

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES



IN THIS ISSUE:

- Pg. 1 The future is better than you think
- Pg. 2 Team Talk
- Pg. 2 Quarterly Economic Update: So far, so good
- Pg. 6 SCFT Trivia

Volume 16 – Issue 7 October 2025



STAN CLARK

Senior Wealth Advisor

“If it bleeds, it leads.” As the news business has long understood, scary headlines attract attention. Not that humans’ natural negativity bias isn’t useful. Being aware of something that’s wrong encourages us to fix it. However, as I point out in this month’s behavioral finance article, too much negativity can cause us to lose faith in the progress we’ve achieved. And, in our Quarterly Economic Update, Michael Chu and I review 2025 so far – and note that, despite all the tumult going on, stocks worldwide have done well.

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.

Behavioral Finance

THE FUTURE IS BETTER THAN YOU THINK

By Stan Clark, Senior Wealth Advisor

Sometimes it’s hard not to feel pessimistic about the future. After all, bad news surrounds us – and in our modern, connected world, that news seems to hit in an endless stream. There are concerns about: climate change destroying our planet; threats of nuclear war; polarized politics; and continued intolerance of people of different races or religions, or with different lifestyles. The list goes on. And on...

But is our world as bad as it seems? Are things really getting that much worse?

Let’s step back, take a clear look at objective data and a longer-term view of history. Far from getting worse, the world has actually been getting better in almost every area of human endeavour – from life expectancies, poverty and equal rights to safety, quality of life and the environment.

Now let’s consider the coming advances in so many areas, such as artificial intelligence (AI), alternative energy, food production, health technology and water purification. From all the above, we should have every expectation that future progress will continue, and even accelerate, into a world of abundance.

Why, then, this disconnect between our perceptions, “our feelings,” and more objective assessments of the past and the future?

Unfortunately, human nature and the way our brains are wired make *negativity bias* nearly inevitable. Our ancestors survived by paying extra close attention to fearful things. That makes us naturally more attuned to the negative than to the positive.

The media are well aware of this predisposition. They cater to our instinctive bias for their own

profit. The time-proven rule in the news business is: “If it bleeds, it leads.” Put simply, bad news sells. Not surprisingly, an analysis of the media revealed that the majority of news reports are negative – and this negativity has been increasing over the last several decades. The news media’s greater focus on the negative, in turn, leads our subconscious minds to do the same.

Media reports also focus on the unusual and the novel, which appeals to another human predisposition. Through our *availability bias*, we naturally feel that what the news highlights is more common than it really is. Social media algorithms also feed on these same biases. With all this in mind, no wonder our perceptions are more negative than reality!

Is this negative distortion good or bad? There are certainly good aspects. To some extent, having a negative outlook helps us avoid modern “tigers in the bushes.” Negativity can prevent us from incurring some injuries or losses. And keeping the world’s attention focused on negatives motivates us to fix the problems that still exist. So, there’s a case to be made that our negativity bias deserves credit for much of the progress we’ve seen in the world.

But negativity also has a downside. It can be unpleasant, even downright depressing. As well as potentially making our lives miserable, negativity can also, if exaggerated, become demotivating. Why bother trying to fix things if they’re too bad to be fixed? Further, we may become so negative that we lose faith and backtrack in the very areas that have contributed to our progress. This last effect seems to be happening to some extent with our current



TEAM TALK

Michael Chu
Senior Wealth Advisor



Salmon fishing in Vancouver (Sept. 2025)

How has your summer been?

As usual, summer goes by too fast. I'm glad we've had a bonus few weeks of sunny weather. This summer has been filled with a lot of activities including hockey and biking. Hockey in the summer is especially fun because it's nice and cool in the rink and then it's milder outside by the time you leave.

Any upcoming vacations?

Yes! As you read this I'll be in South Korea. I've never been before but am looking forward to the food, culture and sights. Will be spending most of the time in Seoul plus a few days in coastal city Busan. Apparently October is one of the best times to visit as the weather should be quite mild. One of the big highlights for me will be a day trip out to the DMZ (demilitarized zone) which is the buffer between North and South Korea. Where else can you see one of the most heavily armed borders that doubles as a tourist attraction!

political atmosphere.

So, while we shouldn't be too negative about negativity, maintaining a healthy balance is important. The Stan Clark Financial Team will do our part to maintain that balance. We'll devote our next issue to a more thorough review of the positives in the world – and reasons for optimism about the future. And, we'll send this to you in early December, just in time for the holiday season.

Quarterly Economic Update

SO FAR, SO GOOD

By Michael Chu, Senior Wealth Advisor

It feels like much more has happened this year than normal. Yet 2025 has gone by fast – we're already talking about Christmas!

In this *Quarterly Economic Update* we discuss the markets for the third quarter of 2025.

At the start of the year, many investors were downplaying the potential for returns. Given that 2023 and 2024 were both strong years for stocks, it wouldn't have been a surprise if markets had given back some gains in 2025 – especially with two ongoing wars, shocking tariffs and increasing U.S. government debt. Despite all this, stock markets around the world did well. At home, the TSX was up 12.5% in the third quarter of 2025. The World Equity Index, a gauge of stocks around the world, was up 9.7% (in C\$).

	Q1 2025	Q2 2025	Q3 2025	YTD 2025
Canada (S&P/TSX)	1.5%	8.5%	12.5%	23.9%
U.S. (S&P 500)	-4.3%	4.9%	10.6%	11.1%
Europe	10.8%	4.3%	5.6%	22.0%
Japan	-5.5%	12.1%	11.4%	18.0%
EAFF (Europe, Australia, Far East)	6.9%	5.7%	7.2%	21.1%
Emerging Markets	2.9%	5.9%	13.2%	23.4%
World	-1.8%	5.4%	9.7%	13.6%

Source: Bloomberg

Valuations

Today's forward (expected) price-to-earnings (P/E) ratio in the U.S. is 22.8x earnings. That is definitely on the high side. But if you look at other countries like Canada, valuations are much cheaper compared to the U.S. So far in 2025, this has translated into better returns for the cheaper countries.

	Forward P/E	Forward Earnings Yield	Dividend Yield	10-Year Bonds*
Canada (S&P/TSX)	17.3	5.8%	2.4%	3.2%
U.S. (S&P 500)	22.8	4.4%	1.2%	4.2%
Europe	14.6	6.8%	3.0%	3.0%
EAFF (Europe, Australasia, Far East)	15.2	6.6%	2.9%	2.6%
Emerging Markets	14.0	7.1%	2.4%	3.3%
World	20.4	4.9%	1.6%	3.9%

Source: Bloomberg

*Weighted average for regions



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.

Record territory

One of today's big questions is: Why is the stock market up so much in the last few years? There are lots of factors you can ascribe to this: economic growth, human emotions, interest rates, demographics – and the list goes on. In the 2010s most people thought low interest rates were propping up the market. Today the AI boom seems to be powering everything.

But it all boils down to corporate earnings. In the 2020s, earnings have so far been growing by about 10% per year. That's much higher than the long-term average of 5%. Consumers and businesses are spending money, and profit margins are growing. Nothing lasts forever, but this current bull market is being carried mostly by earnings and earnings growth. So, while the stock market is at record highs, earnings have almost kept pace to keep valuations justifiable.

Let's get caught up

At the end of 2024, the forward P/E ratio (the ratio of price to the estimated earnings over the next year) of the S&P 500 was 23, significantly above its historical average. At that time J.P. Morgan put out a graph that showed if you bought the S&P 500 at a forward P/E of 23, your average returns for the next 10 years would be between 2% and -2% per year. This study focused on 1987 to 2014, the only period from which there's data for forward P/E ratios and subsequent 10-year returns.

P/E ratios aren't everything, but the study boded pretty poorly for the prospects of the S&P 500. According to Howard Marks¹, overall this was somewhat worrying, but not threatening. The key difference, in Marks's view, is that the temporary mania or "irrational exuberance" usually accompanying or giving rise to bubbles wasn't present.

U.S. stocks were down about 10% in the first quarter of 2025. This was mainly due to:

dramatic new government policies in the U.S.; concerns that China's DeepSeek would upend the AI industry; higher-than-desired inflation; and worries about valuations. Then, in April, came the announcement of tariffs much higher and broader than anticipated. Investors quickly concluded that tariffs were likely to cause more inflation, slow economic growth and the U.S. to be less favourably viewed by both other nations and investors. The result was a sharp drop in the S&P 500, down 15% since the beginning of the year. Bond investors reacted as well, driving up 10-year yields from 4% to 4.5%.

But since the low on April 8, the S&P 500 has risen 29%, putting it up 9% to the end of September (in US\$). A lot of this gain could be a "relief rally," as trade deadlines were extended and tariffs reduced, with inflation from tariffs yet to materialize. In short, the tariff picture is not as bad as when originally announced. Investors were also encouraged by expectations of higher earnings, the passage of the tax and spending bill, foreign investment deals and potential benefits from AI spending.

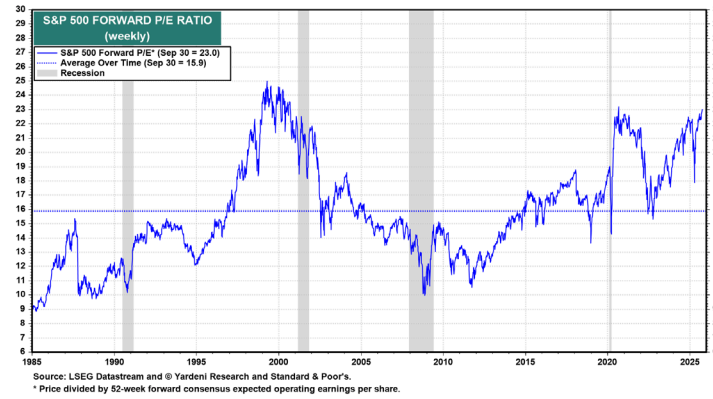
Bubble watch

Can you believe it's been 25 years since the dot.com bust? With markets again in record territory, it's natural to think that we could be in a bubble. But even though P/E ratios are on the higher side, they're not as high compared to those of the dot.com bust.

And there's more to consider than just P/E ratios. Other indicators of an overpriced stock market include:

1. Warren Buffett's favourite indicator, the ratio of market capitalization of U.S. stocks to Gross Domestic Product (GDP), is at an all-time high. It's also worth noting that many companies have gone private, so this indicator is even more elevated than it appears.
2. The relationship between 10-year interest rates and dividend yields on the S&P 500 shows stocks being expensive in historical terms.
3. The so-called "meme stocks," stocks favoured by retail investors who don't necessarily think in terms of fundamentals, have attracted heightened attention lately.
4. Yield spreads – the incremental yields investors demand if they are going to lower credit debt – are approaching all-time lows, indicating an elevated level of risk tolerance.

These are some of the indicators that point to a lofty market. But how does today's market



compare to that of the dot.com era? The current S&P 500 forward P/E ratio is about 23. The average for the last 40 years (since 1985) is 15.9, so it is now quite elevated. But at the peak of the dot.com boom, the P/E ratio was 25. So there's some leeway today from that perspective.

It's interesting to note that the biggest crash in recent history was the Great Financial Crisis – but that started with relatively normal valuations in 2007. It's just that no one saw corporate earnings were about to collapse.

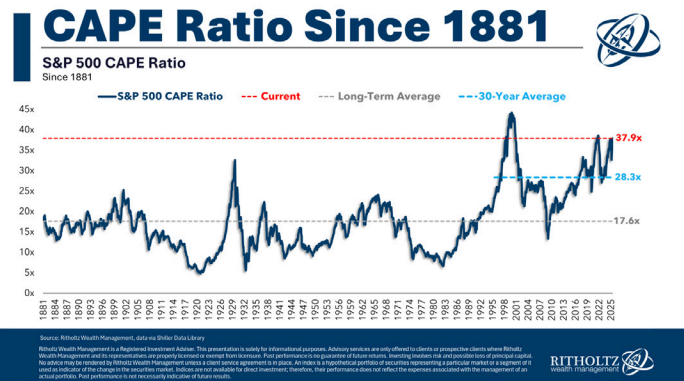
Many investors are concerned about *reversion to the mean*. This is where both above-average and below-average tend to move back to average over time. In other words, what goes up must come down and vice versa. But in reality things are not that simple. Sometimes reversion proceeds very slowly – it might take several years. Secondly, reversion doesn't necessarily settle at the mean; it might go past it or float around it. Finally, the mean itself might change. For example, is the mean based on the 100-year average? Or maybe things have changed and it should be based on the 10-year average?

CAPE ratio

Below is a graph of the cyclically adjusted price-to-earnings, or CAPE, ratio since 1881. CAPE is similar to the regular P/E ratio we always discuss, but it uses the average 10-year

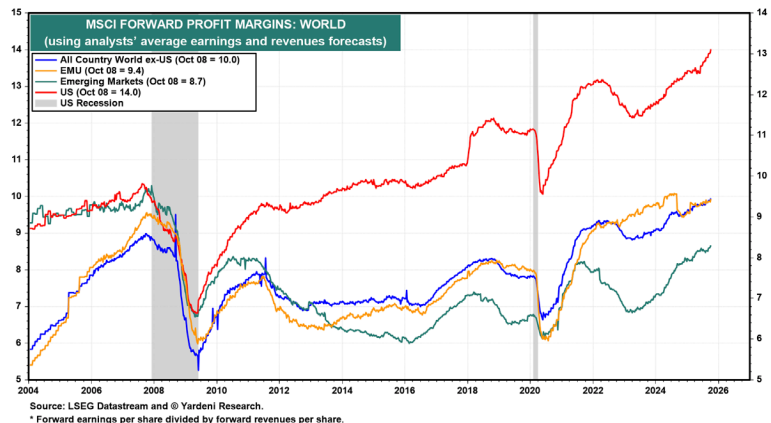
earnings, adjusted for inflation, instead of current earnings. CAPE's "advantage" is that it gives us a smoother reading of earnings valuations – but that also means it's slower to react.

As you can see in the graph, the current CAPE is 37.9x compared to the 144 year average of 17.6x. That seems like an extreme overvaluation today. But the 30-year average is 28.3x – still expensive today, but not as bad.



So which is more relevant? The thing is, valuations have been trending higher for decades. One reason is that the index composition has changed over time. Companies used to be more capital-intensive and lower-margin. Today's companies are far more efficient and have more intangible assets. The S&P 500 originally consisted mostly of industrial, utility and railroad companies. Today's S&P 500 is 35-50% tech or tech-related companies. You don't want to always say things are different, but in this case some things *are* different and may not revert.

The following graph shows the trend of improving profit margins for U.S. companies.



Since the Great Financial Crisis in 2008/09, the U.S. has outpaced the rest of the world. This helps justify at least part of the elevated valuations of U.S. companies relative to their international counterparts.

Magnificent 7

Still, even if we look at more recent averages, valuations are still elevated. Most of the overvaluation is concentrated in the mega-cap tech stocks, a.k.a. "the Magnificent 7." On a forward P/E basis, the Magnificent 7 are 30.5x, while the remaining 493 companies are around a much more reasonable 19x.

On one hand, with the Mag 7 we have never seen companies before that are so big yet efficient with such high-profit margins. So as long as the earnings growth is there, maybe they do deserve those higher valuations and everything will still be fine. And if we want to offset or balance our portfolio with some cheaper companies, then there are many of those, too.

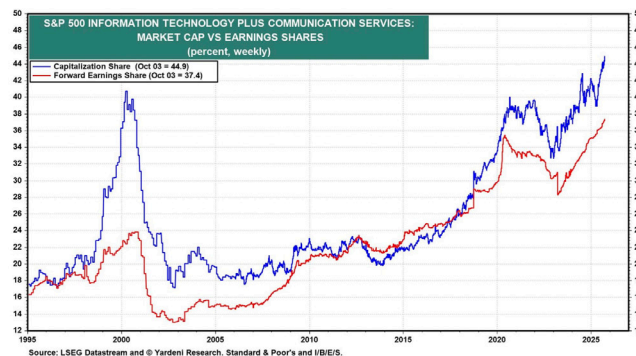
Roaring 20s

Top economist Ed Yardeni's Roaring 20s outlook has been on track since the beginning of the decade. We're not big on forecasts, but Yardeni is raising his year-end target back to 7000 (up another 5% from now). Yardeni started the year with a 7000 target but lowered it during the tariff turmoil. He has now concluded that the tariff issue will no longer impact the stock market and the resilience of the economy will continue to boost earnings. In the U.S. over the past two quarters, GDP growth and consumer spending have been robust, and the widely anticipated recession for the last three years never showed. Yardeni's recession forecast odds have dropped significantly, from around 60% in April 2025 to just 7% at the end of September.

Yardeni thinks the V-shaped recovery of the stock market since April is due to the economy's resilience. He attributes the market's current slow-motion melt-up to the recent interest rate cut and to expectations of further cuts. Yardeni recently increased the odds of a melt-up from 30-35% and reduced his base case of a sustainable bull market to 50% from 55%. His odds of a correction (or worse) remain at 20%.

Further, Yardeni recalls that when the tech bubble inflated in 1999, there wasn't as much chatter about a bubble compared to today. From a contrarian perspective, it is comforting that there is a "bubble in bubble fears." The Google search index for "AI bubble" rose from "low interest" in September to maximum "peak popularity" on October 2.

The U.S. Federal Reserve cut interest rates in September in response to weak payroll stats. Yardeni thinks the Fed's move might be a mistake due to strong GDP data; he fears the cut could stoke inflation and financial speculation. He also thinks that, with Baby Boomers working down their substantial nest eggs, consumer spending should remain strong.



The bubble in tech-related companies has less air than compared to 1999, which adds some comfort. Today tech and communication stocks represent 45% of the S&P 500 market capitalization, and a record 37% of the indexes' forward earnings. During the tech bubble of 1999, the stocks' market capitalization peaked at 41% and 24%, respectively. So the high share of market capitalization is much more supported by earnings now than in the tech bubble of 1999.

What about Canada?

Canada's stock market has so far done very this year, especially compared to the U.S. Still, it doesn't feel like our economy is particularly strong. Canada faces economic headwinds from slowed population growth and rising tariffs. And, over a quarter earlier this year, our economy did shrink. A recession, often defined as two consecutive down quarters, could be on the table. However, the latest GDP data shows improvement – so there are no givens either way.

U.S. trade policy uncertainty has declined substantially, from unbelievable heights earlier in the year to a much lower, but still significant, level. Canada's recent infrastructure push should help our own economy. But Canada's immigration reversal has caused population growth to slow to almost nothing, and that will limit economic growth. This may motivate the Bank of Canada to cut interest rates more.

Productivity growth

Jeremy Siegel, Emeritus Professor of Finance at The Wharton School², has been supportive

of rate cuts over time. Siegel reasons that the economy doesn't require restrictive rates while inflation is in a low 2-3% band. He feels rate cuts should also help normalize the yield curve – which should help stocks, particularly the market's rate-sensitive segments.

According to Siegel, productivity data has been mixed. He notes there's been a rebound

in the second quarter, but still below the 2%+ trend we've had since 2014.

That's not the surge tech enthusiasts hoped for – yet. Hopefully the AI push will help offset tariff-related costs, but this will take time.

Siegel believes lower rates are good for stocks, and that a slowing of the economy will help keep a cap on any exuberance.

His base case sees the S&P 500 gridding higher into

year-end. And if productivity re-accelerates, Siegel says we could have the best of both worlds: disinflationary growth with valuation expansion.

U.S. government shutdown

As we write this, Republicans and Democrats are struggling to agree on a budget for 2026. Because the government is not funded, non-essential work is shut down. The last shutdown was in 2018/19 – at 35 days, the longest in history. But that shutdown was only a partial one compared to today's full shutdown, meaning the short term economic impact might be heavier this time. However, the economy does tend to bounce back after shutdowns.

Just passing through

The average U.S. tariff rate is now around 18%, up from around 3% at the start of the year. How come U.S. inflation and the prices of everything aren't also 18% higher? For a few different reasons, the impact to the consumer is significantly less. Firstly, if a tariff gets applied to a good, the wholesalers and retailers aren't necessarily applying their markups to the tariff. For example, if there were a 100% markup on shoes, the consumer would only see a 9% price increase from the tariff.

Secondly there's *burden-sharing*, meaning that the manufacturer absorbs some of the tariff. Maybe that 9% can drop by 1/4 or so to 7%. Thirdly, not all goods are imported – in fact, around 2/3 of goods are not – so no tariffs on those goods. Finally, of what consumers buy, only 1/3 are goods; the remaining 2/3 are

services, which are tariff-free.

Now you see how an 18% tariff can be whittled down to 1-2% percent overall. Perhaps that's why we're not seeing much inflation despite tariffs – at least not yet.

Looking ahead

Stock markets continue to be strong, with pockets of weakness seen as unimportant. Even gold, which is typically associated with risk, is at record highs and yet has not dampened the exuberance for stocks. Unprecedented capital spending in AI has dominated earnings growth and market returns for the last few years. This theme can continue for some time and maybe longer than many would anticipate. But it also carries the risk of a bubble forming

or misallocation of capital if enthusiasm outpaces fundamentals.

The road ahead will have its twists and volatility, but our approach remains the same: Prioritize resilience over reaction and discipline over distraction. The ongoing trade disputes underscore the importance of a diversified portfolio by industry and geographically around the world. It may not be easy, but companies as well as countries will adjust – giving us continued faith in investing based on disciplined methods, coupled with asset mixes determined by your financial plan. This will help you stay resilient in these unusual times.

¹www.oaktreecapital.com/insights/memo/the-calculus-of-value

²www.resources.wisdomtree.com/weekly-siegel-commentary



Michael Chu is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Michael specializes in investment research and information technology.

SCFT Trivia

Trivia Time!

Thank you for reading this month's newsletter. Test your knowledge with our trivia questions! Each question relates to one of the articles featured in this edition. See how many you can get right, and check your answers at the bottom of the page. Good luck and happy quizzing!

Hint: You can find the answers inside this newsletter.

1. If you believe the news, almost everything that's happening is bad. Should we feel negative?
 - a) Yes and no, because it's 50-50. Bad and good things are occurring in equal measure.
 - b) No, because the world is getting better in almost every area of human endeavour, from life expectancies, poverty and equal rights to safety, quality of life and the environment.
 - c) Yes, because the news accurately reflects what's going on around us.
 - d) Yes, so it's best stop paying attention to the news.

2. Are there ever advantages to feeling negative?
 - a) Having a negative outlook can prevent us from incurring some injuries or losses.
 - b) Acknowledging that there are problems motivates us to fix them.
 - c) To some extent, having a negative outlook helps us avoid modern "tigers in the bushes."
 - d) All of the above.

3. Why is the stock market up so much in the past few years?
 - a) It all boils down to corporate earnings. In the 2020s, earnings have so far been growing by about 10% per year. That's much higher than the long-term average of 5%.
 - b) Everyone's panic-investing, hoping to make a profit before the dreaded U.S. tariffs destroy the economy.
 - c) We're in a bubble. Watch out! It'll soon burst.
 - d) Baby Boomers have so much in savings they're dumping them all into stocks.

4. Warren Buffett's favourite indicator is the ratio of market capitalization of U.S. stocks to Gross Domestic Product (GDP). Right now the ratio is at an all-time high – a good sign indicating that stocks might be overpriced.
 - a) True
 - b) False

Answers: 1. B, 2. D, 3. A, 4. A

CIBC WOOD GUNDY

The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca

CIBC Private Wealth consists of services provided by CIBC and certain of its subsidiaries, including CIBC Wood Gundy, a division of CIBC World Markets Inc. The CIBC logo and "CIBC Private Wealth" are trademarks of CIBC, used under license. "Wood Gundy" is a registered trademark of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives may receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. Please note that rate of return projections are for demonstration purposes only. They are based on a number of assumptions and consequently actual results may differ, possibly to a material degree. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns, including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed. Their values change frequently, and past performance may not be repeated. This commentary is for informational purposes only and is not being provided in the context of an offering of any security, sector, or financial instrument, and is not a recommendation, an endorsement, or solicitation to buy, hold or sell any security. Stan Clark and Michael Chu are Investment Advisors with CIBC Wood Gundy in Vancouver. The views of Stan Clark and Michael Chu do not necessarily reflect those of CIBC World Markets Inc. © CIBC World Markets Inc. 2025