

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

YEAR-END REVIEW



Volume 16 – Issue 1 January 2025



STAN CLARK
Senior Wealth Advisor

Welcome to our special year-end review

How were the stock markets in 2024? Michael Chu and I have put together this concise review of what went on in Canada, the United States and other important economies around the world – and how it affected stock markets. We also look ahead to the rest of 2025 and beyond.

We hope you find this review informative and useful. Enjoy!

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Year-End Review:

ANOTHER GOOD YEAR FOR INVESTORS

By Stan Clark, Senior Wealth Advisor and Michael Chu, Senior Wealth Advisor

2024 was another fantastic year for stock markets. U.S. stocks did especially well, with investors bolstered by optimism surrounding less regulation and a business-friendly environment under Trump 2.0. Led by the U.S. example, Canadian and international markets also showed strong, if more modest, performance.

Central banks around the world, including Canada's, continued to ease interest rates, though the pace varied among different countries due to differences in economic growth and inflation.

For 2024, the World Equity Index, a gauge of stocks around the world, but very heavily weighted towards the U.S., was up 28.9% (in C\$). At home, the TSX was up 21.6%. The chart above shows the returns of major stock indexes around the world. Note that these returns are in Canadian dollars, so the effects of currency changes are included.

	Q1	Q2	Q3	Q4	2024
Canada (S&P/TSX)	6.6%	-0.5%	10.5%	3.8%	21.6%
U.S. (S&P 500)	13.0%	5.4%	4.7%	8.9%	35.8%
EAFE (Europe, Australasia, Far East)	8.2%	0.6%	6.1%	-2.3%	12.8%
Emerging Markets	4.7%	6.1%	7.5%	-2.2%	16.8%
World	11.3%	3.7%	5.2%	6.2%	28.9%

Source: Bloomberg

respective benchmarks.

Our Canadian stock strategies, *Disciplined Canadian Stock*, was the only one that underperformed, returning 12.4% while the TSX Index was 21.7%. However, these returns were still above the market for the last three years, and their long-term performance relative to the index remained strong. Our U.S. stock strategies, *Disciplined U.S. Stock*, outperformed, returning 32.1% while the S&P 500 returned 25% (in US\$).

We also have two global portfolios made up of our multiple stock strategies. The *Disciplined World Equity* composite returned 30%, compared to

Composite	2024 Strategy	2024 Benchmark	2024 Outperformance	3 Year Strategy	3 Year Benchmark	3 Year Outperformance	5 Year Strategy	5 Year Benchmark	5 Year Outperformance	10 Year Strategy	10 Year Benchmark	10 Year Outperformance
Disciplined Canadian Stock	12.4%	21.7%	-9.3%	9.2%	8.6%	0.6%	11.6%	11.1%	0.5%	9.1%	8.6%	0.4%
Disciplined U.S. Stock (in US\$)	32.1%	25.0%	7.1%	13.7%	8.9%	4.7%	17.4%	14.5%	2.8%	11.6%	13.1%	-1.5%
Disciplined World Equity	30.0%	23.9%	6.1%	14.9%	9.3%	5.6%	15.8%	11.5%	4.3%	12.4%	10.5%	1.9%
Dividend Select World Equity	26.6%	24.7%	1.8%	13.5%	9.3%	4.2%	15.2%	11.7%	3.5%	11.4%	10.3%	1.2%
Disciplined North American Equity	42.2%	29.9%	12.2%	19.5%	11.6%	7.9%	20.4%	14.6%	5.8%			

As of Dec 31, 2024

How did we do?

We're happy to report that all of our strategies had positive returns for 2024 and most beat their

a benchmark 23.9%. This portfolio is currently invested roughly 35% in Canada, 55% in the U.S. and 15% in international. (The benchmark is 40%

TSX, 30% S&P 500, 20% MSCI EAFE and 10% MSCI EM.)

Our second global portfolio, the *Dividend Select World Equity* composite, returned 26.6%, compared to a benchmark of 24.7%. This portfolio has a slightly higher weighting in Canada and dividend payers. (The benchmark is 50% TSX, 40% MSCI World and 10% MSCI EM.)

We also have a *North American Equity* composite, which returned 42.2%, compared to the benchmark of 29.9%. This portfolio is invested about 30% in Canada and 70% in the U.S. (The benchmark is 40% TSX and 60% S&P 500.)

The following chart shows the long-term performance of our strategies.

Composite	Since Inception			
	Strategy	Benchmark	Outperformance (per year)	
Disciplined Canadian Stock	9.1%	6.7%	2.5%	17 Years
Disciplined U.S. Stock (in US\$)	9.4%	11.2%	-1.8%	17 Years
Disciplined World Equity	13.6%	11.0%	2.6%	17 Years
Dividend Select World Equity	12.1%	9.8%	2.3%	14 Years
Disciplined North American Equity	14.2%	13.3%	9.2%	9 Years

Note: These returns are for stocks. Clients with less than 100% in stocks would have lower returns. These returns for strategies and benchmarks are before fees.

Valuations

Many investors are positioning for a boom under a Donald Trump presidency. While Trump certainly has influence, politicians don't control the stock market. Valuations are important predictors of long-term future performance. These have become stretched in the U.S., especially when looking at the trailing price-to-earnings (P/E) ratio (using company earnings from the past 12 months).

However, viewing forward P/E ratios (based on earnings expectations for the next 12 months), we see they don't look quite as bad. In 2020, forward earnings were about 21.4 times. At the end of 2024, they were 21.6 – about the same, despite the market

	Trailing P/E	Trailing Earnings Yield	Dividend Yield	10-Year Bonds*
Canada	19.6	5.1%	2.9%	3.2%
U.S.	27.8	3.6%	1.3%	4.6%
Europe	14.7	6.8%	3.3%	2.9%
Japan	14.8	6.8%	2.2%	1.1%
EAFE (Europe, Australasia, Far East)	15.1	6.6%	3.1%	2.3%
Emerging Markets	15.4	6.5%	2.6%	3.3%
World	23.0	4.3%	1.7%	4.3%

*Weighted average for regions

Source: Bloomberg

being about 90% higher. This is because, while stock prices were up, company earnings expectations kept pace. Earnings expectations could be wrong, but they could be too low as well as too high.

Much of that valuation premium on U.S. stocks comes from the largest stocks, otherwise known as the Magnificent Seven. These companies have high valuations for what seem to be solid reasons, but it also means there are plenty of better valued companies outside of these mega-cap stocks.

Magnificent Seven vs S&P 493

The Magnificent Seven consist of the seven dominant tech companies that have played a

financial performance. However, to note a few concerns, they are also more expensive, face regulatory issues and depend on innovation.

What about the other 493 companies in the S&P 500? The forward P/E ratio of the S&P 500 is about 22 times. The Magnificent Seven's is about 29 times – about 30% more expensive. The P/E of the other 493 companies is only 19 times, about 50% cheaper than the Magnificent Seven and 15% less than the index as a whole.

It was nice to see somewhat more distributed returns in 2024. We continue to take a diversified approach, believing in the quality, strength and growth prospects of the Magnificent Seven stocks – but also balancing them with a selection of more value-oriented companies.

We're halfway there

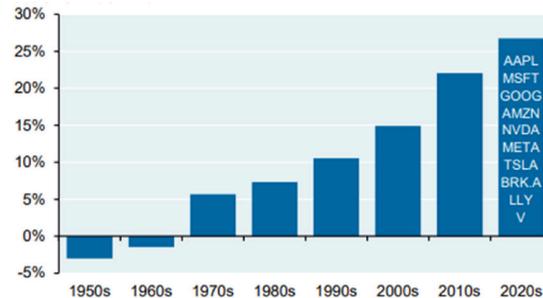
It's hard to believe we're already halfway through the 2020s. The S&P 500 is up nearly 100% in total for the decade, which is good enough for 14.5% annualized returns. But it wasn't a smooth path for the S&P 500 in the first five years of the 2020s.

We had a six-week bear market early in the pandemic, followed by a strong recovery through 2021 and then another bear market in 2022. So, while the gains this decade have been extraordinary, the 34% crash in early 2020 and the 25% bear market in 2022 did provide wonderful buying opportunities.

No one knows what will happen for the rest of the decade. But with near-15% annual returns for the first half of the decade, the S&P 500

would only need to see 5% annual returns for the rest of the decade to finish the 2020s at the long-term average of around 10% per year.

Free cash flow margins by decade for the ten largest stocks, 1952-2024, percent



crucial role in driving stock market growth for the past several years. They are the successor of the previous FAANG group.

Magnificent Seven stocks currently make up a staggering one-third of the value of S&P 500. In 2023, these seven stocks generated 76% returns, far outpacing the S&P 500's 24% gain. 2024 again saw huge rewards for these companies, but less so, as they "only" beat the S&P 500 by 22%.

The above chart shows how unique today's top 10 largest companies are relative to history. We've never before seen companies this big with margins like this.

Among other qualities, these companies possess market leadership, high growth potential and strong

What comes after a good year (or two)?

It won't always be like this, but it's nice to appreciate the good times while they are here. Nevertheless, good times are invariably followed by bad times. The positive news is that the good times have always more than made up for the bad.

Ben Carlson of Ritholtz Wealth Management has studied this phenomenon. Sometimes bad years like 2022 are followed by more bad years. Fortunately, 2023 was a good year and it was followed by another good year in 2024. Interestingly, good years in the market tend to cluster. The following chart above shows the S&P 500 since 1928, when double-digit gains

were followed with more double-digit gains. These 16 occurrences spanning 40 years works out to be about 40% of the time - more often than one would think.

Good years in the S&P 500 Tend to Cluster

1935	46.74%	1971	14.22%	1995	37.20%
1936	31.94%	1972	18.76%	1996	22.68%
1942	19.17%	1975	37.00%	1997	33.10%
1943	25.06%	1976	23.83%	1998	28.34%
1944	19.03%	1979	18.52%	1999	20.89%
1945	35.82%	1980	31.74%	2009	25.94%
1949	18.30%	1982	20.42%	2010	14.82%
1950	30.81%	1983	22.34%	2012	15.89%
1951	23.68%	1985	31.24%	2013	32.15%
1952	18.15%	1986	18.49%	2014	13.52%
1954	52.56%	1988	16.54%	2016	11.77%
1955	32.60%	1989	31.48%	2017	21.61%
1963	22.61%	1995	37.20%	2019	31.21%
1964	16.42%	1996	22.68%	2020	18.02%
1965	12.40%	1997	33.10%	2021	28.47%

Data: NYU

Now, you can't get too much reliable information from this. Year to year, good years can be followed by more good years or followed by bad years.

But looking at the long term of the past 95 years, the median 10-year total returns following 10%+, 15%+ and 20%+ up years were 173%, 234% and 188%, respectively. That works out to annual returns of 11%, 13% and 11%, respectively - which gives us more confidence about future returns, despite a good previous year.

Three or more consecutive years of double-digit gains are not that unusual. In fact, since 1942, they've occurred six times. Believing this will happen again, top economist Ed Yardeni forecasts the S&P 500 will increase 19% to 7000 by the end of 2025. However, Yardeni also expects a bumpier ride compared to recent years.

By contrast, Wharton Professor of Finance Jeremy Siegel expects the stock market to be less upbeat for 2025. "We've had two really fantastic stock market years. They exceeded my expectation this year with another 20% plus gain on top of what we had in 2023," Siegel says. "I expect it to be more muted [in 2025]. I see [growth in] equities being zero to 10%." A correction - a 10% drop - is certainly a possibility, he adds.

Inflation: the good, the bad and the ugly

Yardeni recently updated his Roaring '20s scenario: "We are still assigning a 55% subjective probability to the Roaring 2020s, 25% to a 1990s-style melt-up, and 20% to a bearish 'cauldron' that includes a geopolitical calamity - with the recognition that geopolitical crises don't seem to perturb the U.S. economy or stock market anymore."

The Roaring 2020s, if they do occur, would be a sustained upward movement in stocks led by improved earnings (55% probability). This would involve a technology-fuelled productivity growth boom that boosts

real GDP growth, keeps a lid on inflation and increases real labour compensation and wider profit margins.

A 1990s-style melt-up would be a bubble that takes stocks much higher, much quicker. Yardeni estimates a 80% likelihood of these two scenarios happening together (i.e., the bullish case). A melt-up could lead to more inflation and rate hikes, which could then fuel a meltdown.

There also remains a 20% chance we'll hit some major bump in the road, which could lead to a significant drop. Such bumps could include a tariff or currency war, a U.S. treasury debt crisis or a rebound in inflation, possibly leading to higher interest rates and geopolitical crises. We need to be prepared for these possibilities, too!

It's possible that a productivity boom in the U.S. would extend to Canada. This seems more likely now with: 1) the new-found focus in Canada in restricting immigration; 2) forthcoming policies of Trump towards reducing taxes and regulation (and the need for Canada to at least partially follow suit); and 3) big changes coming in Canadian federal politics. Canadian stocks are much cheaper, with more room for improvement, so it wouldn't be a huge surprise if Canadian stocks outperformed relative to U.S. stocks going forward.

Reasons to be optimistic

1. There have been only six bear markets in the past half-century and on average they lasted only a bit more than a year.
2. One reason bear markets are infrequent is that they are usually caused by recessions. Since World War II, eight of the 10 bear markets have coincided with recessions.
3. Recessions are infrequent and don't last that long. In the U.S., according to the National Bureau of Economic Research (NBER), the average U.S. recession over the period from 1854 to 2020 lasted about 17 months. Since World War II, from 1945 to 2023, the average recession has lasted only 10 months. Since 1945, there have been 12 recessions, which works to just 13% of that time span.
4. Post-World War II, bear markets on average have taken 13 months to go

from peak to trough, and 27 months for the stock price index to recover. For that time frame, the average decline average is 33%.

Bear markets and recessions are an important function for bull markets and the economy. They help to flush out irrational exuberance, and allow stock prices and economic growth to resume their climb on sounder footing.

Frothy but not nutty

Howard Marks of Oaktree Capital Management is famous for calling the top of the dot-com bubble 25 years ago. Marks recently discussed the U.S. stock market and bubbles, noting that many investors, concerned about a repeat of past booms and busts, are on heightened alert for price bubbles.

He pointed out that, while the market's valuations are high, it's really investor psychology that worries him. When people believe that the good times will never end, they're willing to pay high prices for the best-performing stocks - but when the ride eventually comes to a stop, the downturn can be sudden and painful.

Marks says bubble thinking comes from "newness" or "this time it's different" thinking. For example, in the 1990s, investors were sure that the Internet would change the world. They weren't wrong, but such bubble thinking got taken too far, too soon, as the vast majority of dotcom companies ended up worthless. "There's usually a grain of truth that underlies every mania and bubble," Marks acknowledges. But, when "something is on the pedestal of popularity, the risk of a decline is high. When people assume - and price in - an expectation that things can only get better, the damage done by negative surprises is profound."

Marks says today's leading companies are in many ways better than the best companies of the past, as they enjoy technological advantages and scale. But persistence isn't easily achieved, as change seems to be more the rule.

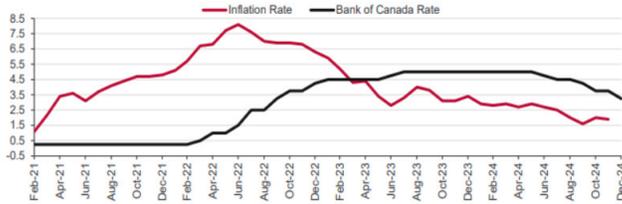
Some see a cautionary sign in the enthusiasm being applied to the newest shiny object, artificial intelligence (AI) - and the widespread assumption that the Magnificent Seven will continue to succeed. However, Marks feels that "the markets, while high priced and perhaps frothy, don't seem nutty."

However, this could change, and it would be wise to remember his warnings especially if Ed Yardeni's 1990s-style melt-up scenario comes to pass over the next few years.

Inflation

Inflation was a huge problem just a few years ago, with close to double-digit rates of price increases. Fortunately, we've seen most of that dissipate. Today we are in the more normal 2 to 3% range, rather than the 8 to 10% that most of the world experienced. So, a big problem has been removed, and that's a reason central banks around the world have lowered interest rates.

Bank of Canada Rate and Canadian Inflation Rate



Source: Bloomberg. Data as of December 18, 2024

It has been a bit trickier in the U.S., however. Inflation hasn't come down quite as much, currently around 3% instead of a firm 2%. Things could get worse. Tariffs could increase prices, as could faster economic growth, including those from policy changes or tax cuts. Overall, while most central banks seem poised to continue to cut rates, this seems less likely in the U.S.

Trump tariffs

Deglobalization has been a trend in the last few years, as protectionism increased and relations frayed. Trump has threatened large tariffs on goods entering the U.S. from many countries: 60% for China and 25% for Mexico and Canada. A tariff, a tax levied on goods as they enter the country, is seen as a way to boost the U.S. economy and protect U.S. jobs by making imports more expensive. If the full force of these tariffs is applied, it could be a material blow to economic growth – maybe even recessionary for Canada and Mexico, which are very closely linked to the U.S.

Tariff threats plus interest rate cuts in the Canada and political uncertainty have resulted in the Canadian dollar falling to its lowest level in four years, and below the psychologically important 70-cent mark.

Ultimately, lots will depend on when and to what extent the Trump threats get implemented. But, as of now, we view the tariff threat as more of a bargaining position, and that likely only part of the threat will actually be applied. While tariffs could result in some deterioration of growth for Canada, Canadian companies could indirectly benefit if U.S. tax cuts and less regulation lead

to similar policy changes in Canada.

Tariffs could also be inflationary for the U.S., as tariffs will likely be passed on to the final consumer. And they could disrupt U.S. manufacturers, who depend on imported materials. So, there's a lot of uncertainty around exactly what products the tariffs will apply to and how permanent they will be.

According to Siegel, Trump is unlikely to act in ways that would purposely hurt stock market sentiment.

Trump, says Siegel, "is the most outspokenly pro-stock market president we have ever had." Believing Trump measures his success as a president on how well the stock market does, Siegel adds, "It would be surprising to me if he pursued policies that were highly detrimental to the economy, because that would be reflected right away in the stock market."

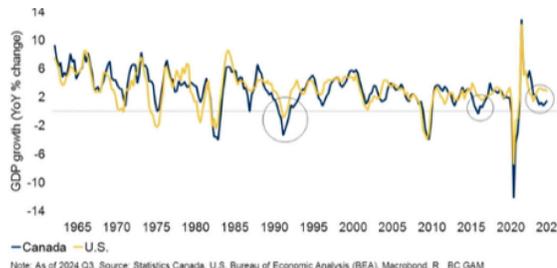
Canadian economy

The Canadian economy has been slow as of late, with some growth but not a lot. Productivity has also been declining and unemployment is higher than it was two years ago.

Excessively high immigration has been blamed for lower productivity, higher unemployment and lack of housing. However, recently enacted immigration policies have been reversed, which hopefully will improve all of these. Also, the Bank of Canada has been aggressively cutting interest rates – more than any other developed world central bank – which should be a boost for an interest-rate-sensitive economy. Of course, the questions surrounding tariffs remain.

Another big question is the upcoming federal election scheduled for this October, if not sooner. As a result of an election, we might get more growth and business-friendlier policies.

Canadian and U.S. growth normally move in sync



Note: As of 2024 Q3. Source: Statistics Canada, U.S. Bureau of Economic Analysis (BEA), Macrobond, R. BC GAM

Canada lagging behind the U.S.

Looking at historical U.S. vs Canadian growth, the two countries are generally intertwined. There are some notable deviations: the late 1980s and the mid-2010s. In both cases, Canada underperformed and then caught up again. Canada has been recently underperforming, but if history repeats, maybe we'll see the Canadian economy catch up again.

Looking ahead

Looking ahead, Canada faces a mixed outlook. While declining interest rates may stimulate investment and consumer spending, Canada is also faced with declining productivity, high housing costs and trade uncertainties linked to the new U.S. administration. A weaker Canadian dollar should help offset tariffs and spur some increased foreign investment in Canada. As well, a weaker dollar could be a catalyst for tax and regulation changes more favourable to the economy and businesses going forward.

While U.S. valuations are high, earnings have also been very good. So, we're still comfortable staying invested, though things could become challenging. We are also reassured by better valuations in the rest of the world. The key is to guard against temptations to stray from well-established philosophies and processes. It's worth reminding our readers that the Stan Clark Financial Team doesn't rely on impossible attempts to predict the future. Rather, we aim to build diversified portfolios coupled with resilient financial plans. Together, these can adapt and adjust to whatever the future brings.

Uncertainty and volatility will always be around. They're just part of investing. But our approach will remain consistent, which includes having a sound plan with an established set of sensible guidelines to help us responsibly steward our clients' investments through uncertainty.



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Disclaimer:

Performance results in this document are based on a composite of CIBC Wood Gundy Advisor Managed Account (“AMA”) retail accounts with more than \$75,000 invested in the “Disciplined Canadian Stock strategy” (created in March 2008 and includes AMA performance data from May 1, 2008, two months after the Strategy’s inception in the AMA program), “Disciplined U.S. Stock strategy” (created in March 2008 and includes AMA performance data from May 1, 2008, two months after the Strategy’s inception in the AMA program), “Disciplined World Equity (CAD) strategy” (created in November 2008 and includes AMA performance data from January 1, 2009, two months after the Strategy’s inception in the AMA program), “Dividend Select World Equity strategy” (created in November 2010 and includes AMA performance data from January 1, 2011, two months after the Strategy’s inception in the AMA program), “Disciplined North America Stock strategy” (created in November 2015 and includes AMA performance data from January 1, 2016, two months after the Strategy’s inception in the AMA program).

The composite includes open fee-paying discretionary managed accounts where the Strategy has been held for at least two months, through a purchase or a switch from another investment or a different AMA strategy. Also included in the composite are closed accounts that held the Strategy, up to the last full month the Strategy was held.

Composite performance returns are geometrically linked and calculated by weighting each account’s monthly performance, including changes in securities’ values, and accrued income (i.e., dividends and interest), against its market value at the beginning of each month, as represented by the market value at the opening of the first business day of each month. This Strategy can be purchased either in U.S. or Canadian dollars. Unless specified otherwise, performance returns in this document are expressed in Canadian dollars and are calculated by converting U.S. dollar accounts into Canadian dollars using the month-end Bank of Canada noon rate. Performance returns are gross of AMA investment management fees, and other expenses, if any. Each individual account’s performance returns will be reduced by these fees and expenses.

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