October 2025

The Quarterly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots of metrics, a section on behavioral investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

"History doesn't repeat itself, but it rhymes."

— Mark Twain

The Numbers:

Index:	2025 YTD	
S&P/TSX:	21.41%	
NASDAQ:	17.34%	
Dow Jones:	9.06%	
S&P 500:	13.72%	
Russell 2000:	9.25%	

Interest Rates:	Canada	USA
90-Day T-Bill:	2.7%	4.0%
5-Year Bond:	2.9%	3.7%
10-Year Bond:	3.4%	4.2%
30-Year Bond:	3.7%	4.8%

Economic Data:

- Global equities continue their melt up
- Oil continues to slide. Natural gas finding a bid lately
- Gold and various metals and materials much higher
- CADUSD higher by 3.0% YTD
- BOC and Fed cut rates by 25bps to 2.5% & 4.0%, respectively
- Markets largely disregard the trade war.

Valuation Measures: S&P 500 Index

	Latest	1-year ago
P/E: Price-to-Earnings	30	28
P/B: Price-to-Book	5.6	4.9
P/S: Price-to-Sales	3.4	3.0
Yield: Dividend Yield	1.2%	1.3%

2025 Year-to-Date by Sector:

S&P/TSX Composite	21.41%
NASDAQ	17.34%
Dow Jones Industrials	9.06%
S&P 500	13.72%
Russell 2000 (Small Caps)	9.25%
MSCI ACWI ex-USA	26.02%
Crude Oil Spot (WTI)	-13.0%
Gold Bullion ($US/Troy Oz)	47.0%
SOX Semiconductor Index	26.8%
VIX Volatility Index	-9.2%
Bitcoin	20.8%

Source: Canaccord Genuity Capital Markets & Guru Focus

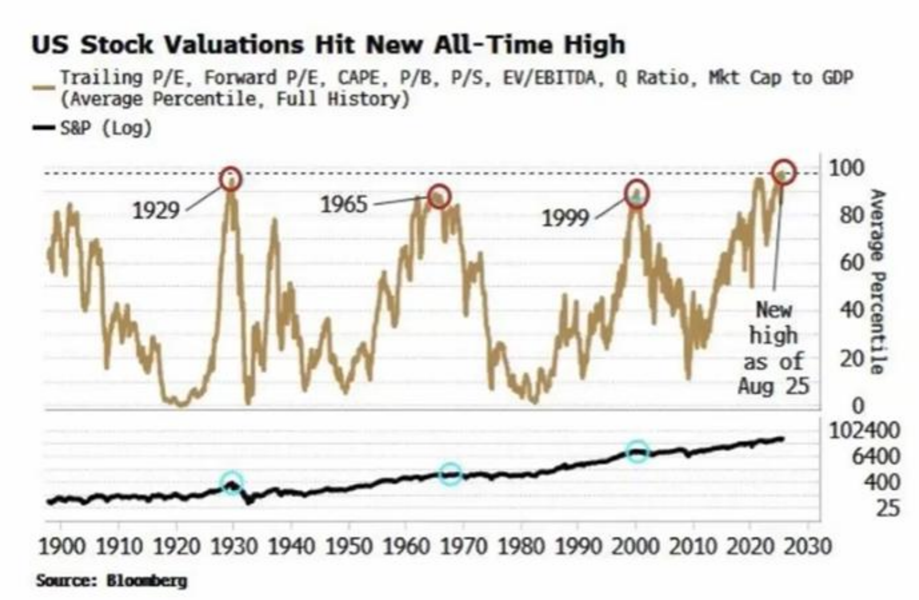
Foreign Exchange:

As of Oct 14, 2025 4:00 PM EST	$5,000 CAD			
Banks	**Rate**	**Buy USD**	**Cost**	**%Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.4088	$ 3,549	$(12)	-0.3%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4436	$ 3,464	$(97)	-2.8%
Raymond James	1.4215	$ 3,517	$(44)	-1.2%
Royal Bank	1.4326	$ 3,490	$(71)	-2.0%
Scotia	1.4428	$ 3,465	$(96)	-2.8%
TD	1.4202	$ 3,521	$(40)	-1.1%
Canadian Snowbird	1.4034	$ 3,563	$2	0.0%

Valuations: Back at rarefied heights

Since last quarter, momentum has garnered more legs with the S&P 500's price-to earnings ratio surging to new highs, surpassing levels last witnessed during some of the most euphoric chapters in market history: 1929, 1965, 1999 and 2008-2009. Unlike the COVID era (2020), when valuations were distorted by collapsing earnings, today's lofty P/E ratio is powered by genuine investor enthusiasm, most notably from advances in AI.

But high valuations are a double-edged sword. While they often precede periods of strong momentum, history suggests they rarely persist without consequence. At 30x earnings, the S&P 500 is in rarified air. This is not to suggest an imminent crash. We are not bears – meaning we have a pessimistic view of the markets – only that investors should ask whether their portfolios are equipped for a turn in the cycle.

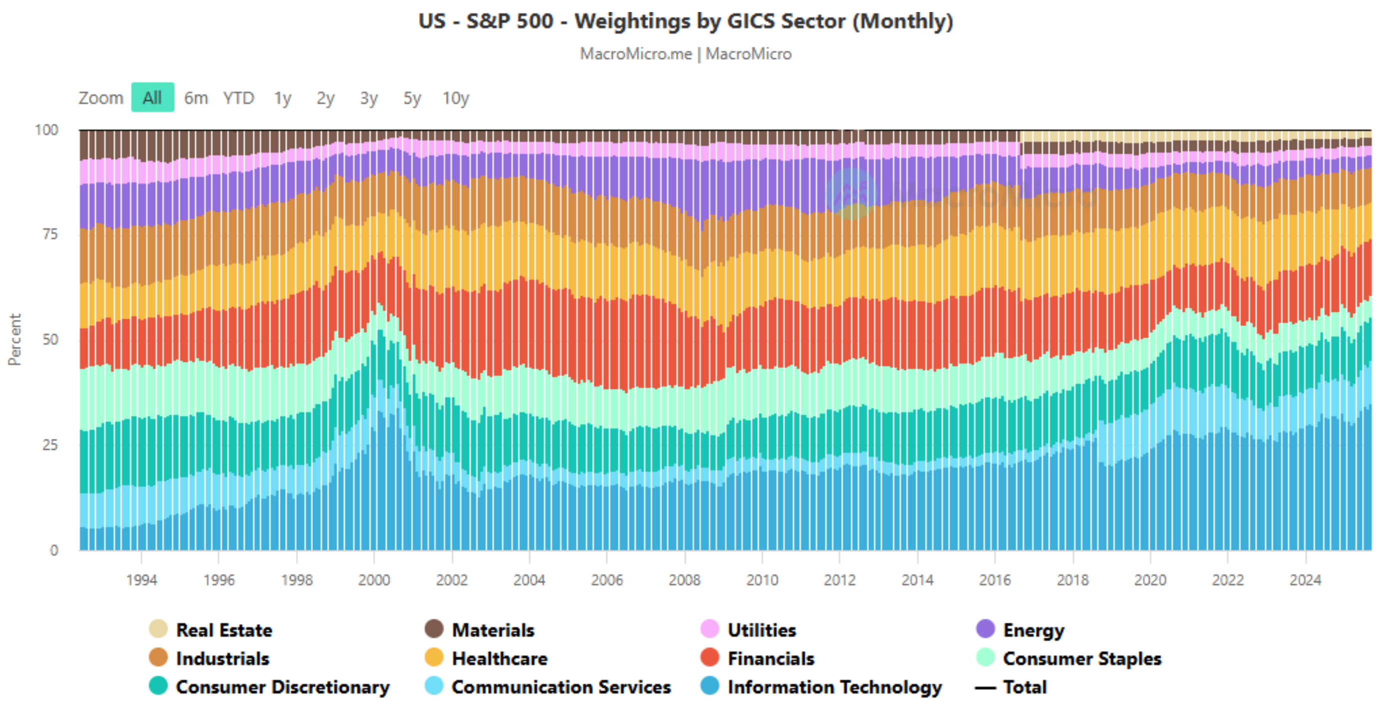


Concentration Risk: The Technology Sector

Today's S&P 500 looks increasingly like a technology fund, with the Technology and Communication Services sectors representing roughly 45% of the index, the highest concentration in history. These two sectors are usually sandwiched together as the Communication Services sector includes companies like Alphabet, Meta, and Netflix – all Tech companies in our view. This level of dominance by a single 'sector' is unprecedented and underscores how dependent market performance has become on the fortunes of a handful of large technology companies.

Within that concentration sits Nvidia, the standout story of 2025 (…and 2024…and 2023). Its market capitalization has surged to $4.53 trillion, edging out entire industries and nearly edging out the bottom 250 companies that make up the S&P 500. We are talking about household names like Delta Air Lines, Kraft Heinz, General Mills, and Live Nation. This single semiconductor company has become the poster child of the artificial intelligence revolution.

There is no denying that Nvidia is an extraordinary business. Its graphic processing units have become the backbone of the artificial intelligence revolution, powering data centers, cloud computing, and generative AI models. At the end of September, Nvidia announced a landmark $100 billion investment in OpenAI – the firm behind ChatGPT – to build next-generation AI data centers. This partnership is described by the CEO Jensen Huang as the "next leap forward" in the global AI race. But Nvidia's global dominance also brings challenges. The company faces geopolitical risk – from U.S. export restrictions to antirust actions in China, to growing domestic competition from Alibaba and Baidu, who are now developing their own AI chips.



Eat, Eat, Repeat: The Passive Tide

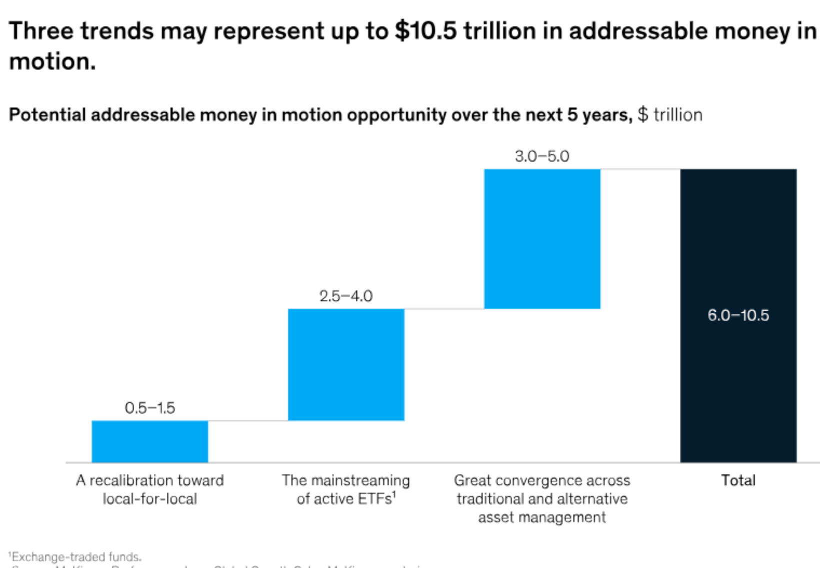
We do not highlight Nvidia's dominance to underline their profitability or valuations. Rather, to point out an increasingly important investment theme – capital flows. The rise of passive investing has meant trillions of dollars automatically buy more of the largest stocks, simply because they are the largest. This phenomenon creates a feedback loop – as companies like Nvidia, Microsoft, Apple, and Amazon rise in value, index funds must allocate even more capital to them, reinforcing their dominance.

While parts of the market, particularly tech, show the characteristics of a bubble, this cycle has not necessarily mirrored the parabolic melt-up of, say, the dot-com bubble. Instead, the stock market has advanced in a steady grind higher over the past 18 months. The pace of gains has slowed, and market breadth has softened – the percentage of NYSE stocks trading about their 50-day moving average has slipped to 55% from 80% in early July. This divergence suggests that leadership has become narrower, with the "Magnificent 7" doing more of the heavy lifting with some industries lagging.

For investors, this narrowing breadth adds another layer to the concentration risk story. Gains are increasingly reliant on fewer companies and fewer sectors, which magnifies the importance of capital flows. Passive vehicles, which direct money toward the largest companies exacerbate this dynamic. When the tide eventually shifts, passive investors may find themselves highly exposed to a small cluster of over-owned names.

Even consultants are admitting this. McKinsey recently pointed out three major shifts that could reshape the industry and put \$6 to \$10 trillion in motion over the next five years: a renewed appetite for local-for-local investing, the rise of active ETFs that blend flexibility with active insight, and the disappearance of boundaries between traditional and alternative investments.

This is precisely why active management matters more than ever. Active managers can adjust exposures, seek value in overlooked corners, and manage risks passive strategies cannot. We've long believed that true diversification extends beyond public equities and bonds. Over 15 years ago (anniversary this month!), we began offering individual investors access to a diversified bucket of alternatives — well before it became fashionable — and we'll continue to do so responsibly for our clients.



Pour One Out for Warren

"I've seen this party before."

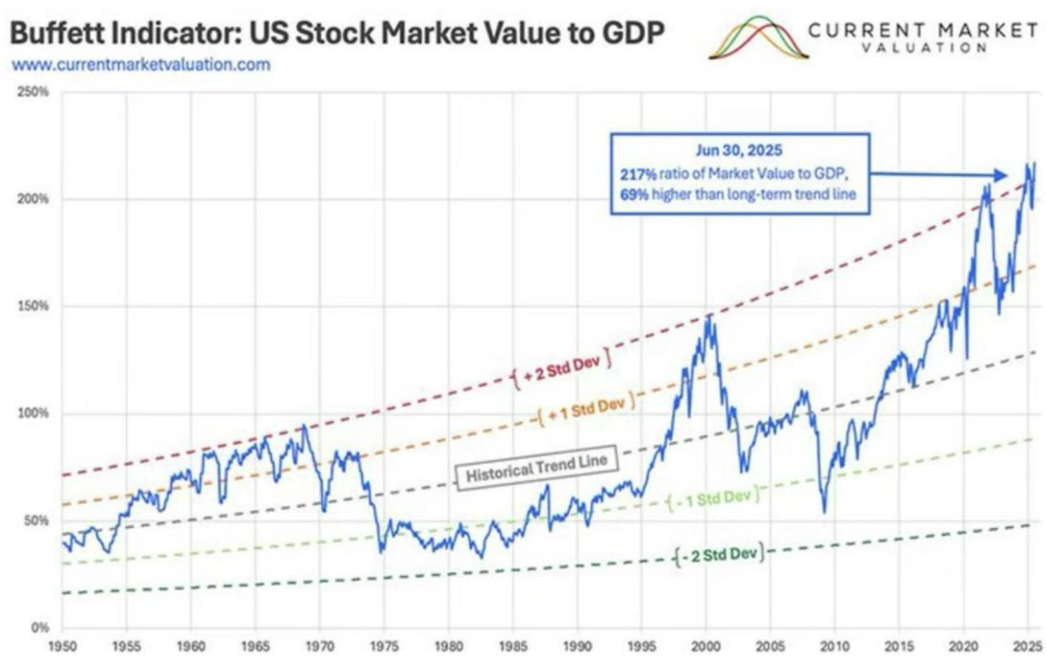
— Jim Rogers

This passive tide has also changed how investors think about investing. Traditional value investors – like the great Warren Buffett – once preached patience, discipline, and a sharp focus on fundamentals like profitability and cash flow. Today, that mindset feels increasingly out of fashion. The market is in the pursuit of "shiny objects" and forward narratives rather than steady compounding. In many ways, the headlines are still highlighting the Cathie Wood style of momentum chasing and has far more influence than the Buffet style of long-term value – despite Cathie's fall from grace in 2021-2022.

One way to visualize how far we've drifted is through the Buffett Indicator – the ratio of the total U.S. stock market value to GDP. Buffett once called it "*the single best measure of where valuations stand at any given moment*". He later walked back this statement, hesitating to endorse any single measure as either comprehensive or consistent over time. Back in 2001, he offered a simple guide: *"If the ratio falls to 70% or 80%, buying stocks is likely to work very well for you. If it approaches 200% — you're playing with fire."*

Today, that ratio sits near 220%, eclipsing even the dot-com peak. To put it another way, the stock market is now more than twice the size of the U.S. economy — an imbalance that history has rarely treated kindly.

While this high-end data point doesn't automatically spell disaster, history reminds us that outliers eventually mean-revert. Episodes like the Dot-com bubble in 1999-2000 or the post COVID surge proved unsustainable, with valuations ultimately retreating toward more normal ranges, if only temporarily.



I love Goldddd: Leading, really?

"I love gold! The look of it! The smell of it! The taste of it! The texture!"

— Goldmember

For those following the market, much of this is no surprise. For everyone else – gold has quietly stolen the show. It gained 17% last quarter alone and is up over 110% since late 2023, outperforming equities and other asset classes – one of its strongest stretches in history. Our exposure to physical gold (and miners) continues to act as a stabilizing hedge amid stretched equity valuations, out of control inflation, declining real yields, and fading confidence in bonds.

This strength is now spilling over into the broader precious metal complex. Silver is up nearly 50% year-over-year, and platinum has surged 74%, signaling that investors are moving beyond gold alone. Historically, this kind of broad participation tends to occur in the later stages of the market cycle, when capital rotates toward tangible assets and inflation hedges. Select junior miners are also begging to outperform – we hold some exposure – suggesting that the demand for gold far outweighs the supply, leading to repurposing retired mines.

From a technical perspective, gold is tactically overbought (Relative Strength Index (DSI) near 78; Daily Strength Index (DSI) above 80%) but it remains structurally under-owned. Institutions hold just 2.4% of portfolio in gold, while Ray Dalio urged investors to allocate around 15% of their portfolios to gold, calling it a strong hedge against credit-dependent assets and a key protector of real returns (think inflation). Central banks continue to purchase over 1,000 tons annually. This imbalance points to potential further upside once short-term froth clears.

One of the more fascinating signals comes from the gold-to-oil ratio, which has reached extreme levels, currently standing at roughly 58 barrels of oil per ounce of gold — nearly double its long-term average of around 25–30. For most of the past two decades, this ratio hovered below 30, only breaking out during gold's latest three-year run. Technically, such an extended divergence indicates that oil is deeply undervalued relative to gold, or put differently, that energy prices have significant room to catch up. More interestingly, it means the broader real asset trade may still have room to run. The last time this ratio hit extreme highs, energy stocks went on a multi-year bull run – something we will follow closely.

Source: macrotrends.net

Preparing for rain as the sun's still shining

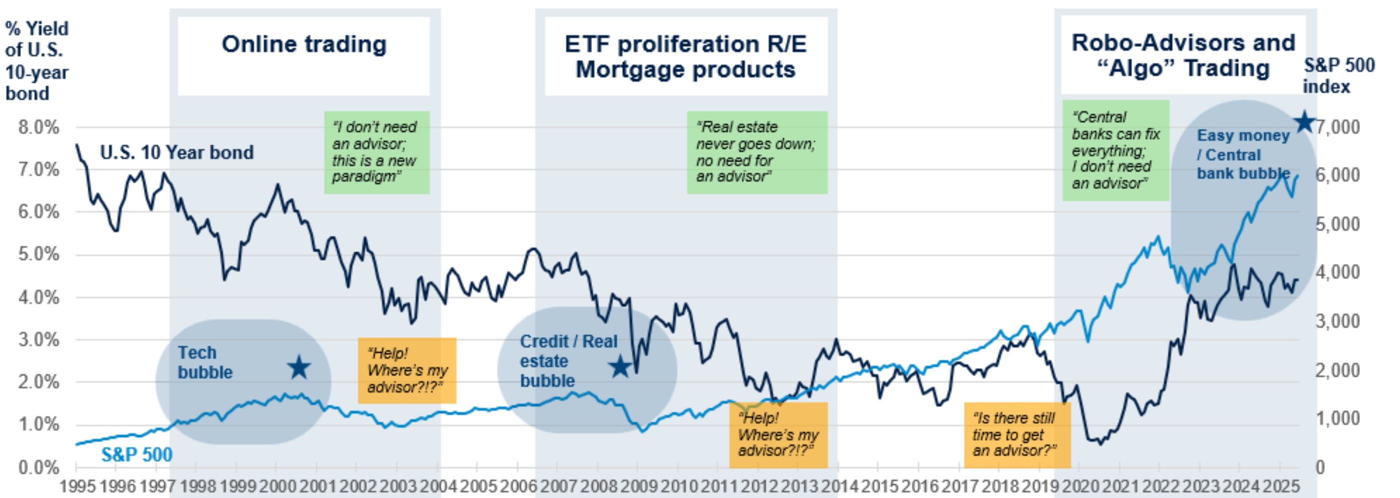
"You can lead a horse to water, but you can't make it drink"
— John Heywood

If you've been around markets long enough, you know that every cycle looks different — until it doesn't. There's always a story that makes this time feel unique: AI, zero rates, "soft landings," or whatever the buzzword of the day might be. But markets, like people, tend to repeat their habits. Euphoria, denial, panic, relief…rinse and repeat.

Right now, we're somewhere in that "everything's fine" part of the cycle. Stocks are making new highs, sentiment is rosy(ish), and volatility barely has a pulse. But that's exactly when risk tends to hide in plain sight. Portfolio insurance — the real kind, not the synthetic stuff from the '80s that blew up — is about building protection before you need it. It's about having the insurance in place before markets wobble, so you are positioned to take advantage of the "buy low" stage. For us, this comes in the form of the Safe Harbour Fund.

The truth is, no one can perfectly time the cycle. Markets don't move in a straight line, and corrections don't send out save the dates. What we can do is recognize where we are: valuations are stretched, leadership has narrowed, and sentiment is still optimistic. In baseball terms, it means that we're closer to the later innings than the first pitch (Go Jays Go!).

Why not position yourself in a way that allows you to keep chasing what's working and make sure that your portfolio can handle what comes next if it were to occur. If history has taught us anything is that bull markets don't die of old age – they die of overconfidence. And a little insurance against that never hurts.



Source: macromicro.me, MacNicol & Associates Asset Management

Behavioral investing: representativeness heuristic

On any given week the MacNicol Investment Team conducts dozens of meetings and video conferences with sponsors, direct relationships, professional colleagues, and of course, with you – our valued investors. This year, our discussions have gone very well. Returns are up, our new Safe Harbor Fund is fully allocated, and in general, most of us feel pretty good about our situation.

So why am I'm writing to you about representativeness heuristics?

A few days ago, one of you made the following comment: *"If you cannot do 20% next year, I'll gladly take 19%"*. Well played – you know who you are. Markets don't hand out guarantees – and if there's one thing we can promise, it's that we won't post another 20% next year. After periods of strong performance, it's easy to start believing the good times will roll on just as smoothly. We'll always aim for the best risk-adjusted results we can, but a healthy dose of realism is never out of place.

Representativeness heuristics are mental short cuts that can influence investor behavior due to past experiences and perceptions, and not necessarily fundamental, quantitative or technical data. To be more specific, representativeness heuristics impact investment decisions in a couple of ways, not all of which may apply to you:

1) **Assuming past winners will keep winning.** You might automatically assume that a company that has had strong past performance will remain a great investment, regardless of its current fundamentals. Take Nvidia, who likely makes the world's best graphics processing chips – but its share price already reflects this superiority by many orders of magnitude. Investors are reminded that they are not buying Nvidia's chips; they're buying Nvidia's stock, which is a whole different matter.

2) **Confusing the plausible with the probable.** You might find yourself suffering from the dream that you've found "the next Nvidia". You might believe that a brand-new company will be just as successful as the stock market darling. Essential factors like financial health, competitive landscape, or business model still matter.

3) **Underestimating risk during bull markets.** Assuming that this bull market is a sure thing, without considering the risks involved, is a quick way to turn confidence into complacency. Tossing money into the wind rarely ends in wealth, and often in financial heartache.

4) **Reacting too quickly.** We are all guilty of having felt this way many times during our careers – making a reaction in great haste rather than considering your next step carefully. After strong performance, investors can feel emboldened and make snap decisions without considering downside protection. Overconfidence after success and exaggerated adjustments based on recent news are two of the oldest and costliest mistakes in investing.

Who doesn't love making money in the stock market?

The answer, of course, is no one, but don't let it get to your head. Valuations are stretched. Market participation is narrowing. And now is not the time to throw caution to the wind. That is something the MacNicol Investment Team will never do – because what we represent are <u>your</u> investment interests.

The MacNicol Investment Team

Firm Wide News:

Happy fall from the MacNicol Investment Team! To our junior “Portfolio Managers”: enjoy treats and costumes. Adults, feel free to swap your Rosé for your scotch, or a pumpkin spice latte if you’re so inclined.

The MacNicol Alternative Asset Trust celebrates 15 years! We sincerely thank our investors for their trust and confidence, and we recognize the dedication and hard work of our incredible team.

We are also pleased to welcome Luke Juha to the MacNicol Investment Team. His addition strengthens our bench and supports the continued growth of our business.

> **A quick snapshot:** Luke earned his degree in Finance with a minor in Economics from Penn State University, where he also captained the Division I hockey team, so he’s no stranger to strategy, whether on the ice or in the markets.
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> After hockey, Luke spent seven years at Cardinal Point Athlete Advisors, working with professional athletes and high-net-worth families. His experience spans both investments—analyzing everything from equities and fixed income to private debt, private equity, and real estate—as well as financial planning. He helped clients with net worths up to US$100 million build strategies for investing, tax efficiency, cash flow, asset protection, and estate planning, often across the U.S.–Canada border.
>
> Luke was drawn to MacNicol because of the firm’s untapped potential, particularly its robust alternative investment program and growing recognition in the industry. He will bring immediate depth and expertise to the team and help advance MacNicol’s mission to building strong partnerships and delivering meaningful value to clients.
>
> Outside of work, Luke stays active in the hockey community, sneaks in rounds of golf and the occasional run, and, most importantly, soaks up time with his wife and their baby.