

### IT'S GETTING WARM



Source: Generated with ChatGPT by Timelo

strength in the US, coming from further investment in the AI world along with increased investment because of the full depreciation allowed under the new "Big Beautiful Bill", we are likely to see pockets of weakness from the industries impacted by the tariffs both in the USA and abroad.

As we said in the past, the uncertainty will cause many companies (especially the mid and small ones) to put hiring, investment, and expansion on hold until the sky clears. In fact, if we look at the ADP payroll data they publish every month, it shows a material decline in jobs in the private sector.

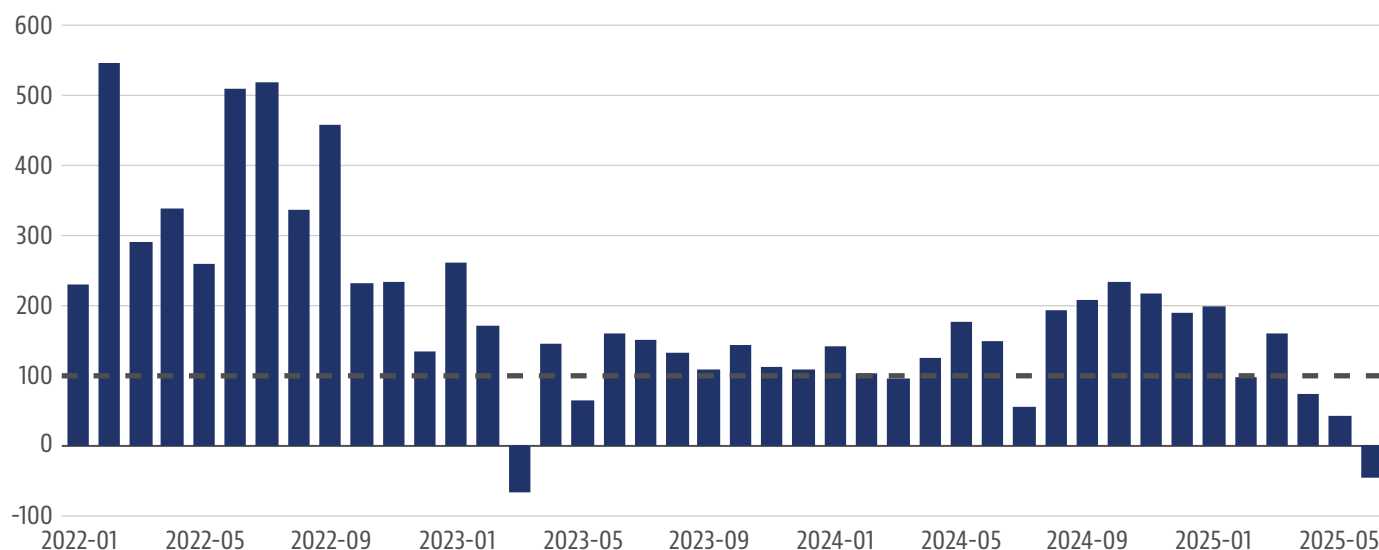
Since the tariff pause on April 9th, the S&P 500 has been on fire and is up more than 30% from the bottom.<sup>1</sup> A lot of popular stocks have had tremendous rallies (\$NVDA + 93%; \$PLTR + 125%) in these 3 months. Also, many popular sectors like defense, aerospace, and quantum computing have rallied hard (\$BBDB +126%; \$GE +62%; \$QUBT +289%). Let's not forget the crypto world where we saw Bitcoin rally 56% from the bottom, and Ethereum is up about 170%. One last example: The Ark Innovation ETF (\$ARKK), which comprises many higher beta stocks, has rallied about 100%.

As we shared in some of our previous commentaries, we believe volatility will be higher in the future; therefore, it might be wise to lighten up after the recent strong rally. Kudos (Japanese word for congrats) to those investors that bought aggressively 3 months ago. We did take advantage of the selloff in April's decline by covering most of our higher beta stocks, along with some others, but unfortunately, we were still uncomfortable going long these types of stocks. For instance, \$TSLA, even at the bottom, traded at north of 100X EPS even though sales, margins, and earnings are likely to decline for many quarters. The stock is more expensive now that it has rallied 54% on the hope of selling a lot of Robotaxis. Since that bottom, we also increased some of our longs and added new positions (examples: InterRent and Killam Apartment REIT).

We also believe that, given high deficits around the world along with more tariffs, it will be difficult to see interest rates decline materially for the time being. Even though we are likely to see pockets of

<sup>1</sup> All financial #'s as at intraday July 22nd 2025 via Factset

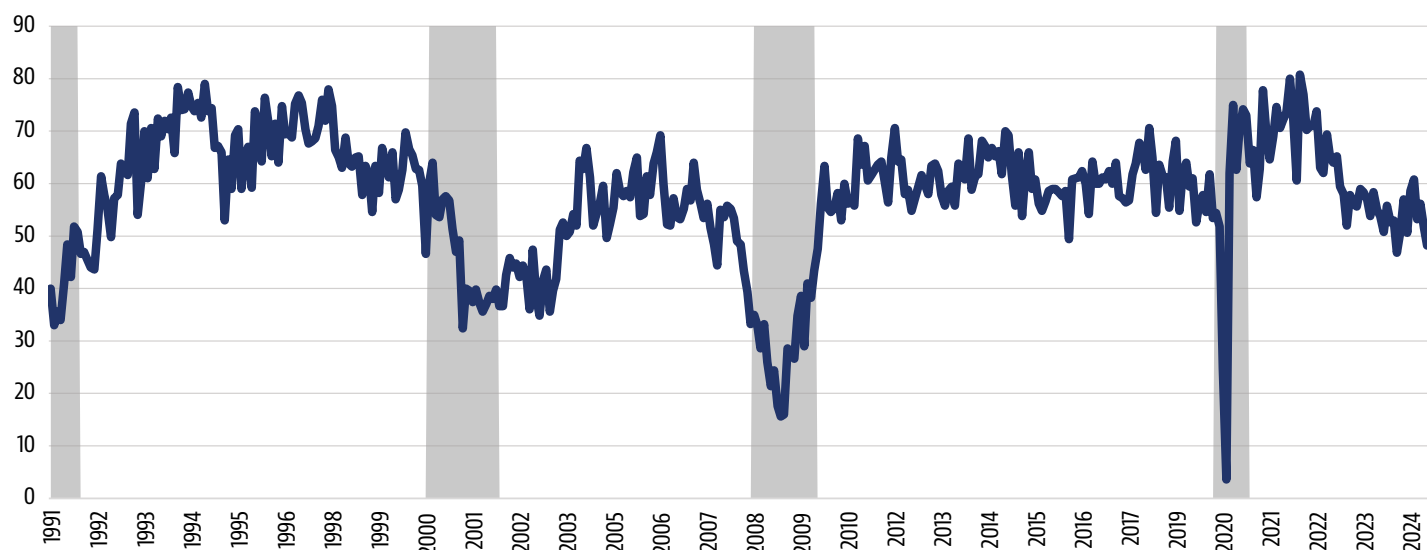
## MONTHLY CHANGE IN U.S. PRIVATE PAYROLLS



Source: ADP as of June 30th 2025

Also, the BLS Diffusion Index shows that more than 50% of sectors are seeing net job losses.

## BLS EMPLOYMENT DIFFUSION INDEX (1 MONTH)



Bureau of Labour Statistics via Bloomberg as of June 30th 2025

In summary, most investors are looking at the markets with their rose-coloured glasses at the moment. But eventually, we expect the volatility to come back. Therefore, expect us to reduce some long positions and potentially increase our short positions in the weeks ahead.

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#### GLOSSARY OF TERMS

**Beta:** A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

**Drawdown:** Measures the peak-to-trough decline of an investment or, in other words, the difference between the highest and lowest price over a given timeframe.

**Volatility:** Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

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