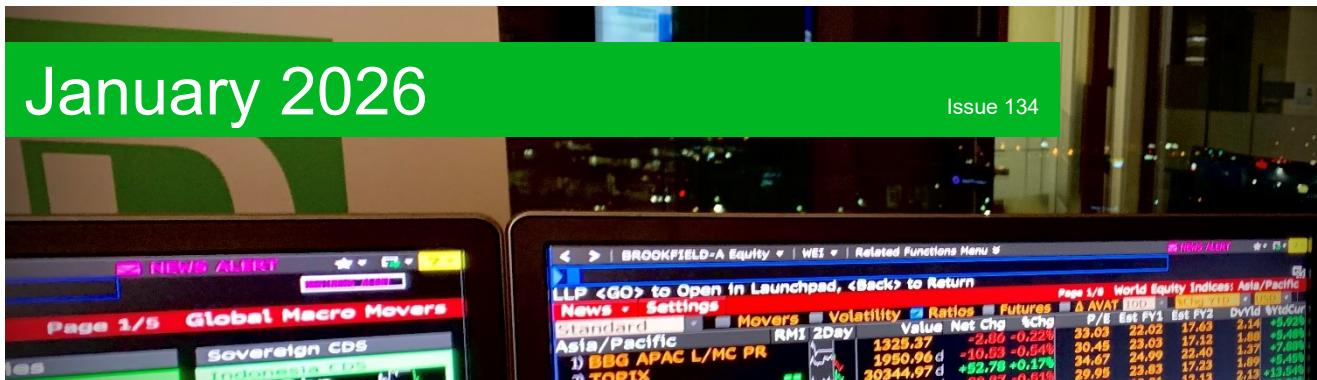


The Charter Group Monthly Letter



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Economic & Market Update

Year Four of the Everything Bubble?

The Charter Group model portfolios are on an unprecedented three-year run in terms of relatively uninterrupted growth. 2024 was the best calendar year I've ever had over two-plus decades in terms of absolute returns. 2025 was the 2nd best.

If the overall performance is broken into segments, it tells a story where almost all the asset classes contributed. To me, this is an indication of a primary factor lifting all boats. A likely suspect is the general state of financial conditions (**Chart 1**). This is mainly determined by the cost of borrowing but also impacted by current volatility as well as the returns in the stock market. With respect to stock market returns, it is a bit of a self-reinforcing upward spiral when returns are good. As the stock market goes up, it tends to draw in more and more capital, which sends it even higher.

While some asset classes have done better than others over the last three years, almost all of them have risen.

Will this "everything" bubble be able to continue for a fourth year?

The last three years have been characterized by much of this. Borrowing costs have come down since peaking in 2022 during an inflation spike. Volatility has been at historical lows. And the stock market has risen on a mostly sustained basis with only a couple of very short panics.



Chart 1:
Bloomberg U.S. Financial Conditions Index



Source: Bloomberg Finance L.P. as of January 2, 2026

Overlaid on top of this all is the Artificial Intelligence (AI) story which emerged right at the beginning of this "everything" bubble. All the way along I have felt that the market frenzy over AI was a key to the easy financial conditions as it was able to draw capital out from investors' savings and into risk assets again after a very difficult 2022.

The eye-watering returns of the leading stocks in the AI sector over the last three years presented a challenge for me in managing the model portfolios. Being underexposed has made it crucial to get the other themes and the stock-picking right. Fortunately, that was predominantly the case. Also, our large position in gold bullion helped.

Favourable (or easy) financial conditions and the excitement of AI have been the significant contributors to the "everything" bubble.

Back to the subject of this month's *Monthly Letter*: Will 2026 be another year in the "everything" bubble? Barring unforeseen geopolitical events or a shift in investor mood, most scenarios that I have considered look like it will be a continuation. I wouldn't be surprised to see a little more volatility and more muted returns, especially compared to the last two years. But most of the elements underlying markets are still intact.

Although the math behind the financing of the AI buildout was causing some investor indigestion later in the year, most of those concerns appeared to evaporate as we approached the end of 2025. The math is still questionable. It is just that investors were willing to absorb the risk for now related to the financing not working out. This may be an indication that investors who are bullish on the future of AI are resilient and have the potential to accept further uncertainty about the cost without selling out of the sector *en masse* during 2026.

In addition to the relatively hardy investor mood, there will be a number of potential sources of economic stimulus in 2026. Provisions in the Big Beautiful Bill legislation will really begin to kick in, including the ability of companies to immediately expense the cost of various types of capital spending. Normally, capital investment is depreciated over a number of years. However, being able to depreciate the cost right away would likely lead to more capital investment, thereby juicing the economy.

And let's not forget the Trump administration's ambitious attempts to staff the U.S. Federal Reserve Board (the Fed) with voting members who would be more inclined to cut short-term interest rates. Although I don't think this will have much impact on general borrowing rates, which are more influenced by longer-term rates that the Fed has less ability to control, the anticipation of Fed rate cuts is usually enough to add to investor bullishness.

Finally, with the U.S. midterm elections coming in November 2026, and with incumbents in the U.S. Congress languishing in opinion polls, expect a lot of handouts! That should add to consumer spending and bolster the economy further, all of which tends to please investors.

Long-time readers of this *Letter* will know that I believe such short-term stimulus gimmicks adds to the potential for a day of reckoning. However, the stock market usually exhibits a "sugar high" in anticipation of the short-term economic benefits.

The one possible spoiler, which I have written about numerous times, is higher than expected inflation. That would likely halt the potential rates cuts and could impact pre-election handouts for fear that those measures could stoke inflation. I think we will get enough inflation for it to become a political problem, but likely not enough to quash the stimulus attempts. That might instead be a dilemma for after the midterm elections.

So, barring unforeseen events, the market looks like it has enough inertia to continue the rally in most of the asset classes for another year, albeit with less spectacular results.



Towards the end of 2025 investors began to have more questions related to the financial cost of AI.

However, that anxiety faded relatively quickly.

2026 will see significant economic stimulus, which tends to help markets.

Prospects of lower short-term interest rates, advantageous corporate tax treatments, and handouts to consumers could create a "sugar high" for the economy and markets.

Unless something unexpected (like a geopolitical event or inflation shock for example), it appears that the markets have considerable inertia.

That inertia may not be enough to produce the returns that we have seen the last two years but provides good odds for a fourth positive year in this "everything" bubble.

Model Portfolio Update¹

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

Shares in Boeing were added to the U.S. Equities asset class. This addition was timed to settle in early January, which helps a little with respect to the taxes on some of the model portfolio capital gains incurred to make room for Boeing. Other than that, the asset allocation percentages remained unchanged.

Boeing was added to the U.S. Equities asset class.

Most of the 2025 volatility in the model portfolios was concentrated around the so-called "Liberation Day" April 2nd when the U.S. formally announced the imposition of tariffs. The portfolio had been in positive territory for the year at that point but fell to negative mid-single digits. However, recovery was quick as the bulk of the tariffs were paused or reduced.

Otherwise, the overall asset allocation was unchanged.

From the lows around Liberation Day, the portfolios steadily climbed through to early November. Although the portfolios don't have much direct exposure to AI, they were tossed around a little as investors questioned the finance behind all the AI ambitions.

¹ The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of January 2, 2026. 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.

As AI anxiety faded towards the end of the year and markets recovered, the portfolios regained their year-to-date highs.

Relative to the other similar "balanced" investment mandates, the model portfolios had their second consecutive year of better results on average. The advantage was maintained throughout the entire year reaching a maximum gap in later October before closing a little over the last two months. The results were mostly due to better stock-picking and getting the themes right (the energy revolution and hedging against stubbornly persistent inflation). Conversely, there was a small amount of underperformance in the Fixed Income and International Equities asset classes because of holding shorter-maturity bonds and not enough weight in European markets respectively.

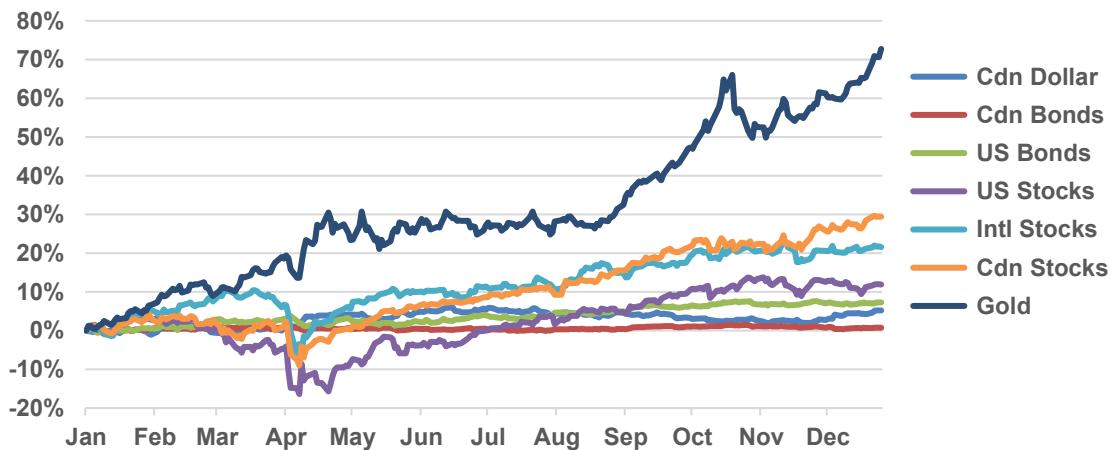
2025 was the 2nd consecutive year of good relative returns for the managed portfolios and the 3rd consecutive year of positive absolute returns.

Because of the market inertia I discussed in the first section of this *Letter*, major portfolio changes not likely for the next while. Right now, the main looming problem on the horizon from my perspective would be signs of an inflation shock. If such signs emerge, then a further portfolio tilt towards sectors that are less impacted by rising material and labour costs could become more prevalent in the portfolios.

I am not expecting the magnitude the last two years of returns in 2026, but there could be enough inertia to produce another positive 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**).²

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



Source: Bloomberg Finance L.P. for the interval from January 1, 2025 to December 31, 2025

² 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 Issues³

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

³ 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 January 2, 2026.

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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