

The Charter Group Monthly Letter

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Economic & Market Update

The Trump Code

In the process of managing money this year, I have been looking for ways to simplify the analysis related to the continual parade of announcements and pronouncements emanating from the Trump administration. President Trump's comments to the press are so frequent and relatively unclear that it has required me to commit to large volumes of reading just to get a handle on how they might impact the investment markets going forward. Previous presidents would normally hold a press conference every few weeks with a relatively quiet stretch of time in between. And it was common for their cabinet members or spokespeople to only comment on issues of secondary importance. Now they routinely drop headlines of major policy significance.

One way for me to simplify things is to fully ignore anything that does not have an investment impact. Often this can be challenging since non-financial issues are often included in press conferences which were supposed to only have an economic focus.

However, even when ignoring the non-financial proclamations, this is still so much to digest.

Trying to digest all the developments coming out of the Trump administration which might have an investment impact has been time consuming.

As a result, I have searched for ways to distill the reading load. Looking for a common denominator across many of the announcements has helped.



TD Wealth



One area of frequent announcements that have had potential investment ramifications involved the tariff policies. I dealt with this in the February edition on *The Charter Group Monthly Letter*. However, at the time, I tried to use what I knew of President Trump over the last five decades to gauge his tendencies and instincts and how the eventual tariffs might differ from their initial announcements. The first few months felt like investors were generally assuming that tariffs would mostly match those announcements. My conclusion was that it would only be a fraction. However, that was just my general assessment without the use of a more specific (and time-saving) process to come to that conclusion.

Then, eight months into the year, I picked up on a growing theme from analysts trying to gauge the Trump administration. These included financial/economic analysts as well as geopolitical analysts who examine strategic relationships between countries.

That theme is "maximum optionality." It doesn't appear to be a deliberate plan but more a byproduct of President Trump's deal-focused instincts. Some basic observations suggested that this is the "opening bid" strategy only to be negotiated. However, in almost all cases so far, there has not been negotiated final terms on any "deal". Instead, using the trade deals as an example, everything has been a bilateral understanding, often with each side having its own interpretation upon what was agreed. I was beginning to think that this was a flaw when it actually appears to be a feature: always moving chess pieces, never putting them at risk, and not necessarily heading towards a formal or ratified conclusion that would be hard to undo.

The question that I have been asking myself is: "What tactic or announcement will result in the most options available to the Trump administration without pinning them down?" The instinct is not to reduce the number of options unless it is necessary. It would be much harder to continue to threaten a trading partner if a formal agreement was achieved and if that was ratified by the U.S. Congress.¹ As a result, the trade deals so far have been casual agreements that often involved promises from the countries impacted as opposed to obligations that can be legally enforced. Instead, it looks like threats via executive order are the means to keep the other countries in line if there are deemed to be non-compliant by the Trump administration.

One of the most revealing common denominators has been the Trump administration's desire for continuous maximum optionality.

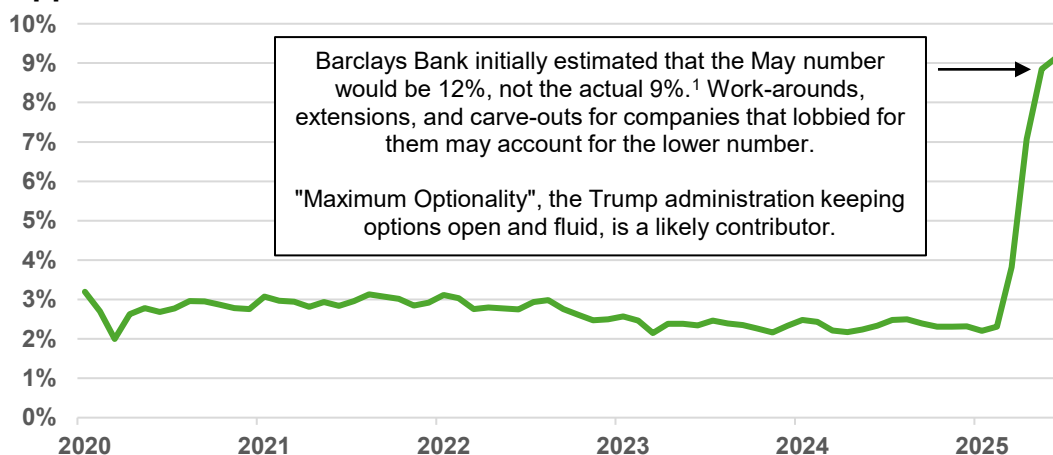
Whether this is deliberate or inadvertent on behalf of the administration is irrelevant. But it has become a more efficient method of determining the eventual outcomes resulting from initial announcements.

¹ This is the case with the North American free trade agreement, or USMCA, or CUSMA which is how Canadian politicians and press refer to it. It is much riskier to renege on something like that as one may never be trusted again to forge a dependable trade agreement. So, trade which involves things specified in this agreement have so far been exempted from the Trump administration's 35% general tariff on Canada.

As a result, my expectation is that U.S. trade policy will just be an ongoing back-and-forth process with no real destination. Also, once one adds in all the entirety of the carve outs and exceptions (so far it is already into the thousands!) that a number of U.S. companies have lobbied for, it becomes very difficult to measure how much has been implemented and what will still change. At this stage, the heavy use of extensions and exceptions has led to an average effective level of overall tariffs to be less than what I think the public was expecting (**Chart 1**).² But these continuous alterations help to maximize optionality, so I would expect this to continue.

Maximum optionality appears to be inherent in a wide range of initiatives involving trade policy, fiscal policy, and monetary policy.

Chart 1:
Approximate Effective U.S. Tariff Rate



Source: Bloomberg Financial L.P. and the U.S. International Trade Commission as of August 15, 2025

The maximum optionality theory can also be applied to other economic policies, whether it involves fiscal issues (government borrowing and spending) or monetary issues (interest rates).

On the fiscal side, what appeared to be a relatively focused economic strategy aimed at dealing with China's geopolitical and military ambitions has become less coherent and often contradictory as the Trump administration seeks to maximize optionality. We are into the third 90-day extension for the court-ordered divestiture of TikTok. The first Trump administration deemed the social media company to be a national security risk and one would have thought its days as a China-owned entity were numbered. For the sake of maximum optionality in negotiating with China on trade, the company's fate has remained in limbo.

Also, on the notion that high-end semiconductors were a national security issue, what

² Konrad Putzier, "Why Haven't Tariffs Boosted Inflation? This Theory Is Gaining Traction." *The Wall Street Journal*, August 15, 2025.

seemed to be a bipartisan desire to ban exports to China has turned into a potpourri of exemptions and extensions. Perhaps, as some are saying, this is an effort to maintain access to vital rare-earth minerals that are almost all processed in China. In an effort to maximize optionality in this case, it appears that national security has been reprioritized. The surprising aspect to me is that the China file is one of the scarce things upon which a majority of Republicans and Democrats agreed.

From my perspective, one of the clearest pieces of evidence of the validity of the maximum optionality theory are recent developments regarding monetary policy. As I wrote last month, one of the stated priorities of the Trump administration is to get interest rates down.³ One strategy the administration has used is to put pressure on the U.S. Federal Reserve Board (the Fed). However, the Fed is concerned about a stubborn presence of inflation which is about 1% above its targeted rate of 2%, and has been above that targeted rate since March 2021. This, combined with some recent Fed policy errors has led to increased cautiousness with respect to chopping rates.

As I discussed last month, the Fed Chair, Jerome Powell, has until May to serve out his term as Chair. He may stay on as a voting Governor until *that* term runs out in January 2028. The next Fed Chair needs to be one of the seven Governors on the Board (which combined with five regional Fed Presidents make up the voting committee). Well, a couple of weeks ago, Fed Governor Adriana Kugler announced her resignation seven months early. So, no problem right? Trump can nominate a dovish replacement (one that is biased towards lower rates) and get quick confirmation from the Senate which has a Republican majority. And when Jerome Powell steps down as Chair next May, just nominate this new Governor as his replacement. Also, there are two existing Governors who are seemingly sympathetic to the desire to cutting rates. Add those two and now there are three potential Chairs that are attractive to the Trump administration.

However, this locks in *only* three possibilities which does not maximize optionality. Plus, President Trump would lose much latitude in haranguing the Fed with his chosen Chair already waiting in the wings. As a result, I was very confident that this would not be how things would unfold. And I was right on this.

The theory of maximum optionality has helped to anticipate the delay in narrowing down potential candidates for the next Chair of the U.S. Federal Reserve Board (the Fed).

This could have a negative impact on the valued independence of the Fed, leading to excessive rate cuts and increased uncertainty going forward, which increases market risks.

³ Treasury Secretary Scott Bessent has stated that the administration's goal is to get the 10-year Treasury bond yield down to 3%. It is currently at 4.32% as of this writing. The administration appears to believe that if it can get the U.S. Federal Reserve Board's Open Market Committee to significantly lower the Federal Funds Rate, that this will aid in the effort. However, the Federal Funds Rate is an overnight rate, quite a bit different from the rate (or yield) on something with a maturity of 10 years. Starting in September last year, the Federal Funds Rate was cut but a full 1% over the next two and a half months. However, the yield on the 10-year Treasury bond ROSE 1% over that time period!

In the last few days, President Trump nominated Stephen Miran to serve out Adriana Kugler's term. But he has said Miran will just be a "temp." In January, it is proposed that Miran's replacement will be the Chair-apparent, waiting for the end of Powell's term as Chair. This brings back the previous five front runners. Plus, in the last week about six new names have been bandied about! (Some of the names the Trump administration threw in to the hat include a few Wall Street firm strategists who have recently been especially ebullient in their calls for rate cuts 😊). So, now we are up to *eleven* names that can be played off against one another and who can each try to outdo each other in imploring the Fed to cut rates as soon as possible. Maximum optionality!

Overall, I think the pursuit of maximum optionality will lead to a more clouded economic outlook which could have a negative effect on the prices of richly-valued growth and AI stocks. Conversely, I think it could lead to marginally lower short-term interest rates as the cacophony of potential Fed Chairs make their case via the financial media for rate cuts.

However, this era of maximum optionality won't last forever. One potential hurdle is the persistence of inflation. Consumers, regardless of political persuasion, hate higher prices and often incumbent leaders get blamed (for example, Joe Biden).

The other major hurdle are the November 2026 U.S. mid-term elections which could impact majorities in the U.S. Senate and the House of Representatives. If there is a change there, Congress may recall its right to establish and enforce tariff policies for example.

The compass provided by the theory of maximum optionality seems to be reasonably effective for now. However, that effectiveness may erode as we approach November 2026. Until then, hopefully it will be a good guide to use when I'm managing the strategy for the model portfolios and deciding what to buy, hold or sell.



By asking "What will provide maximum optionality?" with respect to a Trump administration policy, it might provide an indication as to whether or not the policy is implemented and, if it is, how it might impact our investment strategy.

Model Portfolio Update⁴

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 model portfolios in terms of the asset allocations or the investment holdings since the July *Monthly Letter*.

It was a mixed month for the asset classes with Canadian and U.S. equities ending slightly positive after selling off towards the end of the month. Although the gains were levelling off, the results continued to add to the advance that began with the Liberation Day lows at the beginning of April.

Bond returns were mostly flat and the Canadian dollar was down a little over 1% as the U.S. dollar stabilized after a tough first half to the year against most of the major currencies.

Although there are headlines trumpeting new highs in the major stock market indices, we are in more of a consolidation phase here and would need some unforeseen significant

No changes were made to the model portfolios over the last month.

July was mixed and rather uneventful for any of the asset classes.

Perhaps the markets are consolidating into a range, waiting for news.

⁴ The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of August 15, 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.

news to help stocks to accelerate upwards or break to the downside. Right now I don't see much on the horizon that looks like a potential surprise.

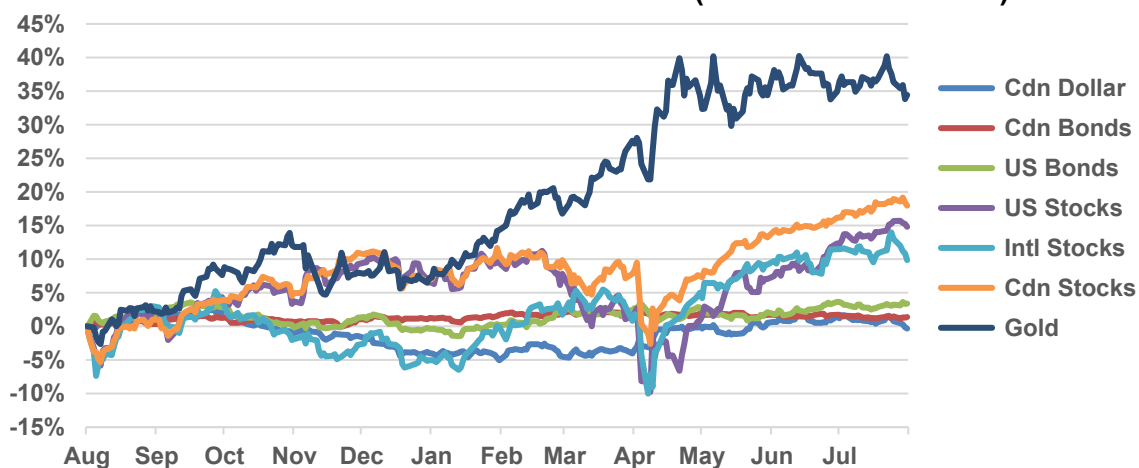
As mentioned in the first section of this *Monthly Letter*, we are likely to see a U.S. rate cut soon.⁵ The Fed is supposed to be independent, but it is run by humans who may find it hard to block out the pressure exerted by the Trump administration as well as from the chorus of those on Wall Street cheering on the possibility of lower rates.

However, if there is just a 0.25% rate cut in September, investors may look for an exit. The old market phrase says: "Buy on rumour, sell on news." By many measures, stocks are overvalued relative to history. And September is seasonally the worst month for U.S. stocks. That might add up to some turbulence as we head into the fall.

We could get another rate cut before the end of the year which would provide some ballast for stocks. However, beyond that, it might be something like persistent inflation which quashes the dreams of even lower rates and puts some of the higher-valued areas of the market at risk. But that is likely more a concern for next 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**).⁶

Chart 2:
12-Month Performance of the Asset Classes (in Canadian dollars)



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

⁵ The implied probability of a 0.25% cut in the Federal Funds Rate at the September 17 meeting is 84.5%, Source: Bloomberg Finance L.P. as of August 15, 2025.

⁶ 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.

Even if the Fed does cut rates in September, the markets may want more and may not be satisfied unless this is signaled.

Beyond shorter-term monetary policy, most of the other issues look like they may not be a concern until next year, unless we get something like a negative U.S. inflation report before year-end.

Top Investment Issues⁷

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

⁷ 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.



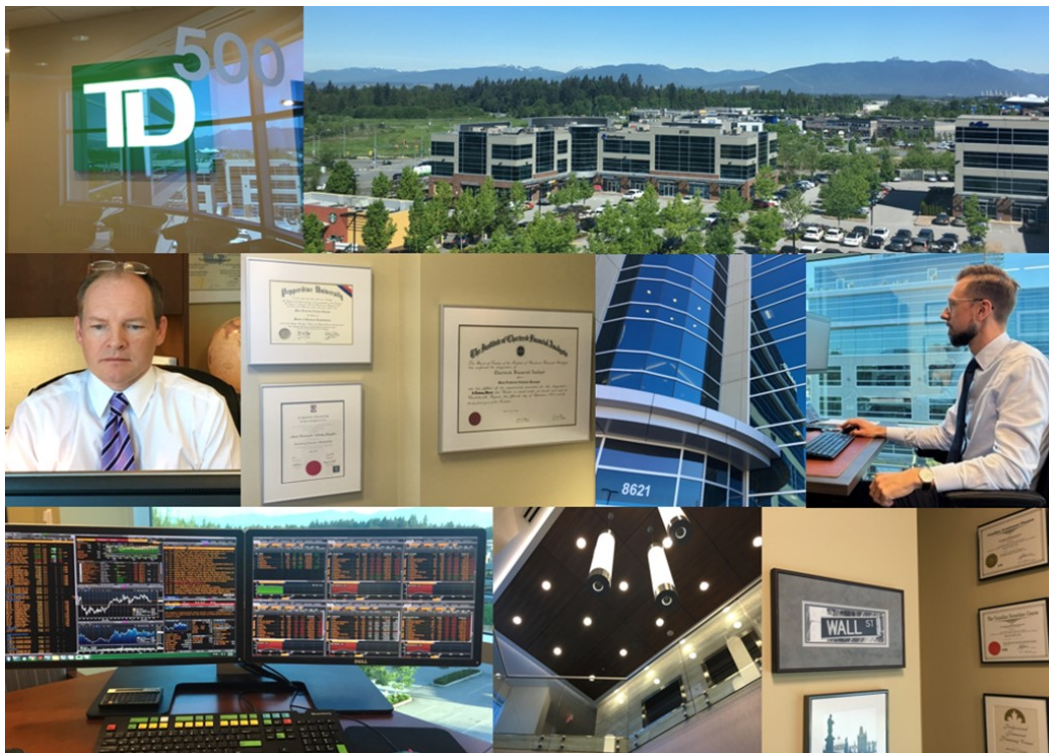
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Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.





The information contained herein is current as of August 15, 2025.

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