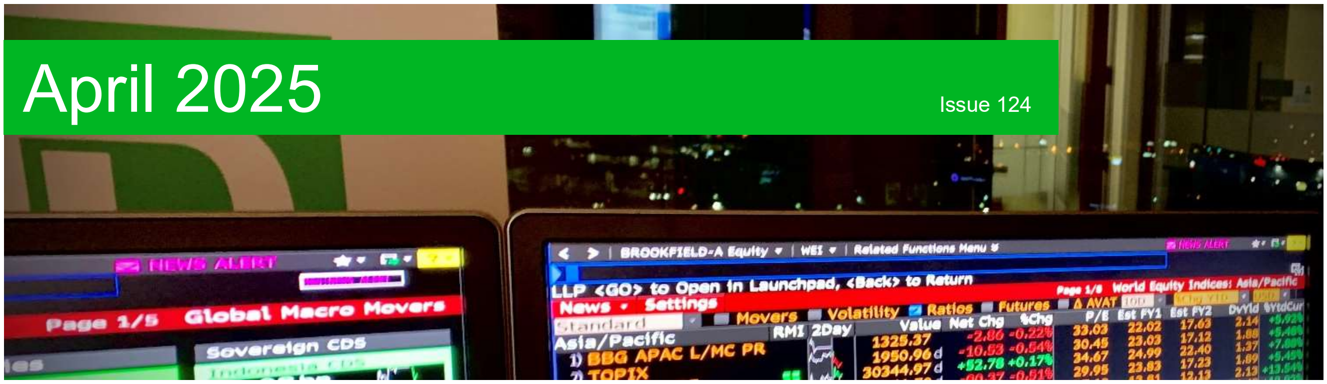
The Charter Group Monthly Letter



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Economic & Market Update

Tariff Tantrum

As we all know by now, the Trump administration announced sweeping "reciprocal" tariffs this past Wednesday. They were arbitrarily calculated with what appears to be a hastily produced unorthodox formula that included trade deficit/surplus metrics, and confusingly/surprisingly excluded actual existing tariff numbers in the computation. 😊

Stock markets didn't like this one bit.

Over the last two days of the trading week, the S&P/TSX Composite Index, the S&P 500 Index, Dow Jones Industrial Average, and the NASDAQ Composite Index were down 8.35%, 9.26%, 10.53%, and 11.44% respectively.[1]

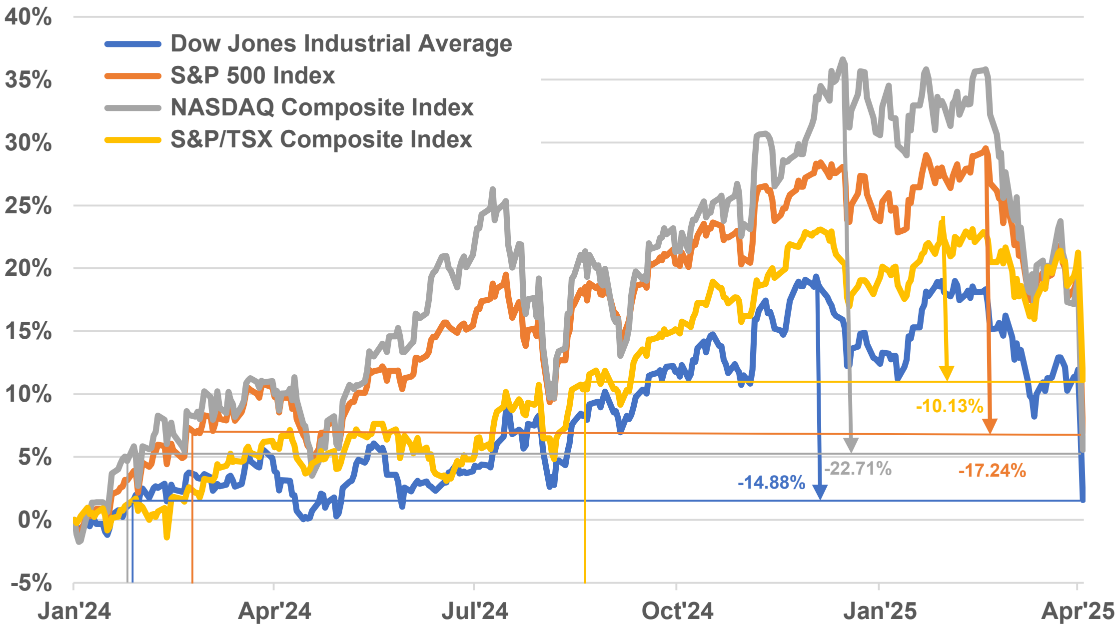
The peak-to-trough moves and how far back the declines take us back are illustrated on **Chart 1**.

The market is not agreeing with the Trump administration with respect to the effectiveness of the tariffs in helping to strengthen the U.S. economy.

This message was emphatically communicated by the selloff over the last two trading days during the first week of April.

[1] Source: Bloomberg Finance L.P. as of April 7, 2025.

Chart 1:
Stock Market Performance From January 1, 2024 to April 4, 2025



Source: Bloomberg Finance L.P. as of March 7, 2025 & The Charter Group

Those are the market indices. What about The Charter Group model portfolios managed by me? The sell off takes us back to where the Balanced model (the largest mandate that I manage) was on September 26th last year, net of fees.[2] So, a little over six months of retracement. For further context, the Balanced model peaked on February 28th, so the period length of the current peak-to-trough move is 35 calendar days. Plus, the Balanced model was very close to that peak as of this Wednesday April 2nd when the "reciprocal" tariffs were announced.

There has been some retracement in The Charter Group model portfolios, but so far it pales in comparison to the selloffs that we had to endure in 2008-09 and 2020.

How does all this compare to the previous markets selloffs through which I was managing money for clients?

At this point, the magnitude of the market index declines and the Balanced model declines are still fractions of what I experienced during the Subprime Mortgage Crisis and Great Recession in 2008-09, and COVID in 2020. In order to match those episodes, the current peak-to-trough move in the Balanced portfolio would have to worsen by roughly three and a half times to approximate what it did during 2008-09, and about two and a half times more to approximate what it did during 2020.

Anything can happen, but there are a few potentially mitigating factors involved in the

[2] This includes an aggregate of all clients invested in the model.

current selloff.

First, this is a man-made problem so to speak. In practice, there is an immediate remedy. This would be to reverse the tariff announcement. In past economic challenges, there was not the luxury of an immediate remedy. The inflation and stagnation of the 1970s felt unsolvable for instance. Same with the Cold War with the Soviet Union and the related economic effects. The collapse of the Dot-Com Bubble seemed to usher in an era of uncertainty until dramatically rising housing prices save the day. The Sub-prime Mortgage Crisis look to set off a chain reaction of failing financial institutions and it took a while until there was some assurances that the bailout band aids were working to save those that survived. And, at the onset of COVID, we had no idea on the extent of the overall mortality risk until vaccines were rolled out and the math did not look as dire as it did initially.

Second, there are, in my opinion, areas of the market that are excessively over-valued. Two years ago, there were very public claims that artificial intelligence (AI) would be *more* profound in inducing change than the steam engine was! Two years later my engagement with AI is limited to occasional curious dabbling with the publicly available large language models (LLMs). I find it especially entertaining to use LLMs to generate funny pictures. However, I can't isolate anything that has changed my life compared to the advent of the smartphone for example. The cavalcade of minor annoyances when interacting with businesses would have seemed like something easy for AI to start with. Daily life to me is basically the same as it was before the AI stock market hype. Maybe someday in the future there will be improvements and efficiencies. But, the slow adoption hardly feels like it should be justifying the trillions in stock market valuations that AI ignited. This is often a recipe for a correction and, perhaps, investors found the reason for one last Wednesday. AI is not an area that the Balanced model portfolio has much exposure.

Third, it was reported that much of the declines were amplified by margin calls. Institutions (typically institutional trading desks and hedge funds) and individual investors will often borrow to invest using a margin loan. When the investments that were purchased fall below a certain level, a margin call goes out demanding that cash be added to the account. And, if cash isn't available, the next course of action is to liquidate positions in order to generate the cash. This often has the result of pushing share prices down even further. One saving grace is that if quality positions are sold, and their prices pushed down below their fundamentals, there is a possibility of a recovery after the margin call-induced selling is finished and the stock then has a chance to rise to a level that better reflects fair value.

There are too many unknowns in the short-term (we can't read the minds at The White House 😊) to guess where the markets will be over the next few weeks, but there are some mitigating factors that could kick in to stabilize the market over the medium- to long-term.

Four of the factors might include:

1. This is a man-made problem with an instant solution.

2. There is plenty of very overvalued stocks in the market that were vulnerable regardless. Instead, well-priced stocks could offer respite.

3. Much of the selling is being driven by margin calls. Once this passes, stocks have a better chance of finding their fair value.

4. The reactions to bad outcomes could become extremely severe, leading to changes in opinion polls and forcing more political dissent among current supporters.

Hedge funds are facing the largest margin calls since early 2020 as the Pandemic was unfolding.[3] Also, the retail trading platforms like Interactive Brokers have seen margin loans expand to $54 billion USD, a one-third increase over the last year.[4]

The bottom line is that we don't use margin. And, in the midst of the margin call fallout, there may be some relative bargains that can possibly be captured during a portfolio rebalancing.

The fourth and final mitigating factor involve the reactions to the tariff policy. This may take a while as the actual outcomes resulting from the tariffs become evident. However, for almost everyone that has a stake in this, there is a breaking point. Economic matters during more challenging times are traditionally the most important ballot issues. As little as five months ago, inflation (which is still modest compared to inflationary episodes of the past) appeared to have an impact on the U.S. presidential election. If it comes back, consumers and voters are not going to like it anymore than they did back then. The cause and effect will be stark, limiting any opportunity to blame someone else. Politicians tend to be creatures of survival and don't often choose to go down to defeat in order to uphold a belief. Even in the first couple of days after the announcement, there were glimmers of dissent. Also, the U.S. midterm elections are on the horizon, 19 months from now. Congress has not provided much resistance during either the formulation or the announcement of the tariffs, but if the evidence starts to point to bad outcomes, an uncooperative Congress would be able to stifle much of this. The Trump administration's suggestion that the new trade policy is permanent clearly overlooks the realities of politics and opinion polling.

Will the selloff be extended from here, or are we nearing a bottom? That question is normally impossible to answer. And, in this case, it is especially impossible because the market reaction can depend upon the trade policy preferences of one single person. Markets can be fickle enough. However, unless we are able to read minds, guessing the next moves coming out of the Trump administration is a waste of time over the short-run. But, as discussed above, over the medium to longer term, it is highly likely that opposing forces will change the calculus. And in the meantime, this is still not the five-alarm fires that characterized investment markets in 2008-09 and 2020.

At this point, this selloff is far less in magnitude relative to the selloffs in 2008-09 and 2020.

The long-term records of the model portfolios include navigating through those previous episodes.

[3] Costas Mourselas, Harriet Agnew, and Joshua Franklin, "Hedge funds hit with steepest margin calls since 2020 Covid crisis." *The Financial Times of London*, April 4, 2025.
[4] "The Trump administration is playing a dangerous stockmarket game." *The Economist*, March 19, 2025.

Model Portfolio Update[5]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

No changes were made to the asset allocations or the specific holdings in the model portfolios during March.

Through the month, and before the selloff at the beginning of April, gold was the biggest contributor to returns. All the other asset classes except for U.S. stocks were mostly flat for the month. U.S. stocks were already beginning to show some anxiety with the S&P 500 down over 6%.

Gold was most likely driven by its reputation as a haven during times of uncertainty. However, its long-term character as an inflation hedge might have also added to its price as there was increased chatter about tariffs being potentially inflationary and a University of Michigan consumer survey indicating a growing expectation for inflation five years from now. In fact, that particular level of inflation expectation is now the highest since 1992.[6]

No changes to the asset allocations or the individual securities in the model portfolios during March.

Gold was the most positive contributor to results. Most other asset classes were in a holding pattern, except for U.S. stocks that were already declining in anticipation of the tariff announcement.

[5] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of April 7, 2025. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.
[6] Source: Bloomberg Finance L.P. as of April 7, 2025.

I would expect tariffs to be a major part of the news cycle for the foreseeable future. This would make the topic quite different from typical news headlines that often fade after a week as new and unrelated developments swamp those previous headlines. The tariffs are just too significant to be easily obscured by something else and the media will have plenty of fodder with respect to goods and services prices, and potential related layoffs if there is some economic slowdown in some industries.

I expect tariffs to remain in the news, for better or worse in terms of the impact on the markets short-term.

The newsworthy aspect of the tariffs could work both ways over the short- and medium term on markets. By being constantly reminded of the bad news, a negative investor psychology could become more entrenched. Conversely, if any bad news causes severe headaches for the Trump administration, they may move earlier than later with respect to modifying or eliminating some tariffs to which the market could respond enthusiastically.

When the impact of the tariffs on prices and economic growth begins to hit the headlines, the markets could see some rotation into quality stocks that have been beaten down in price.

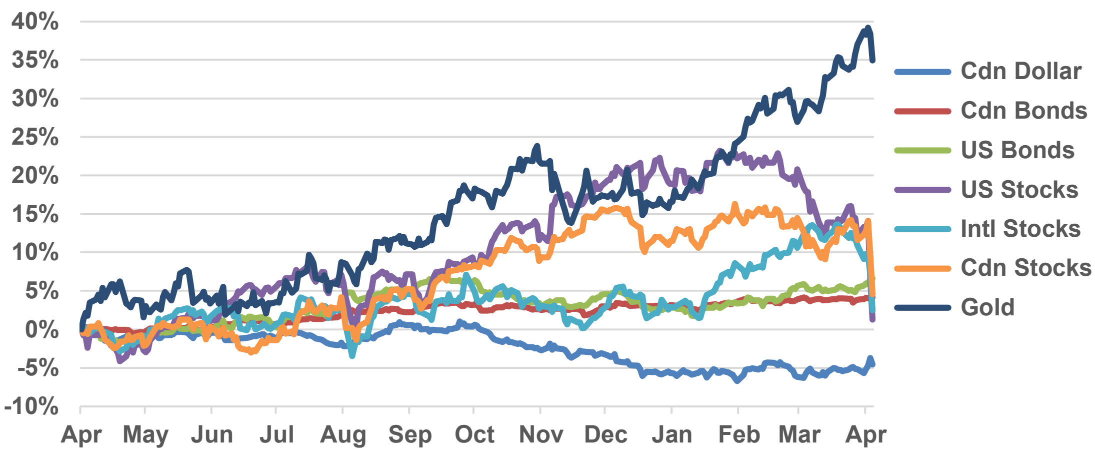
My guess at this point is that it will be a much more uneven market than we have seen over the past two and a half years. Sectors that have been over-hyped (like AI) could see a very difficult year whereas stocks seen as safer shelters could catch some investor demand, helping them to lift in price as we progress through 2025.

However, over-hyped growth stocks may struggle to recover this year.

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 2**).[7]

Chart 2:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from April 1, 2024 to April 4, 2025

[7] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[8]

Issue	Importance	Portfolio Impact
1. Global Geopolitics	Significant	Negative
2. Global Trade Wars & Alliances	Moderate	Negative
3. Inflation from Tariffs (Portfolio Impact)	Moderate	Positive
4. Canadian Federal Economic Policy	Moderate	Negative
5. Tariffs: Slowing Economic Growth	Moderate	Negative
6. Canadian Dollar Decline	Medium	Positive
7. China's Economic Growth	Light	Negative
8. Long-term U.S. Interest Rates	Light	Positive
9. Short-term U.S. Interest Rates	Light	Positive
10. U.S. Fiscal Spending Stimulus	Light	Positive

[8] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of April 7, 2025.

The information contained herein has been provided by Mark Jasayko, Senior Portfolio Manager and Senior Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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Thank you to our clients and community for voting The Charter Group, your favorite for Investment Management and Financial Planning in Langley for the fifth year in a row.

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