

PENDER MARKET INSIGHTS

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August lived up to its reputation for volatility, however this year the move was to the upside. There has been much for investors to be concerned with this year and that has kept many on the sidelines. That may still prove to be the correct positioning, but the 'pain trade' remains higher and there is a bias to the upside.

Earnings season has come and gone and by and large it has been positive. With so much uncertainty around tariffs and trade it made for a difficult environment for forecasting which kept expectations low. The strength of the consumer has also come into question given persistent inflation and, in the US, immigration policies. However, management teams have done an admirable job of controlling what they can and are getting used to the 'new normal'.

As companies become more comfortable in the new environment, we should see M&A and other corporate activity increase over the coming months. When President Trump came to office the expectation was for him to unleash a flood of deals, as money was freed up and regulations slashed. That was put on hold with the tariff battles, but as those are resolved it's now time to get the party started.

The one glitch in the President's plan had been that interest rates haven't come down to the level he wants. Globally central banks have been cutting as their economies come back to a steady state and inflation falls. Unfortunately, that hasn't been the case in the US (somewhat self-inflicted due to the aforementioned tariffs). As a result, he has reverted to his reality TV background, attempting to mould the FOMC in his image by firing those that disagree with him. This 'Trumpification' of the FOMC will be the most important focus this fall.

A rate cut for September is now the expectation as Fed Chair Powell signaled at the Jackson Hole conference to end of August. But it appears more of a political than economic move. In the best-case scenario, they are cutting rates to help improve the employment market. In the worst-case scenario, they are cutting into stagflation.

Pay attention to gold and what it may be telling us. Usually when markets are at all-time highs a commodity which is viewed as an insurance policy is ignored and an afterthought. Yet it continues to move higher. It has been the best performing asset class this year, also at new all-time highs. This is not normal action and something that bears watching.

Maybe that is the plan all along? With record amounts of debt in the system one solution is just to inflate your way out of the problem. If everything else goes up in value the debt looks smaller in relation. That's why the pain trade is jumping off to the sidelines only to watch everything else keep moving higher in value.

So we aren't out of the woods yet. While August was a positive month there remains much that can go wrong. This makes for a very challenging environment. Volatility will remain, the only debate is what happens when everyone decides they have had enough and are content with their gains. It's impossible to say when that will occur, but seasonally we believe this is the time it normally occurs.

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September 2, 2025