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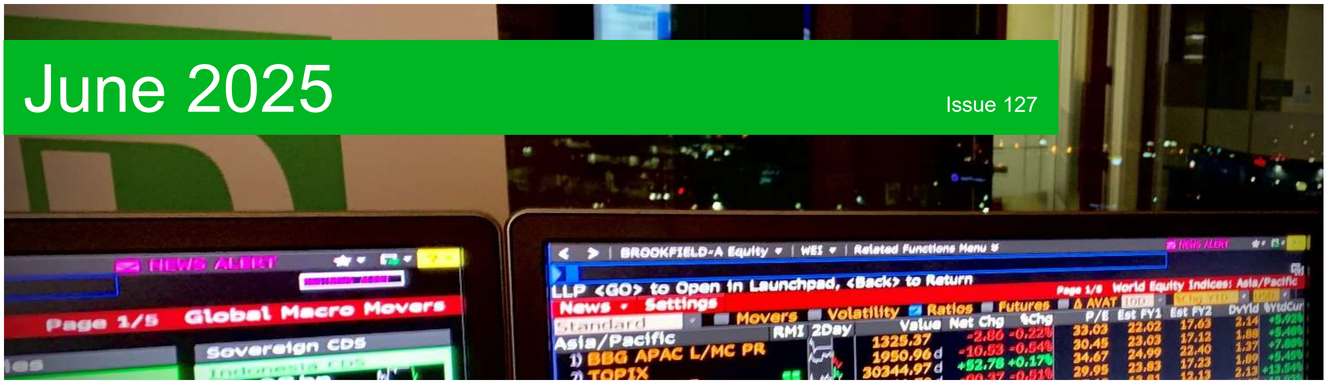

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Economic & Market Update

The Fiscal Folly Freight Train Barrels Onward

At our 2016 Fall Economic & Market Update seminar, I made the case that when it came to fiscal policy, Donald Trump and Hillary Clinton were on the same wavelength. Although it might have been traditional to assume that Republicans were fiscally prudent and that Democrats were fiscally profligate, I felt that a vast majority of voters wanted spending regardless of the growth in the federal debt and that the only viable path to victory would be for a candidate to accept this rather than debate it.

Helping my argument, a couple of months before the seminar, Donald Trump had proclaimed to be "The king of debt." In an interview with CBS News in June 2016 he went on to say, "I'm the king of debt. I'm great with debt. Nobody knows debt better than me."[1]

A month earlier during an interview with ABC News, when queried about his conservative ideological credentials, he stated that "This is called the Republican Party, it's not called the Conservative Party."[2]

Were investors expecting growth in government debt to moderate after a Republican sweep of the White House and Congress?

That's not what voters may have wanted.

Promising more spending has become an increasingly potent campaign strategy for all candidates and parties.

[1] Louis Nelson, "Trump: I'm the king of debt." *Politico*, June 22, 2016.
[2] David Rutz, "Trump: This Is the Republican Party, It's Not Called the Conservative Party." *The Washington Free Beacon*, May 8, 2016.

In another sign of how adrift Donald Trump was from conservative fiscal ideology, he was a registered Democrat from August 2001 to September 2009. During this time, he told CNN's Wolf Blitzer in 2004 that "In many cases, I probably identify more as a Democrat. It just seems that the economy does better under the Democrats than the Republicans."[3] (The economy has a few different facets – growth, inflation, employment - and depending upon which is emphasized, both parties can claim they are better for the economy[4]– however, it appears Democrat presidencies are better for stock market returns[5]).

It would be challenging to classify President Trump's fiscal preferences in the past as "conservative."

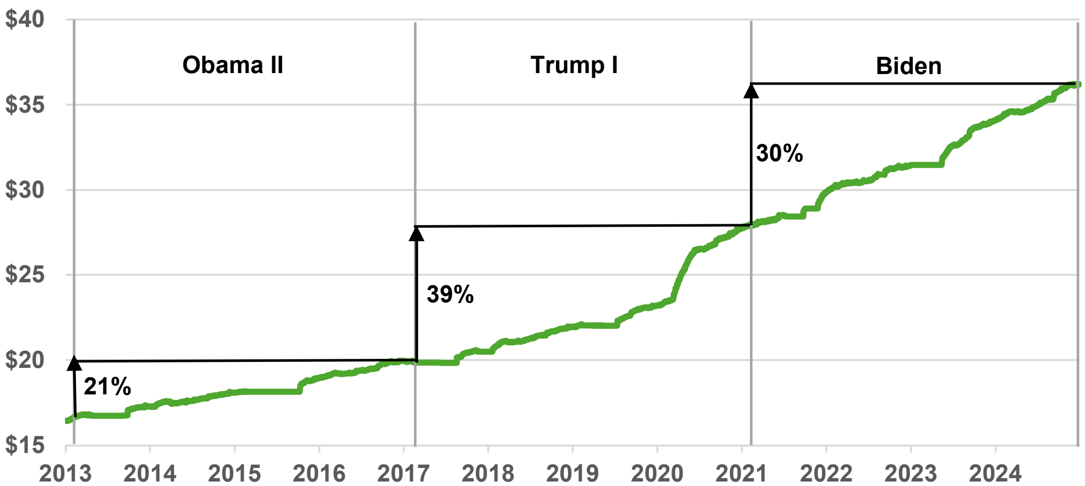
Yet, as we headed into the 2016 U.S. presidential election, I sensed that investment strategists were still relying on their old assumptions regarding the fiscal traditions of each party. Again, to me, both candidates were essentially the same with respect to spending and debt, and I felt that this was how many voters were viewing the candidates in contrast to the strategists.

In Trump's first term, spending and debt were prominent.

The growth in the federal debt during the first Trump administration bears this out. During the term, the U.S. federal debt grew by 39% compared to 21% during Obama's second term and 30% during Biden's term.[6] (**Chart 1**)

Chart 1:

Total U.S. Treasury Debt Outstanding (in Trillions)



Source: Bloomberg Finance L.P. as of June 17, 2025

Part of this was due to tax cuts. Less tax revenue can lead to a larger budget deficit, which needs to be financed with debt issuance. There might have been some hope that the tax

[3] Chris Moody, "Trump in '04: I probably identify more as a Democrat." CNN Politics, July 22, 2015.
[4] Gene Marks, "Is a Democratic or Republican president better for the economy?" The Hill, June 17, 2024.
[5] Lubos Pastor and Pietro Veronesi, "Political Cycles and Stock Returns." National Bureau of Economic Research, May 2019.
[6] Source: Bloomberg Finance L.P. as of June 17, 2025.

cuts would have spurred economic activity which would have led to higher overall tax revenue. It's a Republican party idea from the 1970s, but that was during a time of much higher income tax rates compared to the level that Trump cut from. Effectively, the lower that tax rates already are, the less positive impact a tax cut will likely have.

The establishment of the Department Of Government Efficiency gave the appearance of "conservative" austerity.

However, its effectiveness in cutting costs has been highly debatable.

Fast forward to the 2024 U.S. presidential election. In early September the Trump campaign announced that Elon Musk would be involved in a "government efficiency commission" (which eventually became the Department of Government Efficiency, or DOGE).[7] In addition to scaling back business-limiting regulation, there would be a focus on cutting "unnecessary spending." Initially Musk promised that DOGE would save up to $2 trillion,[8] thereby eliminating the budget deficit and arresting the growth in the federal debt. Essentially this was an austerity proposal that was sugar-coated with the virtue of eliminating waste.

I think most would agree that addressing government inefficiency is a noble cause. However, it felt to me like this was part of a persuasion effort to make the goal of reducing or eliminating the budget deficit feel attainable without much pain. It looked like Republican conservatism, but without significant cuts to the programs to which voters had become accustomed. What's not to like? 😊

The scale of the challenge facing the DOGE leaders turned out to be immensely greater than anticipated. By some estimates, DOGE ended up costing money on a net basis.[9] So much for reducing the deficit.

Another initiative contributing to the notion that a significant reduction in the budget deficit was feasible was the tariffs. I believe it goes something like this: the tariffs collected will increase government revenues which will allow for more tax cuts which will stimulate more economic activity which will further increase government revenues. What can go wrong?

What are the early signs with respect to the fiscal trajectory going forward with this new administration? Not good. *The Wall Street Journal* examined the U.S. Treasury Department's daily financial statements and found that more government spending occurred over the first 80 days of the Trump administration compared to the same time

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[7] Nick Robins-Early, Trump announces plan for Elon Musk-led 'government efficiency commission.'" *The Guardian*, September 5, 2024.
[8] Emily Brooks and Miranda Nazzaro, "Musk, Ramaswamy have few answers for tough DOGE questions from GOP." *The Hill*, December 5, 2024.
[9] Zachary B. Wolf, "How Musk and DOGE could end up costing more money than they save." CNN Politics, May 30, 2025.

periods in 2023 and 2024 under the Biden administration ($154 billion more was spent over that time period this year compared to last year for instance).[10] (**Chart 2**)

The bottom line of all this is that regardless of the leader, or the party, the U.S. Fiscal Folly Freight Train will continue to barrel along and any benefit of the doubt given by investors to the Republicans to slow its velocity might be misplaced. In today's world, unsustainable spending has bipartisan support. And what we are seeing in the U.S. is also unfolding around the world, including Canada. The likely destination will be a day of reckoning at the time of the bond market's choosing.

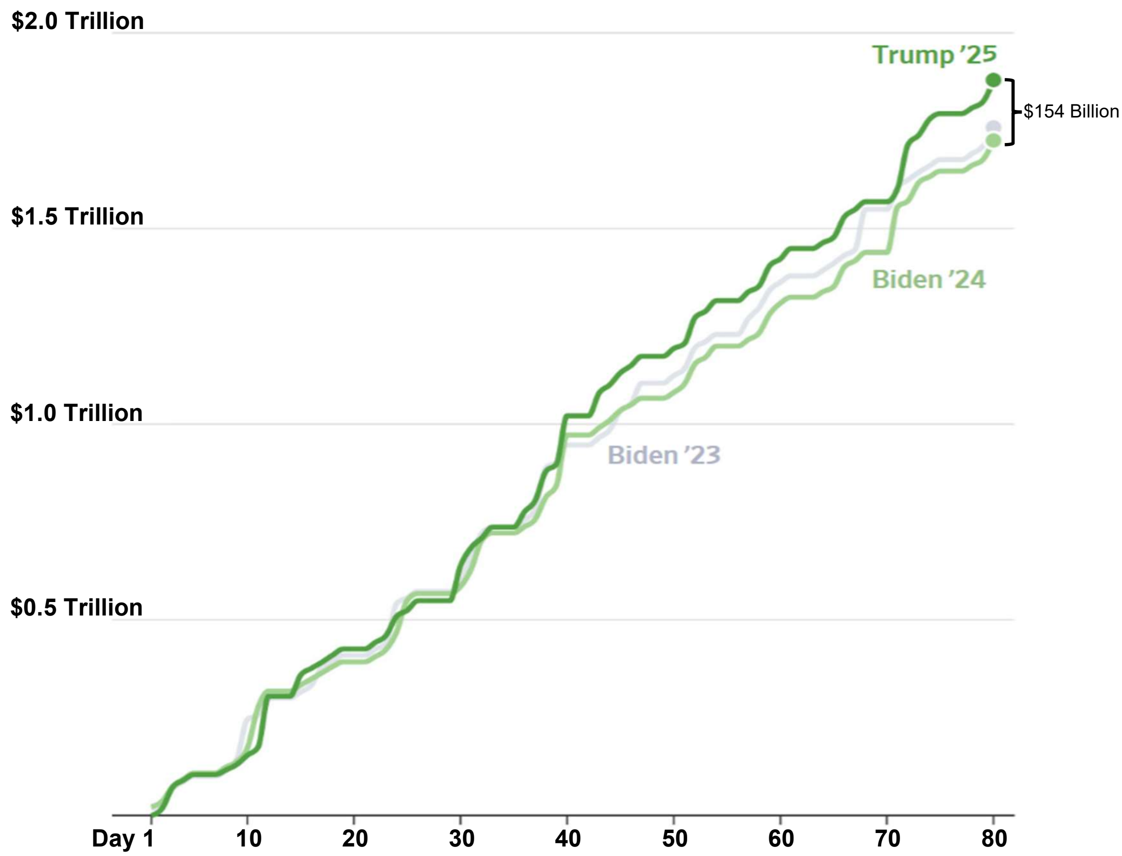
The main concerns I have as a portfolio manager would be higher inflation and interest rates during a debt crisis and formulating a strategy to navigate those potential realities.

It might surprise investors that spending in the first 80 days of the 2nd Trump administration is greater compared to the same time periods over the last two years under President Biden.

Voters in the U.S. and throughout the world are not generally voting for painful austerity. So, it shouldn't be much of a surprise.

Chart 2:

U.S. Federal Cumulative Daily Spending from January 20 Onwards



Source: The Wall Street Journal and the U.S. Treasury Department as of June 17, 2025

[10] Anthony DeBarros and James Benedict, "See How Government Spending Is Up Even as Musk Touts Savings." *The Wall Street Journal*, April 11, 2025.

Model Portfolio Update[11]

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 May.

No changes in the model portfolios during May.

During the month stocks continued to lift higher in the U.S., Canada, and internationally. This appears to be a continuation of the market "melt-up", hoping for the best outcome regarding the U.S. tariff policies relative to the original threats. The 90-day pause of the reciprocal tariffs ends on July 9th, so stocks are going to have to confront that date if there are no indications of further pauses or modifications. Also, the agreements that have been made so far, with the U.K. and China, appear to be somewhat casual and temporary. They feel more like "memorandums of understanding" than like robust deals upon which companies can depend when making spending and investment decisions. Perhaps equity investors like the fact that these arrangements are not equivalent to ratified treaties. The informality of these "deals" so far provides opportunities for rollbacks.

Stocks everywhere were mostly higher on the hope that the tariff "bark" would be worse than its "bite."

[11] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of June 17, 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.

Bond market investors were in a different mood in May. The "Big Beautiful Bill" Act making its way through Congress includes enough spending that there is a concern that it will add significantly to budget deficits over the next decade, expanding the debt pile at a faster pace than otherwise over that period (see the first section of this newsletter as to why the support for spending is not much of a surprise). In response, bond investors generally sent bond prices down and yields higher last month.

However, bonds were generally lower and yields were higher during the month as the bond market was not thrilled with the Big Beautiful Bill.

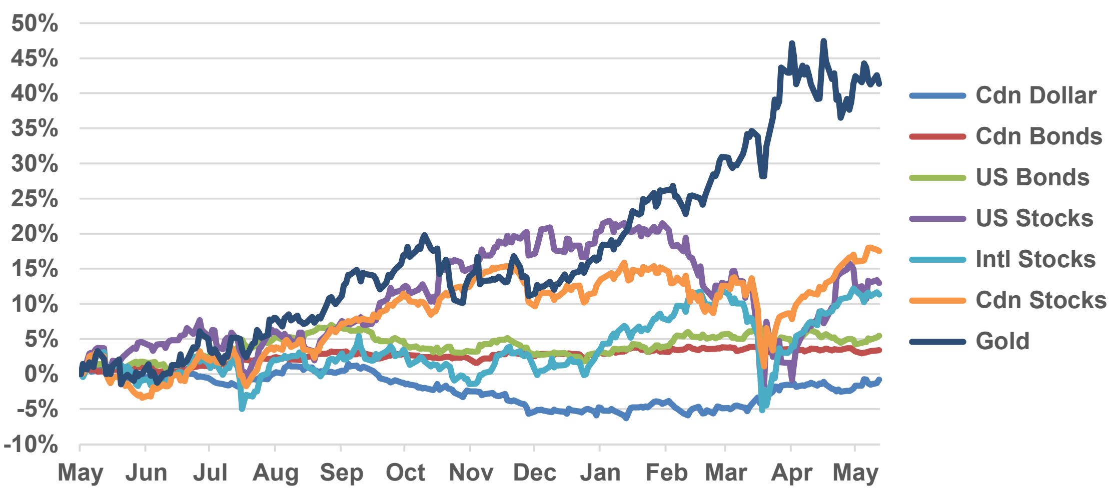
Just hitting the newswires as I am finishing up this newsletter are headlines about Israel and Iran and the possibility of a continued altercation between the two for a while. The immediate market impact was a spike in the price of oil. Other safe-haven assets were up, but not by much. Then, on the hope that there would be some diplomatic Band-aid, safe haven assets faded, and stocks resumed their upward march. At this stage, it appears that the major anxiety for investors is if energy facilities continue to get targeted or if the Strait of Hormuz at the entrance to the Persian Gulf gets blocked. A significantly elevated oil price could cause havoc with respect to bumping up inflation while slowing economic growth. In such a scenario, equities would likely have some difficulty.

More strife is emerging in the Middle East. The main concern of the markets at this point is the potential for higher oil prices and the economic damage that can result.

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 3**).[12]

Chart 3:

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



Source: Bloomberg Finance L.P. for the interval from June 1, 2024 to May 31, 2025

[12] 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[13]

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

[13] 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.

TD Wealth Private Investment Advice

Thank you from The Charter Group at TD Wealth

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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