Budget Week

NBF Reviews the Canadian Federal Budget

NBF provided a series of budget updates this week. These commentaries are available to clients through their National Bank accounts online web-portal. Look for the 'Research' button.

Economics and Strategy: Infographic - Canada: Putting PM Carney in his [budgetary] place – NBF

Clients regularly ask; *'Will the (fill-in-the-blank) Government cause Canada's financial ruin?'* Thankfully, and occasionally despite their best efforts, Canada's elected officials have yet to break the bank. We remind clients that budget policy-effects are spread over years. A Government that goes on a spending spree will find voters happy to hear they are being paid 'other people's money'. There's no such thing. The spendthrifts are rarely around to bear the blame. When the bill comes due, higher inflation, taxes, debts and interest costs squeeze the national purse (is this sounding familiar?). The hatchet-wielders arrive. Their mandate rarely lasts to see results of, let alone the credit for, their efforts. Voters eventually tire of austerity. "Throw the Bums Out"! Rinse and Repeat.

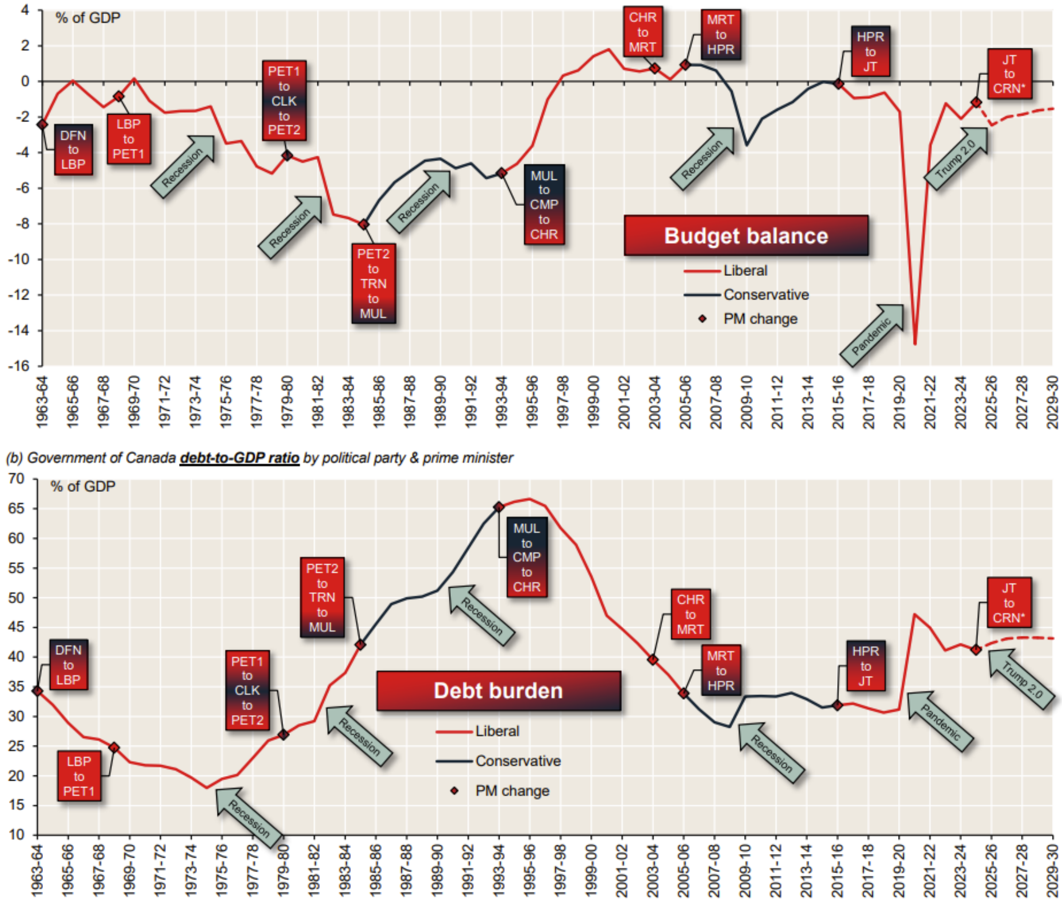
NBF reviews this pattern in this week's Economics note. [Infographic - Canada: Putting PM Carney in his [budgetary] place]

Note Canada's deficit and debt-to-GDP trajectory under PE Trudeau (PET1-bottom chart) 1968 to 1984. The following Mulroney period saw deep spending cuts. The deficit declined (top chart middle section) yet total debt-to-GDP increased (bottom chart). It takes time for policy momentum to take hold. The mid-1990's elevated interest rates didn't help. Tired of austerity, voters tossed the Mulroney Conservatives and elected the Liberals under Jean Chretien who passed the torch to Paul Martin. Previous spending cuts, falling interest rates, rising commodity prices and expanding industry in Western Canada put the wind at the back of debt-to-GDP. That trend flat-lined (good) under Harper then rebounded (bad) under the J Trudeau Liberals. We've complained about the past decade of Govt profligacy and self-inflicted industrial policy wounds, chasing off investors. To be fair, the J Trudeau Liberals' debt-to-GDP levels remain well below the mid-90's spike. Lucky for all of us interest rates are low!

November 7, 2025

Chart 1(a-b): Federal finances through the years, putting PM Carney's fresh plan in a longer-term political perspective

(a) Government of Canada ***budget balance-to-GDP ratio*** *by political party & prime minister*



Source: NBC, GoC, StatCan, CD Howe | Note: Based on actual financial results to 2023-24, estimates for 2024-25 & projections for 2025-26 onwards (from Budget 2025); shortform labels refer to prime ministers, with Carney designated 'CRN'; additional details available on page 2; federal debt is accumulated deficit concept (equivalent to gross debt less all assets)

'DMS deep dive in 10 charts' – NBF Nov 6, 2025

By Taylor Schleich, Ethan Currie & Warren Lovely

This week's federal budget ushered in a significantly larger deficit in 2025-26 with substantial red ink spilling across the rest of the decade. One would naturally assume that would produce larger borrowing needs. It didn't. Instead, gross borrowing requirements were revised down in 2025-26 and there will be even less borrowing next year. What gives?

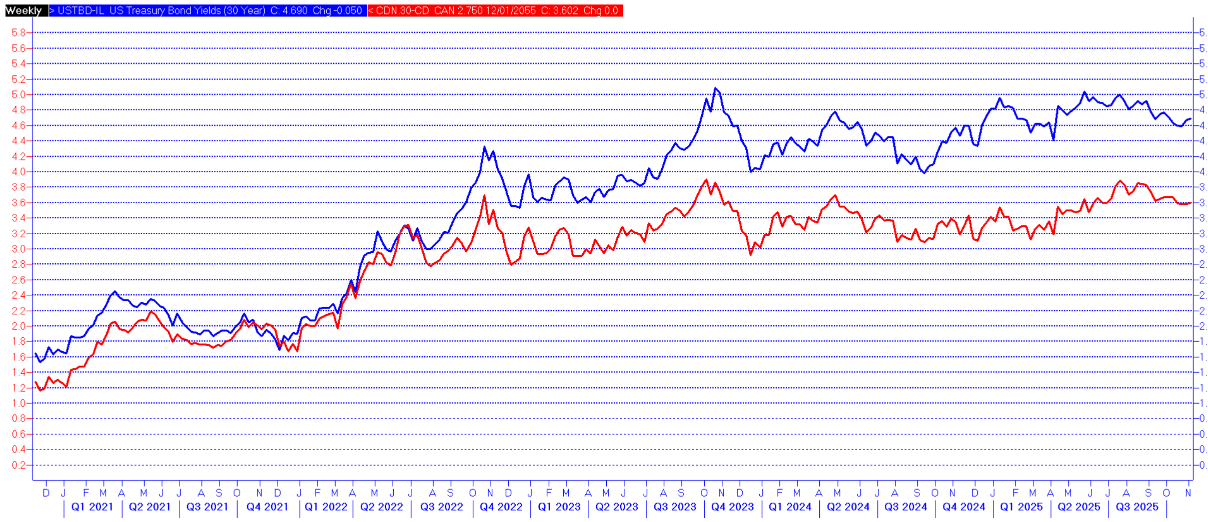
[Market View - DMS deep dive in 10 charts]

Industry Lingo/Abbreviations used in the report

- DMS – Debt Management Strategy
- NBT's – Non-Budgetary Transactions
- BoC – Bank of Canada (monetary policy)
- Goc – Govt of Canada (Cdn Federal Govt Bonds)
- CMB – Canada Mortgage Bonds

What do the bond markets think?

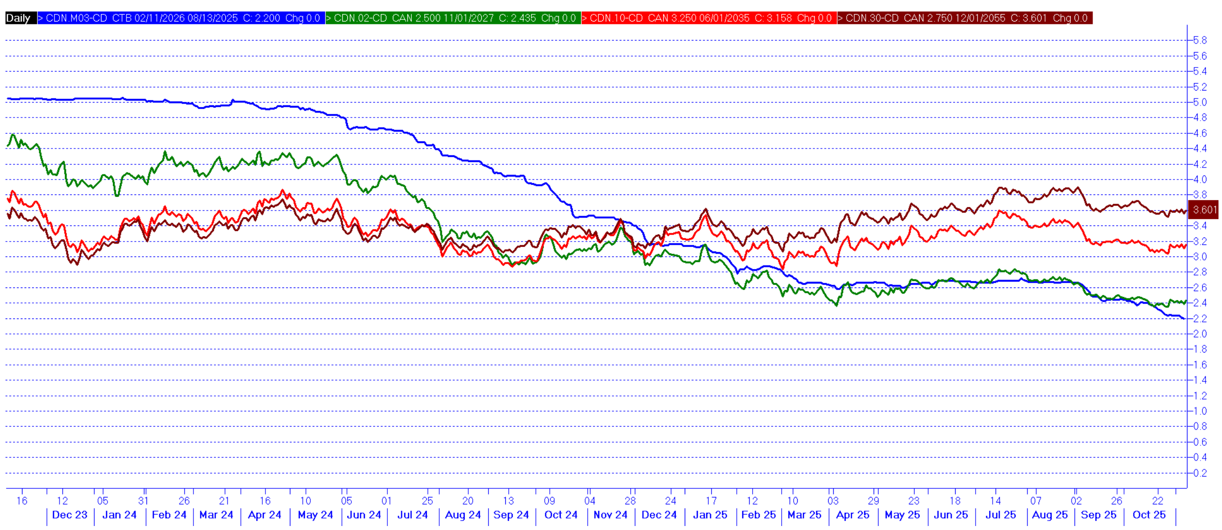
2020-2025: US Fed Treasury 30-year Bond yield (blue 4.69) vs Govt Cda 30-year (red 3.60)



Source: LSEG, NBF, Hilberry Nov 7, 2025

International lenders continue to accept a lower yield from Canada vs. the US. The current spread is above average. ‘Canada Good’ or ‘US Bad’? This week saw little change. Broadly, Canadian bond yields have been sideways-to-lower pointing to moderating economic activity in Canada. Not quite a recession signal but not a roaring economy either. Boring is good?

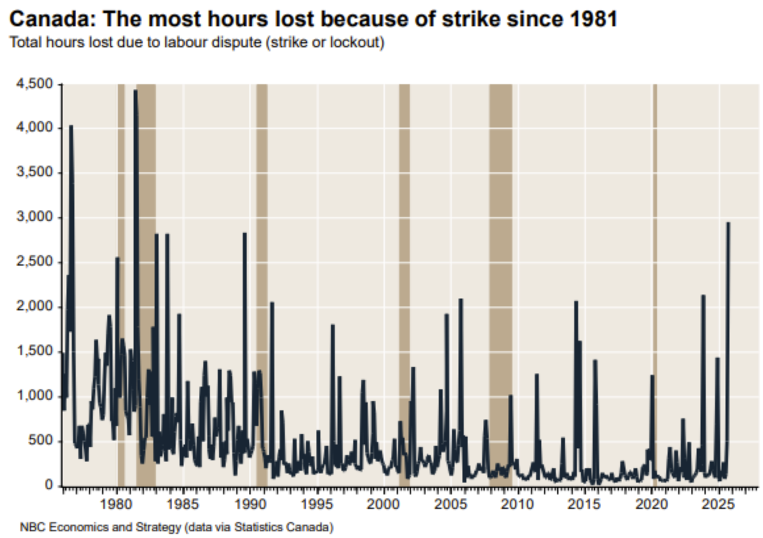
Cdn Fed Govt Bond Yields 2023-2025: 90-day (blue) | 2-yr (green) | 10-yr (red) | 30-yr (burgundy



Source: LSEG, NBF, Hilberry Nov 7, 2025

The late 2023 ‘inversion’ (90-day above the rest) was the Bank of Canada’s response to post-COVID inflation pulse. The recent widening of spreads is typical. Watch the 30-year trend (burgundy). Investors are not pricing Canada’s demise, let alone becoming the 51’st State.

Economic News - Canada: The job market recovered this fall despite ongoing trade tensions – NBF Nov 7, 2025

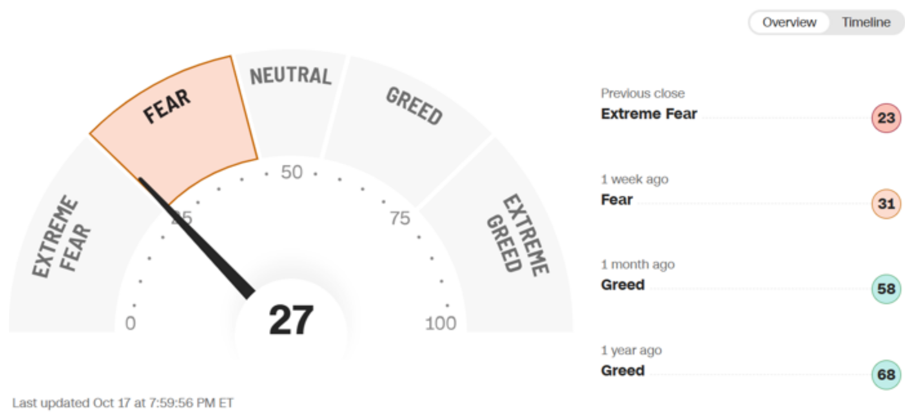


[Economic News - Canada: The job market recovered this fall despite ongoing trade tensions]

Thall Shalt Not Over Pay – Year 2000 redux?

At our recent seminars we addressed questions about a market crash, noting American investor and consumer confidence was at multi-year lows.

Not Alone: CNN Fear and Greed Index: Oct 17, 2025



Source: https://edition.cnn.com/markets/fear-and-greed

Elevated fear levels are a NOT a sell signal. US valuations are stretched though.

JP Morgan – Guide to the Markets Q3 2025 Sept 30, 2025

We're assigning JP Morgan's quarterly equity comment to this Friday's Weekend Reading.

https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

JPM's report covers a wide range of US economic data. We point readers to their 'Equity' section.

Fwd P/E is 23: Investors are paying 23 X the 12 mos. projected earnings of the S&P500 constituents (Forward Price to Earnings Ratio or Fwd P/E). The current Fwd P/E is 23, well above average.

https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?slideId=equities/gtm-forwardpe

Concentration in the top 10 constituents: The top 10 currently represent 40% of the S&P500 combined market cap. This is well above historical levels including the year 2000 Dot.Com bubble.

https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?slideId=equities/gtm-sandpindex

Tech is expensive: Technology stocks are VERY expensive (2025 30X Fwd P/E vs 20-year avg P/E of 18.5). Energy (15.2 vs 13.6) and Health Care (16.8 vs 15.1) are trading closer to their long-term average P/E's.

https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?slideId=equities/gtm-retbysector

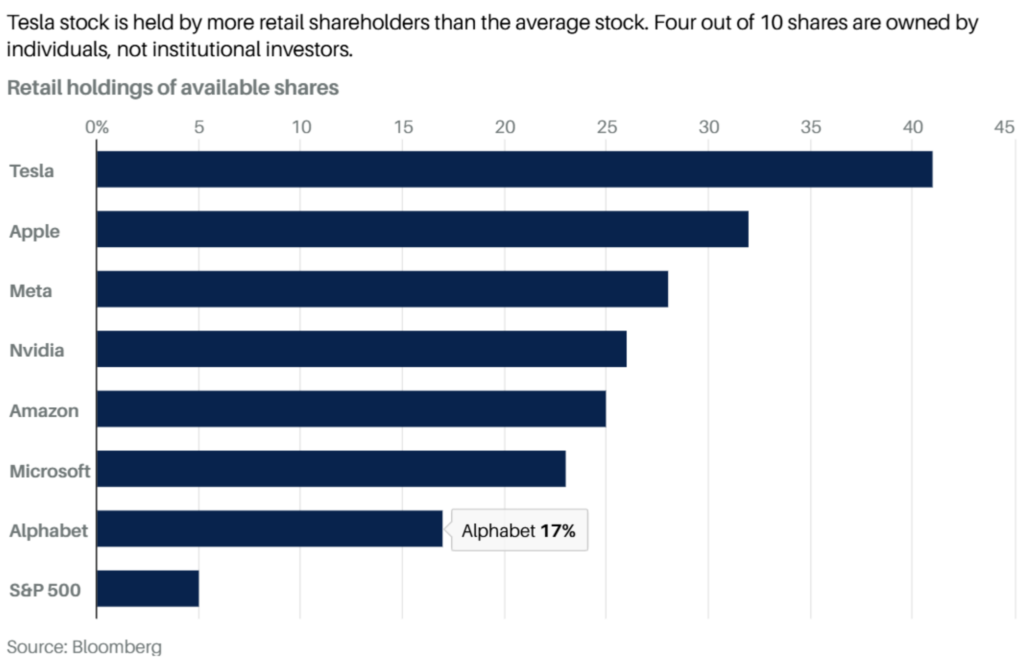
Does it matter?

Helpfully, JP Morgan puts the S&P500 price volatility into perspective. Despite intra-year declines averaging 14.1%, calendar-year returns were positive 34 out 45 years. Short-term declines are scary. Worry is the 'cost' of returns. Sometimes one must earn it. "When you feel bad about the market…BUY" Steve Forbes

https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?slideId=equities/gtm-annualreturns

Overloved?

Barron's notes Tesla shares are 40% held by retail investors. This ratio is well above average.



Source: Tesla, the Stock of the Masses

CONCLUSION: We remain cautious on US Tech mega-caps, underweight US and overweight Canada. We're sticking with our cash allocation for now.

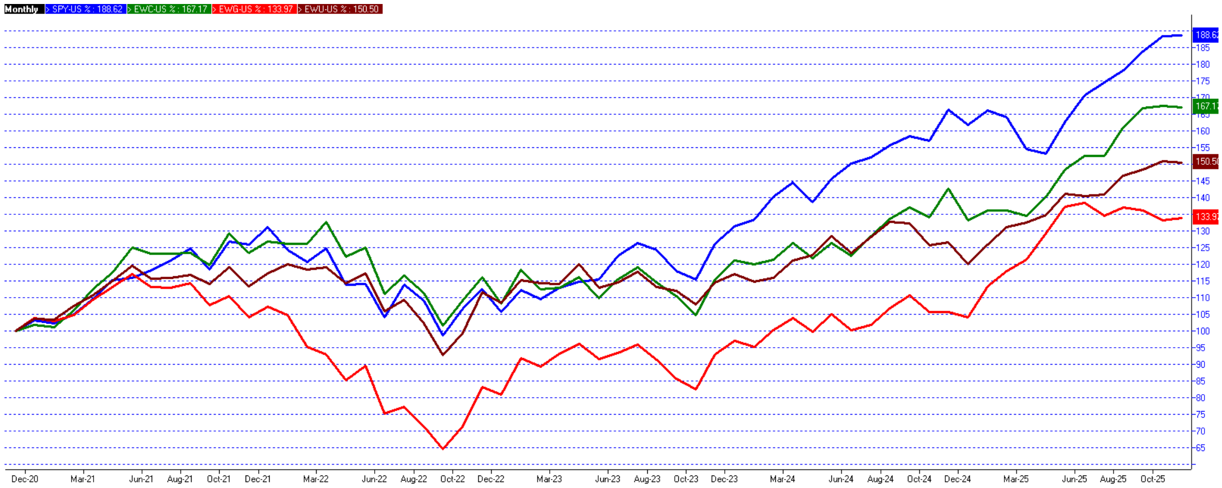
Buy Europe is all the rage.

We share the nation's outrage at Mr. Trump's musing that Canada should become the 51'st State . We had the same 'Hell No" response and were tempted by "Anything but US" emotion. Netizens have been pushing 'Buy Europe' ever since. Before we go galloping off, time for some charts. We compare the price-only $USD returns achieved from 4 broad-market, US listed, ETFs.

SPDR S&P500 (Spiders) ETF Trust: SPY- blue 188% | iShares MSCI Canada ETF: EWC -green 167%

iShares MSCI U.K. ETF: EWU-burgundy – 158% | iShares MSCI Germany Fund ETF: EWG-red 133%

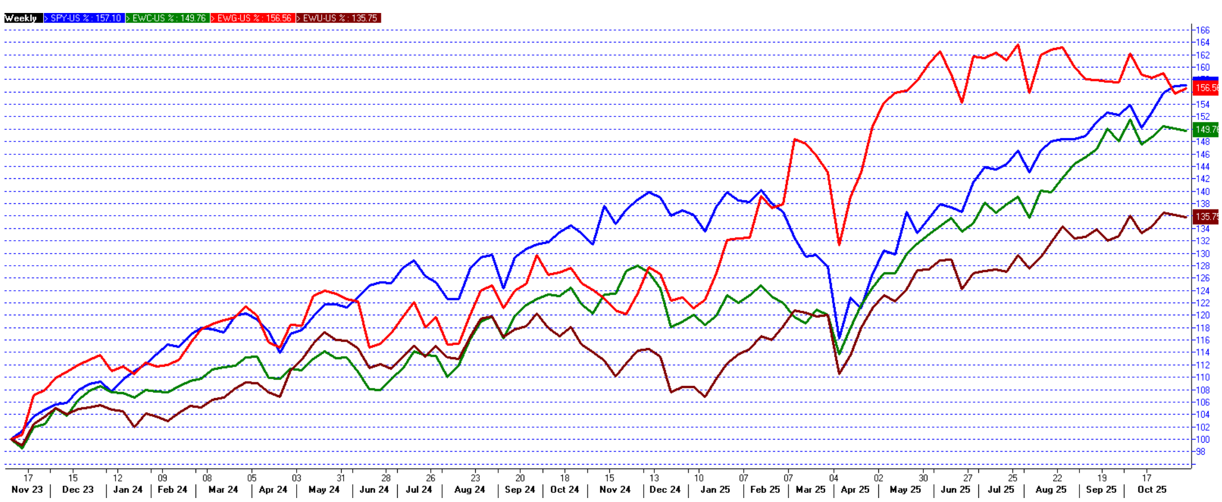
5 Years - monthly ranges:



Source: LSEG, NBF, Hilberry Nov 7, 2025

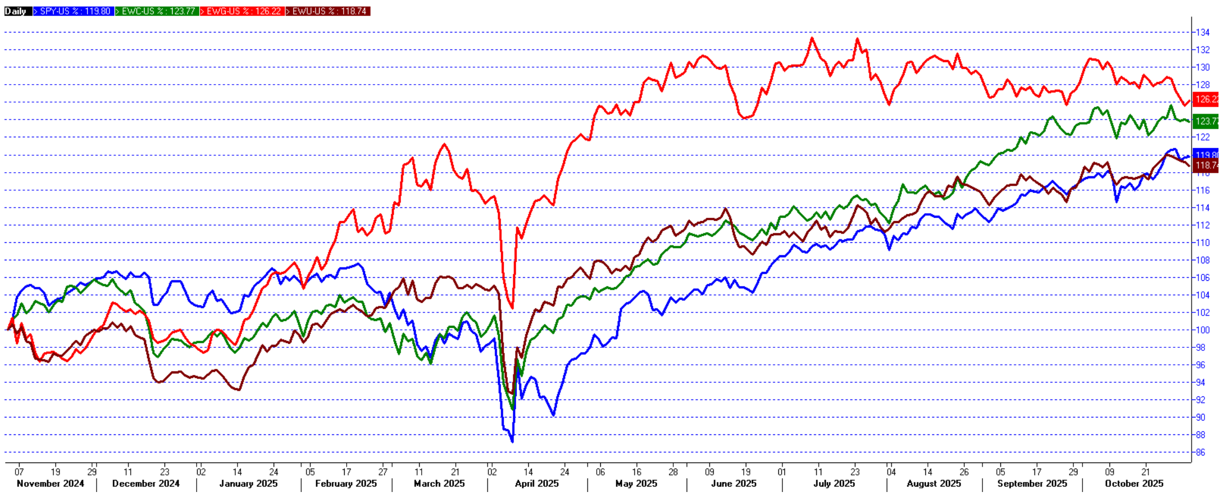
A 5-year history says Buy Europe has <u>not</u> rewarded Canadian or US investors. Germany has been the worst performer. Mr Trump **MAY** have changed that.

2 years - weekly ranges



Source: LSEG, NBF, Hilberry Nov 7, 2025

From Nov 4, 2025: last close prior to the Nov 5, 2024 US Presidential Election.



Source: LSEG, NBF, Hilberry Nov 7, 2025

Note the dramatic outperformance of Germany (red) from the Donald Trump's April, 2025 'Liberation Day' tariff policy announcement. After surging close to 28% from the April panic lows, Germany's returns have flatlined while the US, and UK have marched steadily closer. Canada (green) has been the steady winner. NOTE TO SELF: When it comes to your money, check the emotions at the door.

The best strategy: 'Shut up and wait': National Bank Financial's Chief Investment Officer (CIO) Martin Lefebvre addresses holding cash as a strategy in his Sept, 2025 'Fact & Fiction'.

https://www.nbinvestments.ca/content/dam/bni/publication/CIO%20Facts%20Fiction%20october%202025.pdf

Patience rewarded. 'Boring' was good this week.

Magna Intl (MG-TSX-$70.10 Thurs. Nov 5) hit a 52-week high, after the company brought better than expected earnings last Friday and higher than expected sales. Results ran counter to the Tariff Doom narrative for the North American auto industry. The stock price is up 63% from the April 2025 Trump tariff 'Liberation Day' lows. The $2.73 dividend vs recent prices, equates to 3.90% dividend yield. At 9.3 X Fwd earnings, we think the stock price is a long way from overvalued.

Suncor (SU-TSX-$59.00 Nov 5, 2025 8:45 AM) approached the 52-week high**.**

NBF noted…

Suncor (SU) Q3 CFPS smokes estimates*. Headline CFPS hit $3.16 (+44% Q/Q, +6% Y/Y), beating both NBCM/consensus estimates of $2.65, with total cash flow at $3,831mm (vs. $3,226mm est.), driven by strong SCO realizations, lower upstream/downstream opex, reduced cash taxes, and a FIFO gain. Production for the period averaged 870 mboe/d, up 8% Q/Q and 5% Y/Y, aligning with forecasts of 853 mboe/d (NBCM) and 849 mboe/d (consensus). Upgraded SCO reached 544 mb/d (vs. 499 mb/d est.), non-upgraded bitumen 268 mb/d (vs. 295 mb/d est.).*

- *Upstream set a Q3 record at 870 mboe/d (+41 mb/d Y/Y), led by Firebag and Fort Hills (latter at highest quarterly average since inception). Downstream achieved record refinery throughput* *and 647 mb/d product sales. Record 102% upgrader utilization yielded 544 mb/d SCO, aided by reliability gains and early U1 Coke Drum replacement completion;*

- *Despite prior capex cuts to $5.7–5.9 bln, Q3 spend fell well below $1.6 bln expectations, signaling potential for higher FCF;*
- *The company raised 2025 guidance: upstream production now 845–855 mb/d (from 810–840), downstream throughput 470–475 mb/d (from 435–450) at 101–102% utilization (from 93–97%), and refined product sales 610–620 mb/d (from 555–585).*

Suncor made more money than expected with an accelerating trend. The price jumped 6% on Thursday. After the price pop, the forward P/E was 15X while the dividend yield remained above 4%. NBF Analyst Travis Wood maintains an 'Outperform' rating. We agree.

Suncor Energy Inc. opinion update

DISCLOSURE: We hold Magna and Suncor personally, for family members and for client accounts over which we have trading authority. We have traded in both securities within the past 60 days.

FINAL THOUGHTS: Maybe, things are better than media pundits have predicted. Maybe, markets are correctly pricing in Canadian economic growth, moderate inflation, acceptable government finances, and rising corporate earnings and a generally brighter future.

Remembrance Day is next Tuesday. In late September your author visited the Canadian Vimy Ridge memorial and surrounding military cemeteries near Arras, France. Standing in acres of crosses is a sad, sobering, and humbling experience. So many gave so much. Wear a poppy and never forget.

Have a Great Weekend

Steve & Anna Hilberry

WEALTH MANAGEMENT

FOR THE RECORD Nov 6, 2025 close

DOW INDUSTRIALS:	46,912
S&P 500:	6,720
S&P/TSX COMP:	29,868
WTI:	$59.80
LOONIE IN $USD:	$0.7084 $US

November 7, 2025

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