

## Team Newsletter – August 2025

### State of the Market – August 2025

From the desk of Gerdi Lito, CFA  
Portfolio Manager, Manulife Wealth Inc.

This year's market journey has been anything but dull. We've seen record highs, sharp drops, and an equally sharp rebound — all within a few short months. Whether you've been watching closely or just catching headlines, it's been a reminder that markets can move quickly, and often in surprising ways. Here's a look at what's been happening, what's driving these moves, and what we're watching for the rest of the year.

#### 1. Volatility and Uncertainty

This year has been one of the most turbulent for markets in recent memory. The U.S. stock market started strong, carrying over last year's momentum, and the S&P 500 reached a record high of 6,117 on February 19.

Soon after, markets fell sharply when the U.S. government introduced global tariffs. By April 8, the S&P 500 had dropped to 4,835 — a 21% decline from its peak — officially entering “bear market” territory (a drop of more than 20%).

What followed was one of the fastest recoveries on record. By August 21, the S&P 500 had climbed to 6,370, about 4% above its February high and up 8.74% for the year. While a 10% annual return is typical for stocks, the size and speed of this year's swings are anything but normal.

Canada's market followed a similar path, with the S&P/TSX Composite Index up 12.74% year-to-date, and the MSCI World Index showing a 11.89% gain.

*Data source: YCharts, August 21, 2025*

*Disclaimer: It is not possible to invest directly in an index. Past performance does not guarantee future results. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States.*

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*The S&P/TSX Composite Index is the benchmark Canadian index that tracks the performance of companies listed on the Toronto Stock Exchange (TSX). The MSCI World Index tracks the performance of publicly traded large- and mid-cap stocks of developed-market companies. It is not possible to invest directly in an index.*

## **2. What's Driving the Market**

In the U.S., large technology companies are leading the charge, with the tech sector delivering the strongest performance so far. Strong earnings have kept share prices rising, even though the Federal Reserve has yet to cut interest rates in 2025.

The communication services sector — home to social media and streaming giants — has also posted strong gains, helped by companies like Meta Platforms and Netflix. Financials, particularly banks, have extended last year's rally, supported by regulatory changes. Industrials are surprising with solid growth despite tariff concerns, especially defense contractors. Utilities are also benefiting from surging electricity demand, driven in part by energy needs for AI data centers.

In Canada, mining stocks are leading the way thanks to higher gold prices. Dividend-paying stocks in banking, utilities, and telecom have also gained as lower interest rates push investors toward steady income sources.

Globally, international markets are outperforming U.S. stocks for the first time in years. European stocks are leading, boosted by lower valuations, aggressive interest rate cuts from the European Central Bank, and increased government spending on defense and infrastructure.

## **3. Outlook for the Rest of the Year**

We see more potential risks than opportunities over the next few months:

- **Tariffs** remain a threat, even though trade deals appear to be in the works. Their full impact on consumers and businesses may not be felt for months.

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- **Market concentration** is high — large technology companies now make up nearly 35% of the S&P 500. While demand for AI has fueled strong results, valuations are becoming stretched.
- **Economic slowdown** signs are emerging, particularly in the job market.
- **Geopolitical tensions** remain elevated, from trade disputes to ongoing conflicts.

On the positive side, possible interest rate cuts from major central banks could help extend the rally, especially if risks remain contained.

In bonds, yields are likely to fall if the U.S. Federal Reserve and the Bank of Canada reduce rates further this year.

**Our positioning:** We remain cautious and continue to emphasize technology alongside stable, defensive sectors such as utilities, consumer staples, Canadian banks, and medical equipment. We have also been adding defense contractors, as we expect continued growth in military spending worldwide.

## **A Stronger Canadian Dollar: What It Means for your U.S. Investments**

**From the desk of Jordan Pereira**

**Financial Advisor Associate, Manulife Wealth Inc.**

For the first time since 2020, the Canadian Dollar has appreciated compared to the U.S. Dollar. As of January 1, 2025, the exchange rate was approximately USD\$0.695/CAD. By August 21, 2025, it had shifted to USD\$0.72/CAD (data sourced from YCharts on August 21, 2025) – a roughly 3.6% increase in the value of the Canadian Dollar.

### **How Does This Impact Your Investment Statements?**

Because portfolio statements are denominated in Canadian dollars, a stronger CAD directly influences how your U.S.-denominated investments appear. When your accounts are consolidated, U.S. assets are converted into Canadian dollars. As a result, your statement may show a “paper loss” due solely to currency exchange – not because the investments themselves declined in value.

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For example, let's say you own USD\$10,000 of Pepsi shares. If the stock price rises from USD\$100 to USD \$102 per share (a 2% increase), your consolidated statement may still show decline in value in Canadian dollar terms, simply because of the change in the exchange rate.

It is important to remember that these are not realized investment losses. The decline represents only the impact of a stronger CAD when translating your U.S. assets back into Canadian dollars. Unless you sell those assets and convert them to CAD, no actual loss is realized.

If the Canadian dollar weakens again in the future, some or all of this "paper loss" could reverse.

## **Final Thoughts**

Reviewing your statement in this context ensures you interpret currency-driven changes correctly and stay focused on your long-term investment strategy, rather than reacting to short-term currency shifts.

## **What are Stablecoins?**

**From the desk of Evan Campbell**

**Financial Advisor Associate, Manulife Wealth Inc.**

A stablecoin is a type of cryptocurrency designed to match the value of a traditional asset, such as the U.S. dollar. The goal is to avoid the big price swings seen in other cryptocurrencies, making them more practical for payments, savings, and trading.

The U.S. recently passed new cryptocurrency legislation, known as the **GENIUS Act**, sparking active discussions among regulators, banks, and investors about how digital currencies could fit into the broader financial system.

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At the heart of the bill is a clear regulatory framework for stablecoins. Originally, these coins were created to offer a steadier alternative to volatile cryptocurrencies like Bitcoin. They allowed users to trade, lend, or borrow on digital platforms without worrying about sharp price swings. Many investors also used them to move funds between cryptocurrencies, preserve value during market downturns, or make faster international transfers.

Stablecoins have practical uses beyond the crypto market. They can make cross-border payments faster and cheaper, with quicker settlement times compared to traditional methods.

However, they haven't been without risks. Some stablecoins used complex algorithms or were backed by other cryptocurrencies rather than traditional assets. If those systems failed, the coin's value could collapse — as seen in 2022 when the stablecoin TerraUSD lost its peg and wiped out more than \$50 billion in value.

The **GENIUS Act** aims to change that by requiring stablecoin issuers to hold reserves of cash or other safe assets equal to the value of the coins they issue — a full 1:1 backing. The goal is to strengthen consumer protection and make stablecoins more reliable.

These new rules could encourage banks and financial institutions to issue or adopt stablecoins for their own operations. For now, most of the conversation is focused on their potential use in inter-bank and business-to-business payments, where they could help reduce costs and speed up transactions.

Sources:

1. <https://corporatefinanceinstitute.com/resources/cryptocurrency/what-happened-to-terra/>
2. <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/>

## The Importance of an Emergency Fund

### From the desk of Stephen Choi

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## Financial Advisor Associate, Manulife Wealth Inc.

An emergency fund is your financial safety net. It helps you handle life's unexpected expenses — without going into debt or selling investments at the wrong time.

### Why It Matters

Life has a way of surprising us — and not always in good ways. Job loss, medical bills, or an urgent car repair can put a serious dent in your finances. An emergency fund is a pool of money you can access quickly when these situations arise. It's there to keep you afloat without racking up debt or cashing out investments during a market downturn.

### How Much Should You Save?

A common guideline is to save **3 to 6 months' worth** of essential living expenses — things like rent or mortgage payments, groceries, utilities, and transportation.

If your income is less predictable — for example, if you're self-employed or in a single-income household — aim for the higher end of that range or even up to a year's worth.

To set your goal:

1. Track your monthly essential expenses.
2. Multiply that number by 3, 6, or 12 to find your ideal savings target.

### Where to Keep It

Your emergency fund should be **easy to access but separate from your everyday spending money**. A high-interest savings account (HISA) works well — you can earn some interest while keeping your funds safe and ready.

Avoid investing your emergency fund in the stock market or other volatile assets. In a downturn, you might need the money when values are at their lowest.

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## Tips for Building Your Emergency Fund

- **Start small but be consistent.** Even \$25 a week adds up over time.
- **Automate savings.** Set up a recurring transfer from your chequing account to your HISA every payday.
- **Trim expenses.** Cancel unused subscriptions or cut back on discretionary spending and redirect that money into your fund.
- **Use windfalls wisely.** Put part of any bonus, tax refund, or unexpected income straight into savings.
- **Treat it like a bill.** Make it a non-negotiable monthly expense, just like rent or groceries.

## Final Thought

Your emergency fund isn't meant to make you rich — it's meant to give you **peace of mind**. It's the money you can reach for without hesitation in a crisis, keeping your long-term investments intact.

If you'd like help setting up or growing your emergency fund, our team is here to guide you.

## Disclosures

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