Important Topic: Market Volatility and Value

Like many things, volatility does not bother anyone, until it does. But how is it connected to Value?

First, we need to acknowledge that the price of any object, including stocks, is not entirely objective. It is worth whatever someone is willing to pay for it.

When we hold on to something in the belief that it is worth more than the market is currently offering, we are hoping that someone will be willing to pay more for it in the future.

It is very difficult to defend a specific intrinsic value of many items such as art, baseball cards, stamps, even a house. Companies, however, have a more methodical process to determine their value.

The method is based on the range of possible earnings companies can expect to earn in the future. These potential future earnings are then summed up and then discounted back to the present. The result is a range of values in today's dollars, which you can then compare to the current stock price, to determine if a company is over or undervalued.

As a simplified example, a company that earns $1 a year for the foreseeable future can be valued from $10 to $18. Therefore, the price can fluctuate between these valuations and be justified. Market sentiment, algorithmic trading, and many other factors will cause the price to oscillate within this wide range. This is to be expected and does not mean that one's purchase was an error.

Combine the ranges of the 500 stocks that make up the S&P 500 index (the 500 largest publicly traded companies in the US), and you can get a sense of how volatile the markets can be.

Fortunately, it is common that some stocks go up while others go down, dampening the volatility of the index. But one should never discount the ability of bad news to temporarily move a large percentage of stocks to the bottom of their ranges, and some even below.

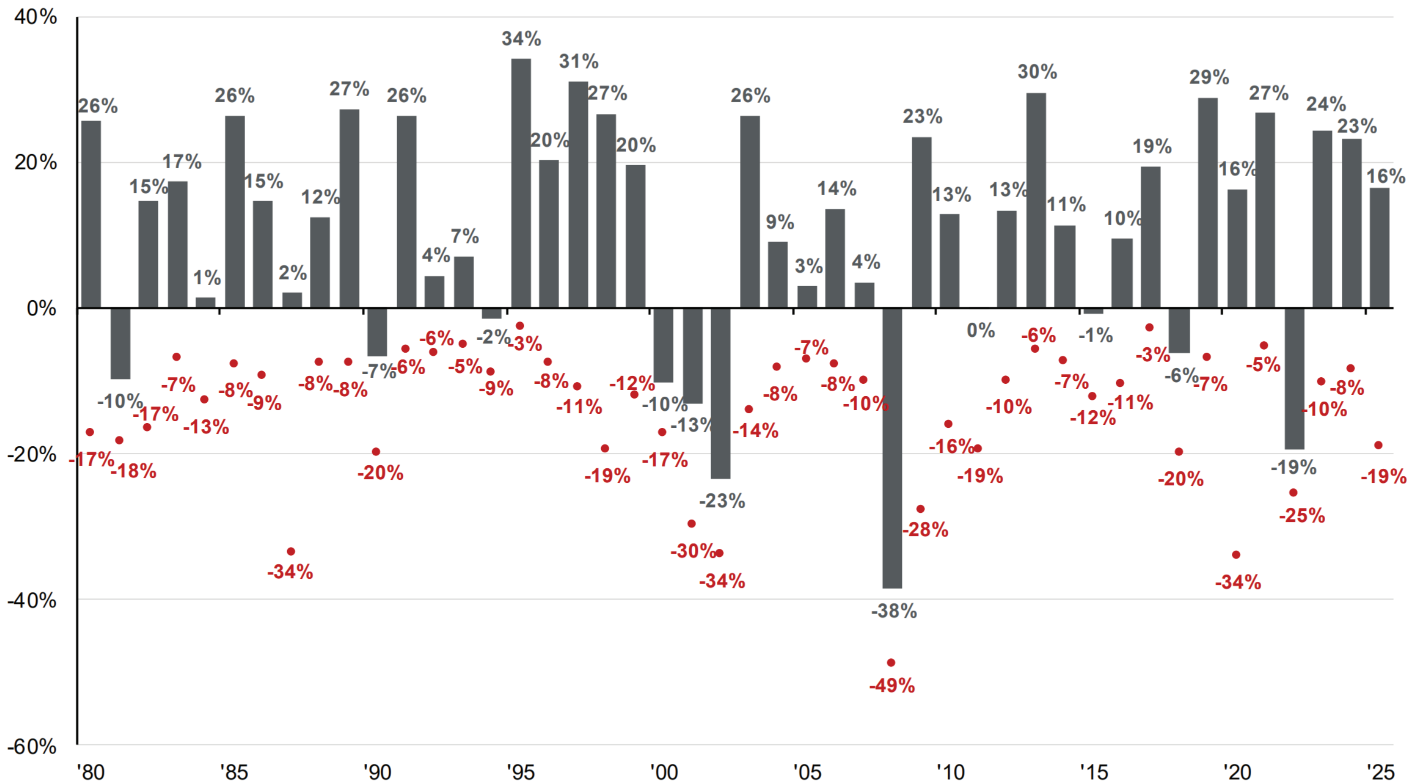
The Result over the last 100 years for the S&P 500 index:

- 5% decline every year
- 10% decline 2 out of 3 years
- 20% decline 1 out of 4 years
- 30% decline 1 out of 10
- 40% decline 1 out of 16
- 50% decline 1 out of 50

The average decline from top to bottom every year in the S&P 500 is 14.2% (1980 to 2025). The chart below from J.P. Morgan shows the decline every calendar year in red and then shows the total market return in grey. In 2025 you can see the market declined 19% (from peak to trough) but produced a return of 16% for the year. In 2020 during Covid, the market declined 34% but finished the year up 16% for the year.

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of December 31, 2025.

J.P.Morgan
ASSET MANAGEMENT

One should remember this, be prepared for this, even accept this. We do not know when, but we can safely assume this will continue.

And yet the long-term return of the market is positive at approximately +10% per year. In other words, the increases outweigh the declines making the experience rewarding.

Our focus is on buying companies that are closer to the bottom of their ranges and with potential to exceed expectations. But even then, prices can fall before they rise.

Market Update – January 2026

Most markets continued their upward movement through January. Small caps have a return of over 4% in January with Emerging Markets returning over 7%. Real Estate markets also increased over 3%. The Toronto exchange was one of the few markets that declined in January, but even then, by only a small amount (0.2%).

January's headlines focused on the continued surge in gold and silver prices, until their partial collapse at the end of the month. We tend to avoid these markets and the crypto currency markets for several reasons, including the complete lack of control over prices, the huge fluctuations in amount being bought, the significant and unpredictable change in investor interest, and the long-term volatility of each. They experience long cycles with years of no return followed by surges and the potential collapse of the entire sector if interest dries up. As such these asset categories are not represented in your asset allocation, though there are some managers who will selectively participate.

The expectations remain positive, with economic tailwinds and profit margins expanding. The only concern lies in the fact that valuations are at levels that reflect this positivity. If valuations run ahead of earnings the market could get too expensive.

Key takeaways from recent research:

1. Consumer Finances: Personal spending, which accounts for about 70% of GDP, remains robust. The average household appears to have low debt service and reasonable savings rates.

2. Corporate Finances: Corporations have reasonable cash levels and debt levels are manageable relative to corporate profitability. Strong finances are enabling companies to continue investing in growth.

3. Earnings Growth: The S&P 500 is expected to see impressive 14% earnings growth in 2026. If this occurs the market can rise 14% without any change in valuation metrics, like Price to Earnings.

4. Productivity Improvements: Technological advancements, including AI, are expected to drive significant productivity improvements and higher revenue per worker. Technology has done this continuously for over 100 years.

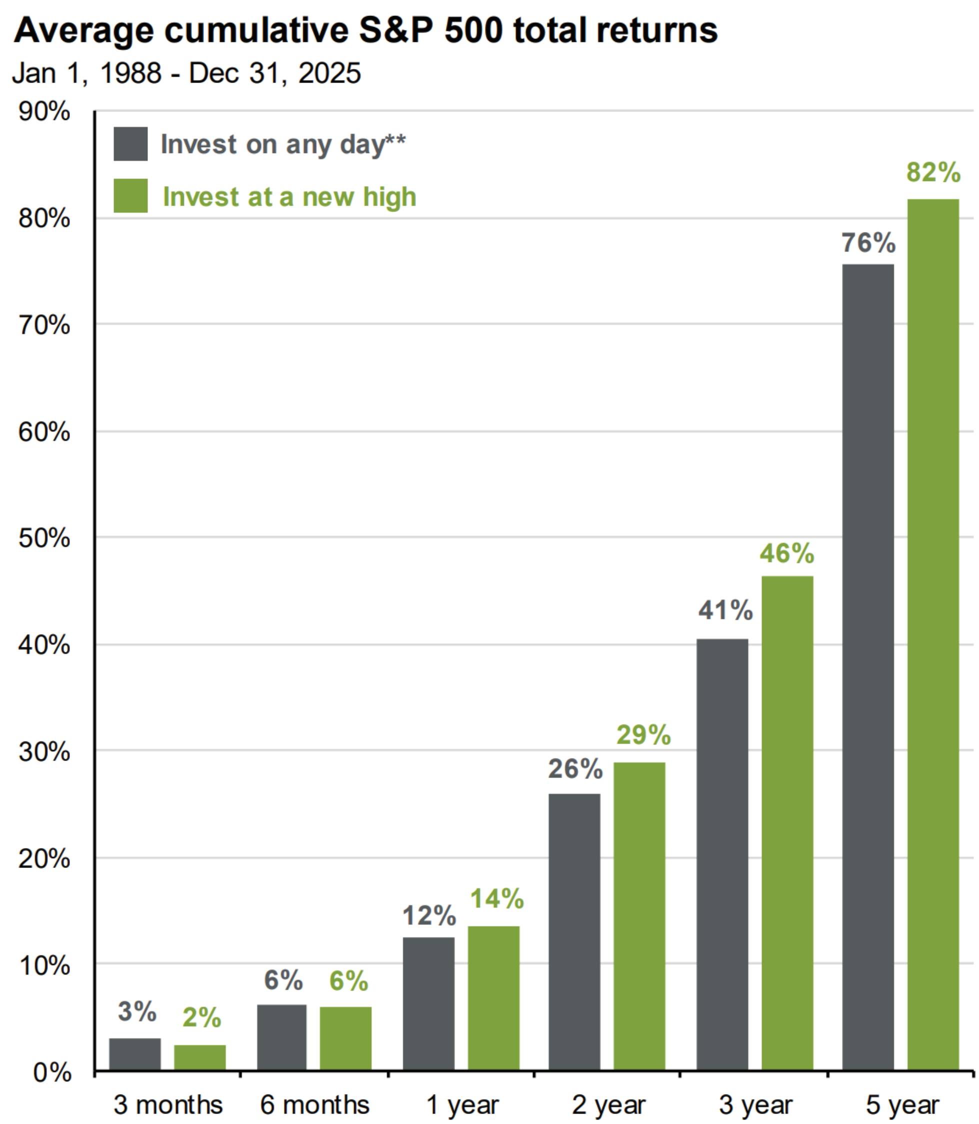
5. Profit Margins: Profit margins have remained historically high and are expected to expand further in 2026 and 2027.

6. Valuations and Fundamentals: Higher profitability justifies higher valuations, especially in the tech sector, but this should be monitored to ensure reasonableness.

The focus remains, and must remain, on the long term. One's focus should remain on investing in strong companies that have the opportunity to increase earnings and profit margins and who can weather the inevitable. One should invest for the long term and ignore short-term fluctuations and forces one cannot control.

In other words, do not try and time the market. When it 'feels' like markets are going to decline (or rise), remind yourself how accurate such 'feelings' have been in the past, and resist the temptation to change the long-term plan, even temporarily.

One statistic that we wanted to share was that when one invests at market all-time highs, that investor is more likely to have a better return than investing at any day. This is shown in another J.P. Morgan chart below. **



One should focus on one's own life, plan, and goals. At the end of the day that is all that truly matters.

Looking forward, we see the short term as volatile but remain positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

Index	Month
Bonds FTSE Canada Universe Bond Index - CAD	0.60%
Canadian Equity - S&P/TSX 60 Index - CAD	- 0.20%
US Equity – S&P 500 - CAD	1.20%
International – MSCI EAFE Index - USD	4.90%
Global Small Companies - CAD	4.40%
Emerging Markets - MSCI Emerging Markets Index - CAD	7.20%
Real Estate - Dow Jones® Global Real Estate Index - USD	3.40%
S&P/TSX Preferred Share Index - CAD	- 0.60%

Have a great month and let us know if there is anything we can do for you,

Meir & Adam

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Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. (Left) *Market floor is defined as an all-time high from which the market never fell more than 5%. (Right) **"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-month, 6-month, 1-year, 2-year, 3-year and 5-year intervals, with data starting 1/1/1988 through 12/31/2025. Guide to the Markets - U.S. Data are as of December 31, 2025.

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