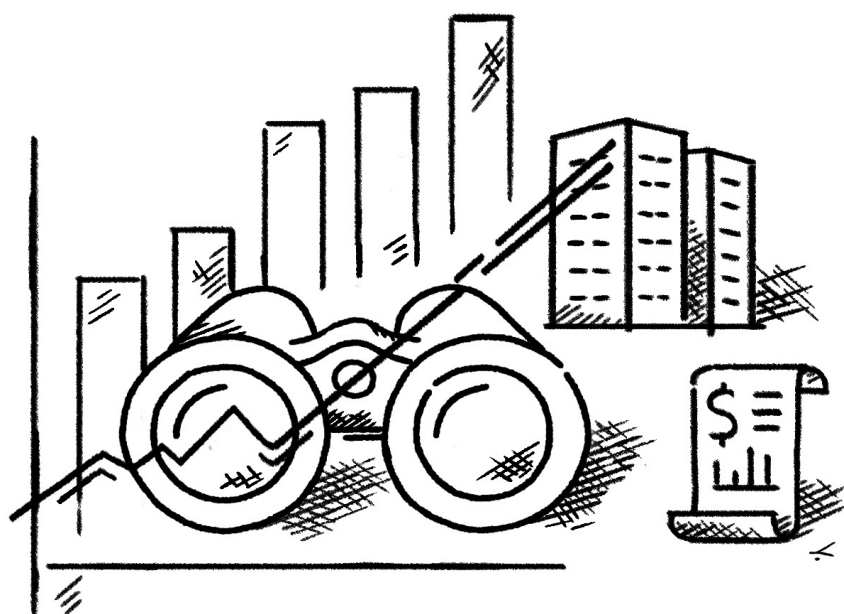


The Nexus Report

*Climbing a Wall of Worry:
Equities Climb Despite
Continuing Uncertainty*



Third
Quarter
2025

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The Beat Goes On

Stock markets around the world roared higher over the last three months. Surprisingly, investors exhibited little concern for the economic challenges, wrought by President Trump’s disruptive trade war, that we chronicled in the last Nexus Report. The principal U.S. stock market index, the S&P 500, had a remarkable 10.6% gain during the quarter. Stock market returns in Canada and several other countries were even better. All-time highs in both Canadian and U.S. stock markets were achieved daily as the quarter concluded. It seems the only thing that went lower was the U.S. dollar, down 10.6% so far in 2025¹, reminiscent of the steep declines in the 1980s.

Despite the strong headline returns, stock market gains were less widespread than earlier in the year. The tale we told in 2024 is relevant again. Over the last three months, stock market gains were narrowly focused and the “typical” investor experience was not quite as euphoric as the headlines suggest. In Canada, gold stocks led the parade as a consequence of the steadily rising commodity price. The Materials sector (of which gold is the biggest component) contributed almost 40% of the total return of the TSX Composite. Materials, combined with Financials and Energy, contributed almost 11 percentage points of the 12.5% third-quarter gain. The other eight sectors contributed modestly.

U.S. market returns also were concentrated, although the dynamics were a little different. Technology companies, particularly those involved in the artificial intelligence frenzy, dominated the market. In U.S. dollar terms, the S&P 500 generated an 8.1% total return in the third quarter. The now-famous “Magnificent 7”² contributed five percentage points of this return. Add stellar returns from other giant companies riding the AI wave – Broadcom and Oracle – and the vast majority of the S&P return was generated by just a few stars. The word “bubble” is starting to appear on the lips of a few investors. Another perspective comes from considering the equal-weighted S&P 500. It calculates the index return giving each company an equal 1/500th weight, rather than being weighted by market capitalization. Nvidia, for example, contributes based on a 0.2% weighting rather than its cap-weighted 7.9% allocation. The equal-weight index had a USD return of 4.8% – still strong, but a long way short of the 8.1% return of the cap-weighted index. In short, market concentration has reached the most extreme levels in U.S. history. The top 10 stocks in the S&P 500 now account for 39% of the Index’s market capitalization.

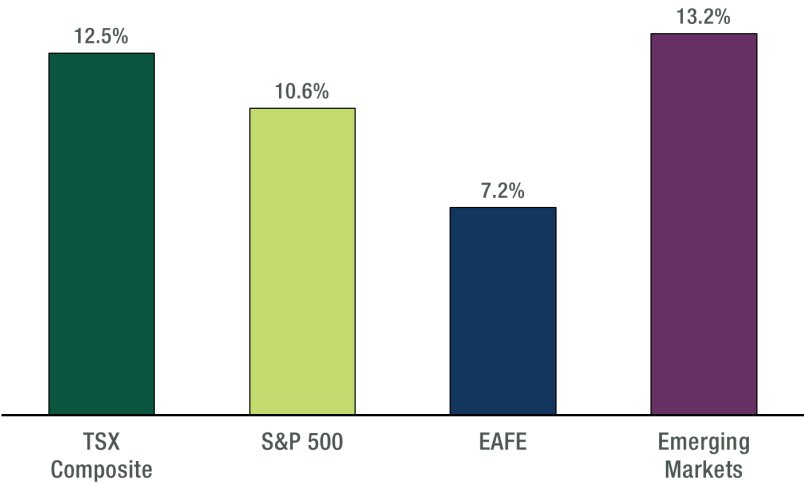
been the resilience of the Canadian and U.S. economies. In Canada, conditions are not nearly as bad as many feared back in February when Trump unleashed his tariffs. That is not to say that conditions are great. Following a decent performance in the first quarter of the year – likely on account of demand pull-forward in the face of a looming trade war – growth has come to a standstill in the second and third quarters. The September labour market report will be released after this essay goes to press, but expectations are low. In August, the Canadian economy lost 65,500 jobs on top of the 40,800 lost in July. August’s labour report was the weakest since the Pandemic. Canada’s unemployment rate jumped to 7.1%. Some cities particularly hard-hit by the trade war were worse. In Windsor, Ontario, for example, unemployment is said to have reached 11%.

So far, however, Canada seems to be muddling through the chaos. While certain large export industries (steel, aluminum, lumber and autos) have suffered, final domestic demand for the country as a whole has held up. Gains in the stock market have created a positive wealth effect for higher income Canadians even as it has been a struggle for lower income ones. What has been key to Canada’s resilience so far is that approximately 90% of our exports still enter the U.S. tariff-free under the terms of CUSMA.³

Remarkable Resilience

Perhaps the greatest surprise of 2025 has

Total Returns – 3 Months Ended
September 30, 2025 (C\$)



NOTE: Unless indicated otherwise, all Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus’s management fees (which are charged to client accounts and vary by client). Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Stock-specific returns are price-only returns, and for U.S.-listed stocks are in U.S. dollars. Past performance is not indicative of future results. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

¹ The DXY (a trade-weighted USD index) to September 30th.
² The Magnificent 7 include Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.
³ The Canada, U.S., Mexico trade agreement.

Canadian goods have the lowest average tariff rate (~5%) of any country in the world exporting to the U.S.⁴ But we must not be complacent – CUSMA is up for review in 2026. Canadian businesses and policy-makers have a mighty challenge ahead to ensure that economic growth can be sustained.

In the U.S., economic growth has been more resilient than in Canada. The surging stock market has supported consumer spending and massive capital investments in artificial intelligence have helped to keep the economy humming. Economic growth was solid in the second quarter, and the Atlanta Fed's GDPNow tracker suggests it could be as high as 3.8% in the third quarter.

If one "looks under the hood", however, trends are not so sanguine. Moreover, the U.S. government shutdown means that a lot of the economic data that investors and policy makers rely on is not available. The thick fog of trade policy uncertainty was already bad enough. Now policy makers and investors have to navigate with limited information. While the government shutdown is unlikely to fundamentally affect the economy in the long term, the lack of economic data does heighten the risk of a major policy mistake.

Both the manufacturing and services survey from the Institute of Supply Management for September portray softness in the U.S. economy. The manufacturing survey remained below 50 in September, signalling economic contraction. The services survey dropped sharply to 50.0. Within the services survey, the business activity index was the weakest since the depths of the Pandemic. On the labour front, the absence of government data means that all eyes are on private sector data. The ADP Private Payrolls report showed a 32,000 decline in September compared to an expectation for a 51,000 gain. The Challenger job cuts survey showed 54,000 jobs cut in September, bringing the total to 946,000 on the year. Again, the highest since the Pandemic. Hiring plans are the weakest since 2009.

Of course, the elephant in the room is inflation. Some expected it to spike after tariffs were introduced. Instead, it has risen only modestly. To date, it seems that most of the

tariff cost has been absorbed by U.S. companies rather than end consumers. Before long, we believe that companies will start to pass the tariff costs through to consumers, and inflation metrics will rise. As we look ahead, it seems that a serious slowdown with widespread job losses is possible at the same time that inflation could re-accelerate from levels that are already too high. The U.S. dollar weakness cited above could be the canary in the coal mine.

Market Outlook

There are lots of reasons to be cautious on the outlook for the stock market in the months ahead. Extreme policy uncertainty is coupled with rising prices and a deteriorating labour market. Everything seems to depend on the unpredictable outlook for U.S. trade policy. At the same time, commentators are expressing growing concern that investor enthusiasm for AI has reached worrisome levels. Those of us who have been around for a while recognize that the current frenzy is a lot like that around the internet and fibre optics back in the late 1990s. As J.P. Morgan's Michael Cembalest wrote (skeptically) about the recent Oracle/OpenAI deal: "Oracle's stock jumped 25% after being promised \$60 billion a year from OpenAI, an amount of money OpenAI doesn't earn yet, to provide cloud computing facilities that Oracle hasn't built yet, and which will require 4.5 GW of power (the equivalent of 2.25 Hoover Dams or four nuclear plants), as well as increased borrowing by Oracle whose debt to equity ratio is already 500%..."⁵ It may be different this time. It would be foolish to deny the opportunity for artificial intelligence, yet investor concern is rising.

As we pointed out last quarter, we don't buy "the market". We own a few high-quality companies that trade at reasonable prices. The valuation level of many market indexes is high, but not the average stock. Given all the uncertainty around trade and economic growth (not to mention geopolitical surprises), it seems likely that markets will be turbulent. However, we invest for the long term and don't react to the daily news flow. We think that the likelihood our portfolios provide good returns in the years ahead is high. There are lots of opportunities for those who are willing to be patient.

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Perhaps the greatest surprise of 2025 has been the resilience of the Canadian and U.S. economies.

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⁴ Statement from Frances Donald, Royal Bank Chief Economist on a client call, September 9, 2025.

⁵ Michael Cembalest, *Eye on the Market*, September 24, 2025.

AI Surge Amid Uncertainty

In the third quarter, North American equity markets advanced sharply driven by a surge in artificial intelligence investments and the prospect of lower interest rates, even as economic uncertainty and trade tensions weighed on investor sentiment.

Monetary policy shifted in the quarter, as both the U.S. Federal Reserve and the Bank of Canada cut their benchmark rates in response to slowing job growth and rising unemployment. The Fed's 25 basis point cut to a range of 4.00%–4.25%, and the Bank of Canada's move to 2.5%, reflected growing concerns about the strength of the economy.

Yet, even as economic clouds gathered, public equity markets found fresh momentum in the relentless advance of artificial intelligence. Major indices including the S&P 500, Nasdaq and TSX hit record highs, with AI-focused companies delivering especially strong gains. Venture capital funding for AI startups soared, while the largest publicly traded AI companies reported substantial increases in their capital expenditure plans. There's an incredible surge of capital being invested in AI infrastructure.⁶ A number of prominent companies have committed to spend hundreds of billions of dollars on AI without a clearly defined end point. Will there be a return on all this investment? No one knows, yet. Perhaps the most succinct description of today's AI competition is that it's a "race with no finish line".

North American Equities

Nexus's Canadian stocks returned 8.3% in the third quarter, while the S&P/TSX Composite Index gained 12.5%. The TSX's notable gain was largely driven by the exceptional performance of gold stocks. Specifically, the TSX Gold Index gained 18%, as investors sought out safe-haven assets in response to tariff-related economic uncertainty. For a deeper dive into our views on gold, you can check out our recent blog post "Gold: Speculation or Fundamentals?" (nexusinvestments.com/insight/gold-speculation-or-fundamentals)

Our U.S. stocks posted a 6.8% return for the quarter, compared to a 10.6% gain for the S&P 500, both in Canadian dollar terms. The U.S. market was propelled by robust performance in technology and growth-oriented companies — virtually anything with an AI angle continued to attract investor attention. Our portfolio participated in the market rally; however, because we chose not to aggressively invest in speculative AI opportunities, we only benefited partially from the quarter's gains in U.S. markets.

In mid-September, we sold our position in Magna International, a global auto parts supplier headquartered near Toronto. Trade uncertainty was a key factor in our decision, as tariffs and cross-border complexities continue to disrupt the North American auto supply chain and create challenges for suppliers like Magna. After conducting a thorough valuation analysis, we set an exit price and waited patiently for the stock to recover to that target before completing the sale.

International Equity Investments

We continue to hold two externally-managed pooled funds.⁷ EQIT (international developed market equities) returned 4.9% in the third quarter, while EMEC (emerging market equities) posted a strong 12.9% gain.

These positive results from international equity markets were driven by a weaker U.S. dollar (international investments are worth more when converted back into dollars), resilient consumer demand, and improving sentiment across both developed and emerging economies.

In developed markets (EQIT), European and Asian equities benefited from stable monetary policy, easing inflation pressures, and renewed optimism around global trade. Fiscal stimulus measures and infrastructure investment in several regions helped drive corporate earnings growth, while the technology and industrial sectors were notable contributors to performance.

Emerging markets (EMEC) saw particularly strong gains, bolstered by a weaker U.S. dollar and the perception that trade tensions are beginning to ease. The wave of artificial intelligence enthusiasm also swept through certain markets, especially technology hubs like China and Taiwan.

From a portfolio perspective, international investments remain a valuable source of diversification and continue to offer compelling relative value, especially when compared to the elevated valuations in U.S. markets.

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For a deeper dive into our views on gold, you can check out our recent blog post “Gold: Speculation or Fundamentals?”

nexusinvestments.com/insight/gold-speculation-or-fundamentals

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NOTE: The overall and geographic level return data in this section are for the Equity Fund. Equity returns within the Balanced Fund were similar. For specific performance, please refer to your own quarterly report.

⁶ Citigroup recently projected that the largest AI data center companies will invest \$490 billion into AI buildouts by the end of 2026. Its estimate for cumulative spend through 2029 is \$2.8 trillion.

⁷ Both pooled funds are managed by teams from J.P. Morgan Asset Management in the U.K. and are held in our International, Equity, and Balanced Funds.

The Steady Hand of Bonds

After a subdued start, the Canadian bond market finished the quarter on a strong note, with the FTSE TMX Universe Bond Index advancing 1.5% in Q3. The Nexus bond portfolio was modestly ahead, gaining 1.7%. Over the 12 months ending September 30, 2025, the Index rose 2.9%, while Nexus's bond portfolio outperformed with a 5.4% return. The Nexus Income Fund, which includes up to 20% in income-oriented equities, returned 3.2% in Q3, and 8.0% over the last year, both strong results.

The Canadian and U.S. economies proved more resilient than expected, as the feared fallout from tariffs didn't come to fruition. Underlying demand remained healthy in both countries, supported by firm consumer spending. In the U.S., growth was further bolstered by substantial investments in artificial intelligence. Inflation, however, remained a concern – driven by potential passthrough of tariffs and Washington's ambitious spending plans that many consider unsustainable. Labour markets weakened on both sides of the border, particularly in Canada, where the economy lost 106,000 jobs in the month of July and August, and the unemployment rate edged up to 7.1%. This occurred even as tighter immigration policy slowed labour force growth. As a result, concern about inflation gave way to rising worries about slower growth. This softening in employment tipped both the Bank of Canada and the U.S. Federal Reserve from a wait-and-see stance toward monetary easing, with each central bank cutting short-term interest rates by 25 basis points (0.25%) in September.

These moves followed a period of monetary policy stability, as the Bank of Canada had held its policy rate steady since March, and the U.S. Federal Reserve since December 2024. Markets now expect September's rate cuts to mark the beginning of a new monetary easing cycle. As of this writing, investors anticipate one additional 25 basis points (0.25%) cut from the Bank of Canada before year-end – if not in October, then in December. In the U.S., despite gaps in economic data caused by the government shutdown, investors expect the Fed to lower rates at both its October and December meetings and to continue easing into 2026.

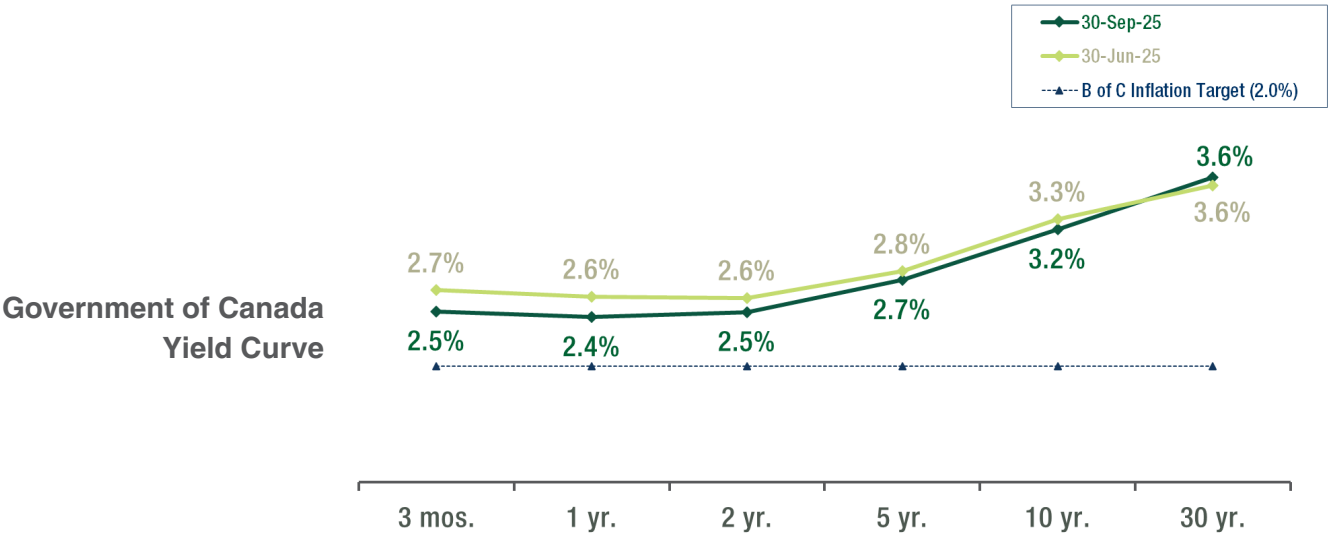
Bond markets captured the push and pull of shifting economic tides and central bank decisions. Yields on short- and mid-term government bonds declined 10-20 bps in the quarter, as the market's focus pivoted from inflation risk to growth risk, and as central banks moved toward monetary easing. Falling short-term interest rates, were a key driver of the Canadian bond market's gains this quarter. Credit spreads also tightened as the Canadian economy held up better than expected, which also helped bond market performance. Put simply, credit spreads are the extra yield investors earn to hold corporate bonds rather than safer government bonds.

In contrast, long-term bond yields experienced a roller coaster ride. The yields on 20-year and 30-year bonds increased by 30-35 bps early in the quarter, before giving

back much of upward move in September – finishing close to where they were at the start of the quarter. The sharp swings in longer maturities reflected the market's shifting narrative: early in the quarter, investors were preoccupied with inflation and fiscal sustainability concerns in the U.S., but by late September, attention had turned to signs of a softening labour market.

In our last Nexus Report, we noted that the yield curve had steepened as long-term bond yields rose more than short-term yields. This quarter, the steepening continued but for a different reason – short- to mid-term yields declined while longer-term yields remained relatively firm. The Nexus Income Fund remains positioned to benefit from this steepening of the yield curve, consistent with expectations for continued central bank easing and lingering inflation risks. While we continue to assess opportunities to add longer-term bonds for incremental yield, current valuations are not yet compelling. With elevated fiscal spending and tariff effects still filtering through the economy, inflation risks may still lean to the upside.

We continue to invest in safe government bonds and high-quality corporate bonds issued by financially sound companies. The Income Fund remains a steady anchor in client portfolios, providing balance and diversification. With yields still higher than in recent years, the Fund offers meaningful income and protection against potential economic softness.





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