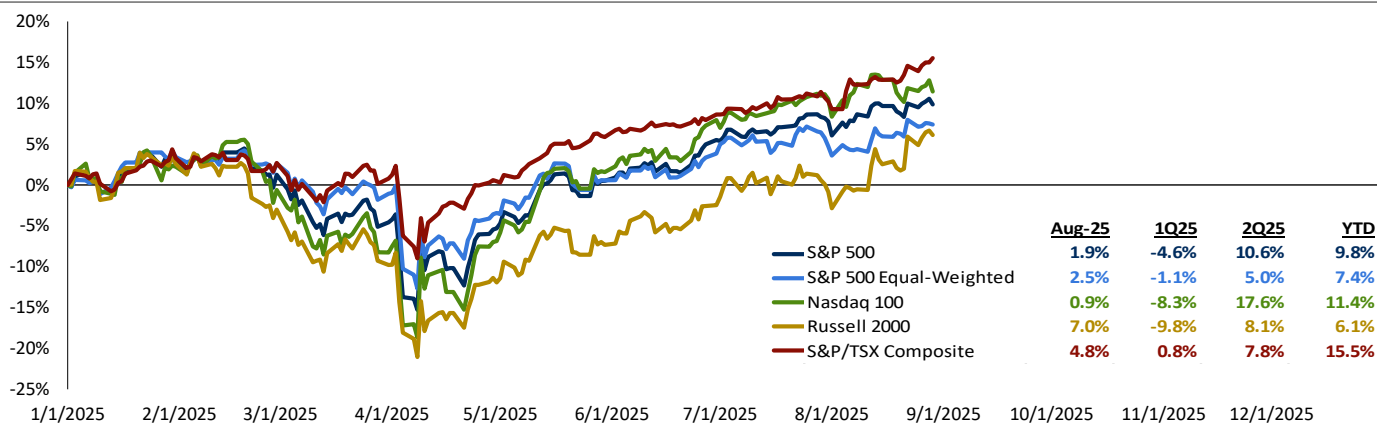
In August, both the TSX Composite, Canada's main stock market index, and the S&P 500, the leading U.S. large-cap benchmark, continued to make new highs. The TSX delivered a 4.8% price return and a 5.0% total return, boosting the year-to-date price return and total return to 15.5% and 17.6%, respectively. Meanwhile, the S&P 500 posted a 1.9% price return and 2.0% total return during the month, bringing its year-to-date price return to 9.8%, and total return to 10.8%, all in local currency.

In the TSX Composite, materials, information technology, and communication services were the top-performing sectors. Materials gave a strong boost to the index. This time, its outperformance was driven not only by rising gold prices, due to ongoing economic and political uncertainty, but also by outstanding 2Q25 earnings growth from gold miners. Communication services and information technology continued to show momentum, although performance within the tech sector was quite mixed, with individual stocks varying widely. On the flip side, consumer staples, industrials, and utilities lagged behind the broader market. Margin pressures are still a concern for grocers, as investors continue to rotate from defensive into more cyclical sectors.

The U.S. market appears to be in a consolidation phase. In the S&P 500, materials and health care, which underperformed in July, were among the top performers in August, along with energy. Meanwhile, utilities, industrials, and information technology, the strongest sectors in July, fell behind in August.

In August, the Russell 2000, which tracks U.S. small-cap stocks, outperformed other major indices, supported by signals of potential rate easing from the Fed. The S&P 500 Equal Weight Index also outperformed the market-cap weighted S&P 500, as weakness in the information technology sector weighed more heavily on the latter. The same factor contributed to the underperformance of the tech-heavy Nasdaq 100.

**Chart 26 - Selected Indices Price Returns**



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025. Price return in local currency.

## U.S. Equity Markets

Despite August historically being one of the weakest months for equity performance from a seasonality perspective, U.S. equities extended their rally. The S&P 500 rose 1.9%, reaching a new all-time high. We believe this momentum was primarily driven by three factors: strong corporate earnings, a market that appears increasingly resilient to trade policy uncertainty, and the Fed's signal of potential rate easing.

Wrapping up 2Q25 earnings season, the S&P 500 index posted a third successive quarter of double-digit earnings growth, at ~12% YoY. Over 80% of companies beat earnings expectations, the highest rate since 2021. Those that missed were generally punished significantly, although CEO confidence was generally positive, with concerns about a recession fading away.

Mega-cap tech returned to preferential status, as these companies beat 2Q25 EPS expectations by 13.5%, the most in two years. A.I. remains the driving mantra and capex guidance with earnings growth continues to fuel the rally. More companies and investors are seeing A.I. as having relatively quick impacts on efficiency improvements in a full spectrum of industries.

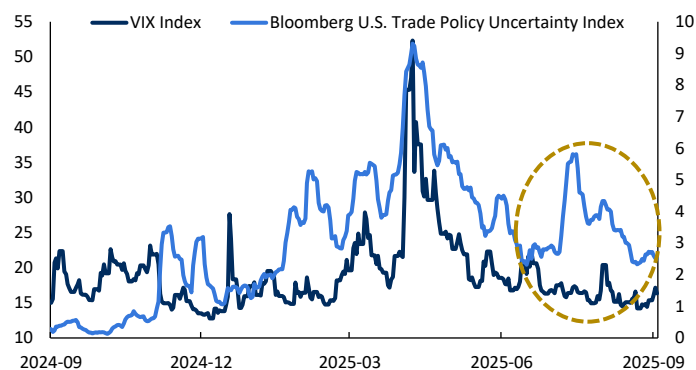
This ties into another key factor: the market's growing adaptability to trade policy uncertainty. Tariff-related headlines haven't been in short supply lately, but they're no longer causing the kind of volatility we saw earlier this year (Chart 27). As we noted in our August report, management teams are increasingly shifting focus away from trade-related concerns. U.S. corporate profit margins have risen meaningfully to 15.7%, well above the pre-pandemic average of 11.4% (Chart 28). This margin expansion provides firms with greater flexibility to absorb tariff-related costs. So where's

this margin expansion coming from? We believe it stems largely from productivity gains, particularly those enabled by A.I., which are outpacing wage growth. This dynamic reduces unit labour costs per unit and supports higher profitability.

Finally, Fed Chair Jay Powell opened the door to a rate cut in September during his remarks at the Jackson Hole Symposium. He noted that “downside risks to employment are rising” and these risks could “materialize quickly in the form of sharply higher layoffs and rising unemployment.” This was the kind of dovish signal the market had been waiting for, as lower interest rates are generally better for equities. The S&P 500 responded with a 1.5% jump on August 22, nearly recovering the losses from the previous five sessions.

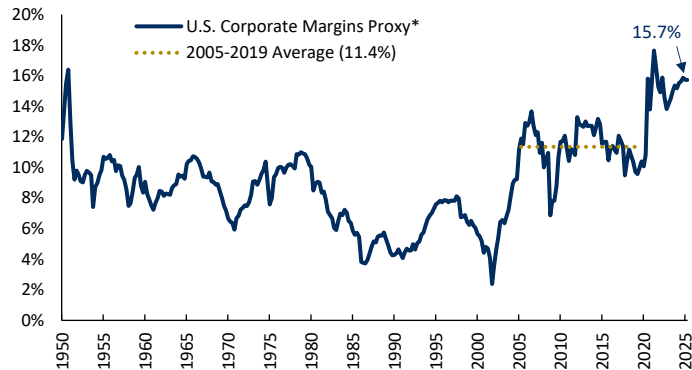
Looking ahead, while the potential for a market pullback in the near term remains, we’re cautiously optimistic about U.S. large caps, especially the mega-cap tech. We believe the A.I.-driven rally has further room to run, and that any pullbacks should be viewed as buying opportunities, while maintaining a selective approach across sectors.

**Chart 27 - Market Response to Trade Policy Uncertainty Becoming More Stable**



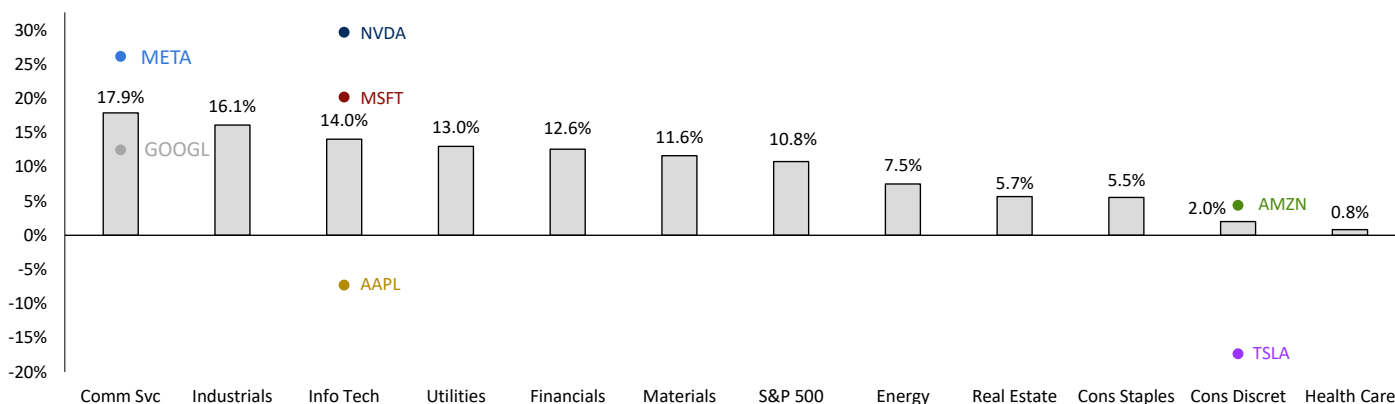
Source: Bloomberg, Raymond James Ltd.; Data as of September 3, 2025.

**Chart 28 - U.S. Corporates Have Seen Significant Margin Expansion Post-Covid**



Source: Bloomberg, Bureau of Economic Analysis, Raymond James Ltd.; Data as of 2Q25. \*After-tax nonfinancial corporate profits as share of gross value added.

**Chart 29 - S&P 500 Sector and “Magnificent Seven” Year-to-Date Total Returns**



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025.

**Canadian Equity Markets**

The S&P/TSX Composite Index continued its upward momentum in August, posting a strong total return of 5.0% for the month (including dividends), bringing the year-to-date return to 17.6%. Once again, Materials led the outperformance, with Information Technology, Communication Services, and Financials also ranking among the top-performing sectors. Meanwhile, the lagging sectors have largely continued their subdued performance since the start of Q3. Sector rotation away from traditional defensives, such as Consumer Staples and Utilities, has continued, driven by stronger-than-expected economic resilience. At the same time, initial enthusiasm around increased national defence and infrastructure spending, which had boosted Industrials, appears to be fading.

The good news is that over 98% of companies in the S&P/TSX Composite have reported their 2Q25 results, with 68% beating expectations.



Earnings for the quarter are up approximately 9% both sequentially and year-over-year. The full-year 2025 earnings estimate now stands at \$1,635, representing an 11% increase from the 2024 figure of \$1,470.

A closer look reveals that the TSX Composite's earnings growth and sector contributions aren't quite as broad as we would like, although still robust overall. Materials has delivered a year-to-date total return of 50.8%, and with a 15% weighting in the index, it has significantly boosted the TSX Composite's overall return to 17.6%, outpacing all other sectors, which is relatively uncommon. Excluding Materials, the TSX Composite's year-to-date return was a still meaningful 13.2%.

A point of caution and opportunity is that forward-looking earnings growth hasn't been broad-based. A breakdown of sector-level performance shows that forward-looking earnings growth has meaningfully contributed to returns only in Materials, Financials, and Information Technology, the same sectors that have led performance year-to-date. The reasons are fairly straightforward. Materials and Info Tech have either benefited from or remained relatively insulated against tariff-related disruptions. Financials, meanwhile, have seen a rebound in sentiment as Canada avoided a worst-case GDP contraction. Banks, in particular, benefited during the 2Q25 earnings season from lower-than-expected provisions for credit losses (PCLs) and resilient retail business. However, within the Financials sector, the insurance and capital markets segments continue to face revenue pressures, which have weighed on their performance.

Until Canada and the U.S. reach a mutually beneficial trade agreement, likely to include a renegotiation of USMCA through 2026, and the economic impact of tariffs becomes more measurable, being selective becomes even more important, especially since the impact can vary widely, even among companies within the same sector. From a sector perspective, our long-term themes continue to align well with near-term opportunities. We maintain a positive view on industries tied to A.I. and those positioned to benefit from increased national defence and infrastructure spending. We also hold a constructive outlook on gold miners, particularly following their strong execution in the 2Q25 earnings season, where they demonstrated that higher gold prices translated into stronger free cash flow generation. Looking further ahead, we expect central bank gold purchases to continue, and as real yields on U.S. Treasuries decline, the opportunity cost of holding non-yielding assets like gold decreases, further supporting the case for gold over the long term.

### **Top 3 Sectors (August 2025):**

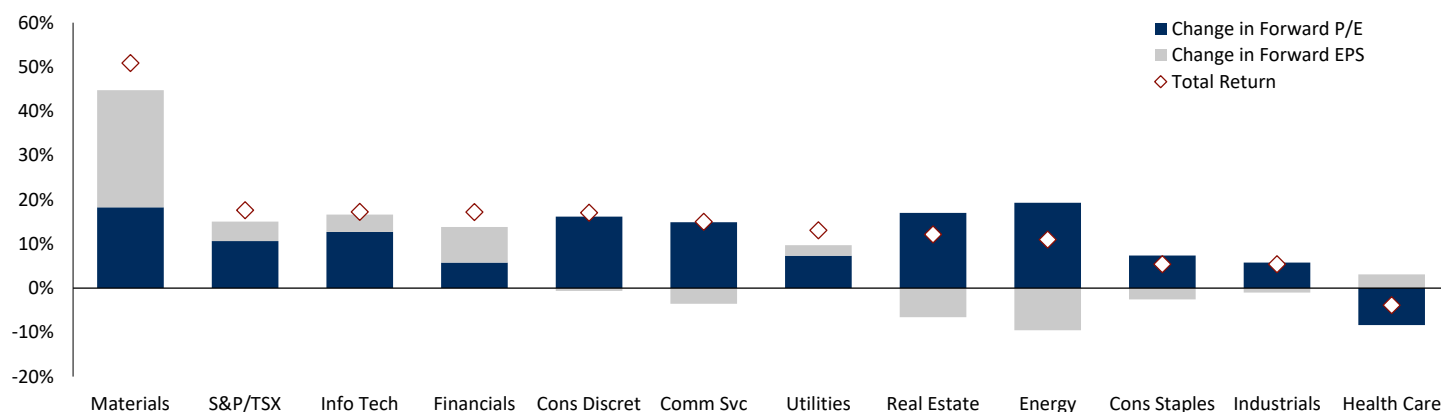
- **Materials:** This sector delivered a 15.9% total return in just one month, driven not only by a ~4% rise in gold prices but also by strong 2Q25 earnings from gold miners. We remain positive on gold, supported by strong central bank demand and investor interest amid economic uncertainty. In the near term, gold has consolidated, with technical signals pointing to potential upside. Recent price movements have been driven more by central bank buying and tariff concerns than traditional factors like the U.S. dollar or real yields. While short-term uncertainty may fade, central bank demand is likely to persist. If the link to TIPS yields continues to weaken, gold's role as a portfolio diversifier could even strengthen. Even a return to historical correlations wouldn't be negative, declining real yields reduce the opportunity cost of holding gold. Overall, our long-term view remains constructive.
- **Info Tech:** Despite strong overall performance in the sector, gains were once again concentrated among a few leading names. The sector benefited from continued optimism around A.I., its substantial U.S. revenue exposure, and its cyclical nature, which positioned it well to capitalize on improving market sentiment. However, selectivity is important given the current state of the A.I. trend, particularly in the Canadian market, where the sector is primarily composed of software and services companies, unlike its more diversified U.S. counterpart. Technological innovation typically progresses from infrastructure and hardware to applications, which increasingly involve software. This helps explain why the S&P 500 Semiconductor industry and the TSX Composite Electronic Equipment industry significantly outperformed within their respective Information Technology sectors in 2023 and 2024. While many factors influence company performance, application-focused companies face an added layer of uncertainty. Success requires not only proven underlying technology but also market validation that the application delivers value and meets demand. In the context of the A.I. boom, software and application companies must also consider whether their core competencies or business models are vulnerable to creative destruction, such as from generative or agentic A.I. Looking ahead, the trajectory for these companies could vary widely. We favour those with well-established business models prior to the A.I. boom, a distinct competitive moat, healthy cash flow, and a disciplined approach to A.I. investment and integration.
- **Communication Services:** Despite structural challenges such as intensified competition and slower population growth, the sector posted strong gains in August, supported by attractive dividend yields and renewed focus on infrastructure and A.I.-related initiatives. The sector remains relatively insulated from tariff-related risks, which has helped sustain investor confidence amid broader market uncertainty. Major players have also announced substantial investments in data centres aimed at supporting sovereign A.I. capacity, while also expanding media

and content distribution platforms to diversify revenue streams. While competitive pressures and demographic challenges continue to weigh on the sector, growing support for A.I. and infrastructure investment may help alleviate some of these structural headwinds.

### Bottom 3 Sectors (August 2025):

- Consumer Staples:** This sector continues to go through a period of choppiness. While the food products industry delivered strong returns, grocers lagged behind. For grocers, the shifts in consumer behaviour toward discounts and promotions continue to weigh on their pricing power and profitability. Even though a stronger Canadian dollar helps reduce costs for U.S. imports, the increasing share of produce coming from other countries introduces FX-related uncertainties or costs that could offset those benefits. Looking ahead, one potential tailwind for the sector could be an increased preference for cooking and eating at home amid the broader economic slowdown.
- Industrials:** The sector has remained in consolidation since mid-May, with the ground transportation industry showing moderate recovery in August, supported by largely in-line earnings from railroad companies. As most of Canada's exports to the U.S. remain tariff-free under the USMCA umbrella, the impact of tariffs has so far been manageable. Although the initial enthusiasm around increased national defence and infrastructure spending, which had boosted the Industrials sector, appears to be fading, companies well-positioned in these areas are still expected to benefit over the longer term. In the near term, however, given the sector's cyclical nature and its revenue exposure, performance remains closely tied to the global economic and geopolitical developments.
- Utilities:** This sector delivered a solid return of 2.8% in August, supported by strong overall 2Q25 earnings results. Its underperformance relative to the TSX Composite may be more reflective of ongoing sector rotation toward more cyclical areas of the index. In the near term, multi-layered political uncertainty, including Canada's relationship with the U.S., may also keep investors in wait-and-see mode. That said, we remain constructive on the long-term outlook, driven by rising energy demand across North America, which we believe will continue to act as a longer-term tailwind for the sector.

Chart 30 - S&P/TSX Composite Sector Year-to-Date Total Return Breakdown

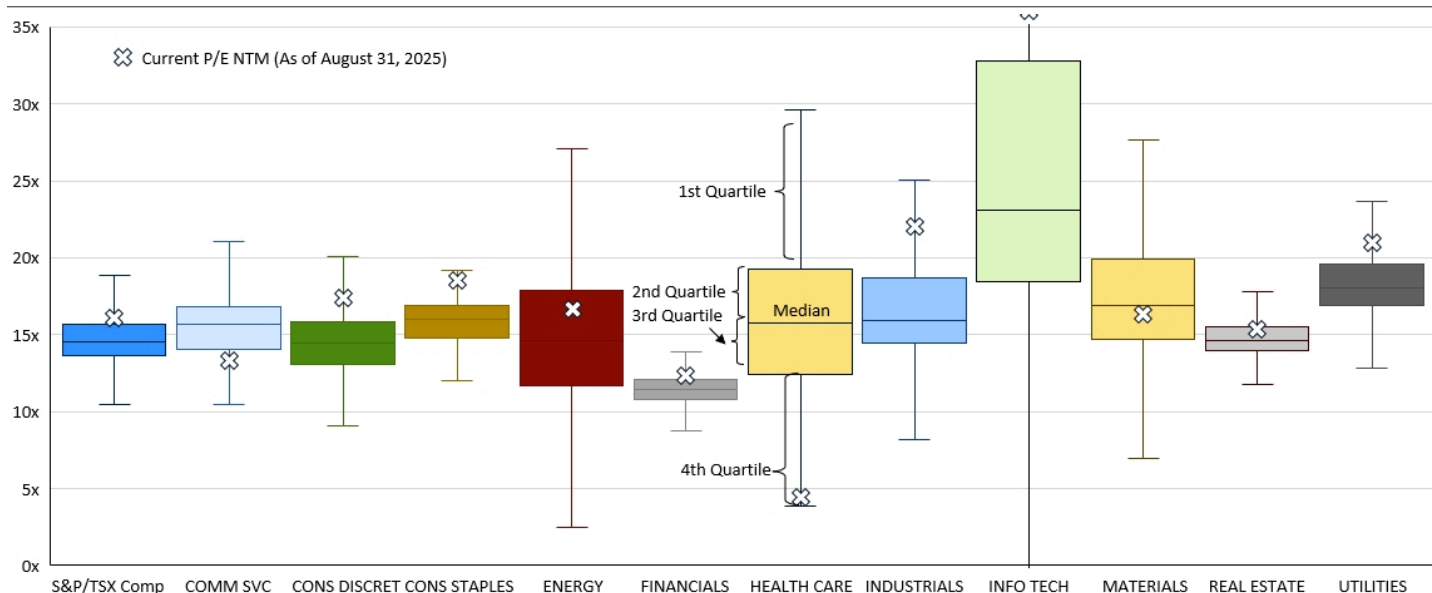


Source: Bloomberg, Raymond James Ltd.; Data as of August 31, 2025.

Table 3 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	15.0%	50.8%	15.9%	15.9%	16.6	16.9
Information Technology	10.3%	17.3%	10.9%	6.2%	39.3	23.1
Communication Services	2.3%	15.0%	9.7%	4.4%	13.7	15.7
Real Estate	1.8%	12.2%	8.6%	3.7%	15.0	14.6
S&P/TSX Composite	--	17.6%	6.7%	5.0%	16.4	14.5
Energy	15.7%	10.9%	6.7%	4.0%	16.6	14.6
Financials	32.4%	17.2%	5.8%	4.3%	12.6	11.4
Utilities	3.5%	13.1%	2.8%	0.3%	21.1	18.0
Consumer Discretionary	3.2%	17.0%	2.8%	0.7%	17.6	14.4
Health Care	0.2%	-3.9%	2.4%	9.2%	4.9	15.8
Consumer Staples	3.6%	5.4%	1.3%	-0.8%	18.1	16.0
Industrials	11.9%	5.4%	-0.6%	0.0%	22.2	16.0

Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

**Chart 31 - S&P/TSX Composite Sector Current vs. Historical P/E NTM**

Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025. Historical P/E: 1/1/2000 – 08/31/2025. Excluding outliers.

**Table 4 - Global Equities Performance**

Select Global Equity Indices	Aug (in LCL)	Aug (in USD)	Aug (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
<b>Major Aggregates</b>												
World (Global)*	2.8	2.8	2.0	8.4	8.4	8.2	13.9	13.9	8.7	20.0	16.0	4.0
EAFE (DM ex U.S. & Canada)*	4.8	4.8	4.0	4.7	4.7	4.5	23.0	23.0	17.4	15.2	13.6	1.6
EM (Emerging Markets)*	2.1	2.1	1.4	10.3	10.3	10.1	19.6	19.6	14.1	13.3	11.8	1.5
<b>Selected Developed Markets</b>												
Nikkei 225 (Japan)	4.1	6.7	5.9	12.8	10.8	10.7	8.3	16.0	10.7	19.1	16.8	2.3
Euro STOXX 50 (Europe)	0.6	2.9	2.2	0.0	2.8	2.7	12.3	23.6	18.0	15.6	13.3	2.3
FTSE 100 (U.K.)	1.2	2.7	2.0	5.6	4.9	4.8	15.6	21.3	15.8	12.9	12.4	0.6
CAC 40 (France)	-0.9	1.4	0.7	-0.3	2.8	2.7	7.4	21.4	15.9	16.0	13.5	2.5
DAX (Germany)	-0.7	1.6	0.9	-0.4	2.7	2.5	20.1	35.4	29.2	15.4	12.7	2.8
Hang Seng (Hong Kong)	1.3	2.0	1.3	8.8	9.4	9.3	28.4	27.9	22.1	11.5	11.7	-0.2
<b>Selected Emerging Markets</b>												
CSI 300 (China)	10.5	11.6	10.7	19.1	20.2	20.0	16.8	19.6	14.1	15.7	13.7	2.0
Nifty 50 (India)	-1.2	-1.9	-2.7	-0.7	-3.6	-3.8	4.5	1.4	-3.2	22.1	18.9	3.2

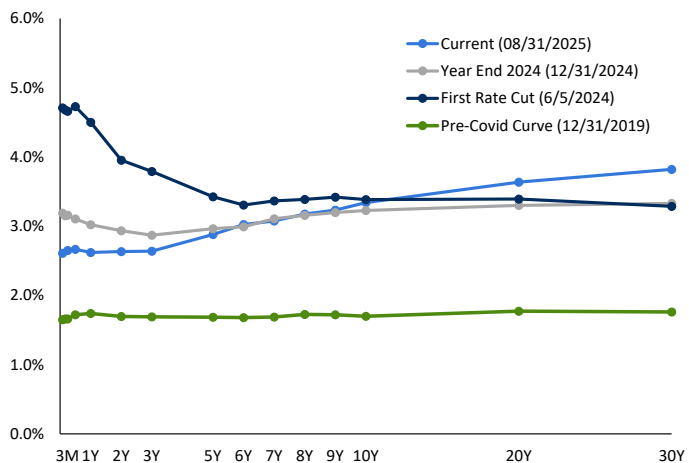
Source: FactSet, Raymond James Ltd; Total returns, data as of August 31, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 8/31/2025. \*Indices are represented by their corresponding iShares ETFs, serving as proxies.

### Fixed Income & Treasury Yields

U.S. Treasury yields fell across the curve following Fed Chair Powell's dovish remarks at Jackson Hole on August 22, which opened the door to a possible rate cut in September. Then, on August 26, President Trump's attempt to remove Fed Governor Lisa Cook reignited concerns over the Federal Reserve's independence, contributing to a steepening of the yield curve. Short-term Treasury yields declined on rising expectations of imminent monetary easing, while long-term yields rose due to higher term premiums driven by increased inflation expectations and heightened uncertainty. Since the beginning of the year, the yield curve has been gradually normalizing for maturities of three years and beyond, with the 10-year Treasury yield mostly range-bound between 4.2% and 4.5%.

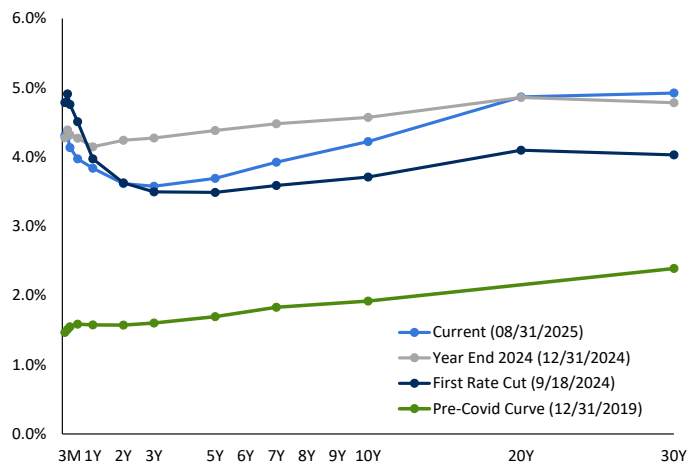
In Canada, the government yield curve steepened slightly in August, with short- to medium-term bond yields edging lower, while yields at the very long end rose modestly. Notably, Canadian government bond yields across the curve declined in tandem with U.S. Treasuries following Powell's dovish remarks on August 22. Since the start of the year, the curve has normalized significantly, with the one-month yield down roughly 50bps, the five-year holding relatively steady, and the ten-year up around 20bps.

**Chart 32 - Canada Government Yield Curves**



Source: Factset, Raymond James Ltd.; Data as of August 31, 2025.

**Chart 33 - U.S. Treasury Yield Curves**



Source: Factset, Raymond James Ltd.; Data as of August 31, 2025.

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