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The Andras Group Newsletter



THE THIRD QUARTER SHOWED JUST HOW DIFFERENTLY MARKETS AND THE REAL ECONOMY CAN BEHAVE.

Equity markets continued to climb despite plenty of uncertainty, slowing U.S. job growth, rising social tension, automobile sector struggles in Canada, stubborn inflation, and an extended U.S. government shutdown that has yet to find resolution. So far, markets have looked past the noise, but if the stalemate continues, it could weigh on economic growth.

Trade and Tariffs

Trade relations with China remain tense. The U.S. needs critical minerals; China needs advanced chips. Both sides are posturing ahead of upcoming talks, creating short bursts of volatility.

Tariffs continue to influence manufacturing and industrial sectors. So far, actual collections have been lower than expected, but that's likely to change as enforcement improves.

As companies deplete the inventories built before tariffs were imposed, margins may tighten and consumers could start feeling price increases by 2026.



Trade and Tariffs

Currency and Commodities

Technology and AI

Valuations and Consumers

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Some tariffs could still be challenged in court, potentially introducing more volatility but paving the way for more balanced trade policies over time.

Currency and Commodities

There's growing concern that U.S. trade policy and rising deficits could weaken the U.S. dollar's long-term position. Reports suggest that China and several partners are exploring an alternative trade currency.

In response, central banks have been increasing gold reserves, giving momentum to precious metals and, until recently, cryptocurrencies. This trend toward diversification away from the U.S. dollar is likely to continue.

We have begun to see some corrective tone in the gold and silver markets, and this is overdue. Investors will likely see this as an opportunity and precious metals may reach new highs in the near term.

Technology and AI

No sector has captured investors' attention more than artificial intelligence. Companies tied to AI, and the energy infrastructure that powers it, have driven much of the market's gains. Valuations are lofty in some cases, but AI-related spending tends to be supported by strong cash flow.



The real question is when these investments will begin to generate visible returns. While the excitement echoes the dot-com boom, today's environment is more grounded: valuations are high but not extreme, and earnings remain solid. A period of consolidation would be healthy.

Valuations and Consumers

Corporate profits remain resilient, and consumers continue to spend, keeping markets buoyant. Still, valuations across nearly all asset classes are above historical averages.

If AI-driven efficiency eventually reduces employment in some sectors, consumer debt servicing could come under pressure. Recent bankruptcies among sub-prime auto lenders may be early warning signs of stress.



Interest Rates and Credit Conditions

The Federal Reserve cut rates by 0.25% on September 17, with additional reductions expected. It's also ending quantitative tightening, a move that increases liquidity and typically supports both equities and bonds.

Lower short-term rates ease borrowing costs, but longer-term yields may stay elevated. Should inflation flare or a credit event occur, central-bank stimulus might offer limited short-term relief.

In Canada we are nearer to the end of our easing cycle, and we have seen a recent tick up of inflation so we may begin to see some headwinds going into 2026.

Meanwhile, private credit continues to grow. While it offers attractive yields, its illiquid nature warrants careful monitoring.

Strategy and Positioning

Markets are resilient but richly valued. History shows that even revolutionary sectors eventually correct toward the mean. The AI revolution is still in its early stages; it will take years before companies fully integrate the technology and translate it into lasting productivity gains.

It's also likely that many of the future winners of AI may not yet exist, while some current leaders may not survive. This process of creative destruction is what drives innovation forward. This time isn't different.

A correction feels overdue, yet the market's resilience and supportive Fed policy could keep momentum alive into year-end. With central banks easing, it remains wise not to fight the Fed. Historically, markets trend higher under these conditions, though caution remains essential.

The TSX has performed strongly in 2025, supported by materials, industrials, and critical-mineral infrastructure. Gold should remain in demand amid global uncertainty.

Canada's reputation as a stable, resource-rich, and open economy continues to attract potential investment. As U.S. markets trade at elevated valuations, global investors may increasingly look north for relative value opportunities. This will continue as long as Canada remains perceived as "Open for business" and it is essential that Prime Minister Carney continue with this stance and sets up the conditions for success.

Positioned for Resilience

Our philosophy remains constant: emphasize discipline, diversification, and long-term value over short-term speculation. Periods of volatility often create the foundation for future gains. With patience and a focus on fundamentals, we believe portfolios are positioned for resilience and recovery, regardless of near-term headlines.

All our very best,

The Andras Group

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