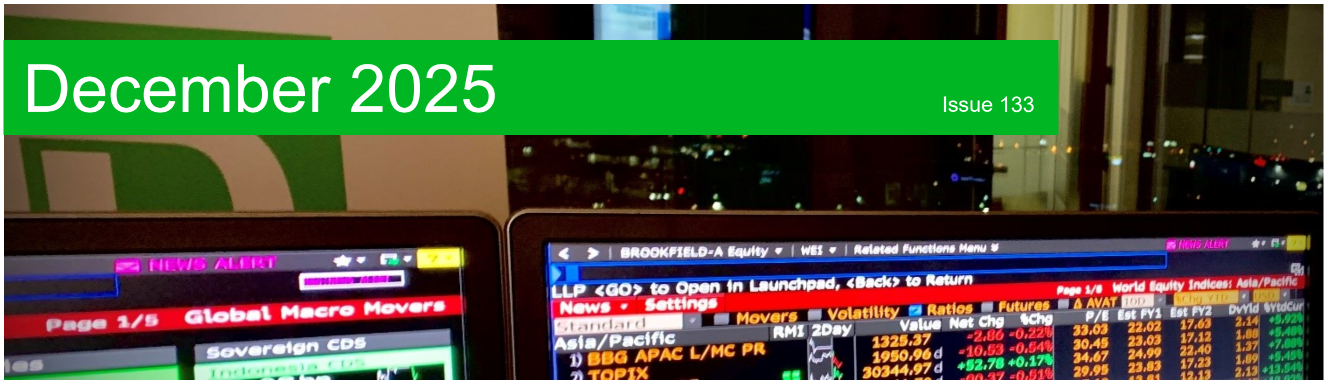
The Charter Group Monthly Letter



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Economic & Market Update

The Price of Turkish Delight

Source: Mark Jasayko

With the topic of inflation and affordability becoming a critical issue economically and politically in North America, I have made it a priority over the last couple of years to visit countries where the problem is even more pronounced. Last winter I visited Argentina and learned how Argentines managed their lives during inflation which hit an annualized rate of 289% in April 2024 (**Chart 1**).

Inflation and affordability are becoming more important economic and political issues.

Are there lessons from other countries that can teach us about the consequences?

In November, I was in Turkey which only reached a relatively measly inflation peak of 85% in October of 2022 (**Chart 2**). Curiously, both countries currently are now at almost exactly the same annual inflation rate of about 32%.[1] So, definitely an improvement from the highs. But 32% is still higher than almost any other country at the current time and would

[1] Source: Bloomberg Finance L.P. as of December 15, 2025.

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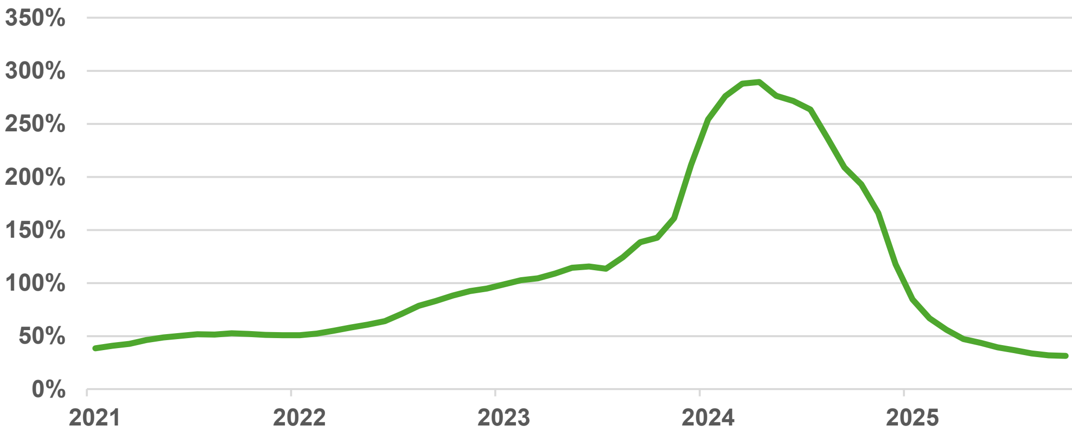
still present severe challenges in managing household budgets.

In Canada, the current annual inflation rate is at 2.2% and I am still noticing the effects on most of my visits to Save-on-Foods.[2] I have a hard time imagining what 32% would feel like.

Argentina and Turkey are probably the best two examples of "functional" economies with good potential that have suffered from very high inflation.

Chart 1:

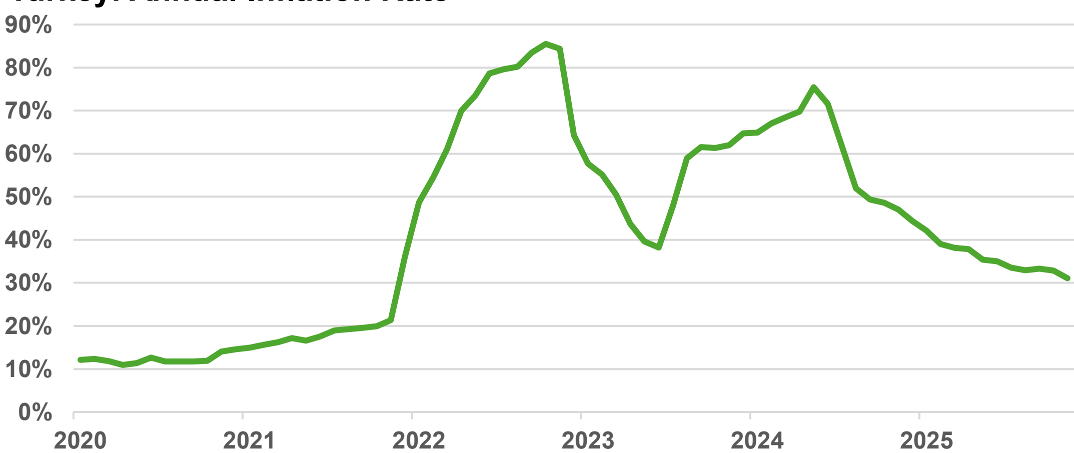
Argentina: Annual Inflation Rate



Source: Bloomberg Finance L.P. as of December 15, 2025

Chart 2:

Turkey: Annual Inflation Rate



Source: Bloomberg Finance L.P. as of December 15, 2025

Talking with a number of Argentines last year, their strategy was usually to spend money as quickly as they earned it. That way there would be very little depreciation. I often offered to pay in U.S. dollars, but almost no one was interested. There isn't as much of a black market for U.S. dollars in Argentina as compared to some other Latin American countries. The locals were not able to easily use U.S. dollars. And it was a hassle for them to get a

Consumers in these economies have found ways of dealing with inflation, but rising prices still inflict much pain.

[2] Source: Bloomberg Finance L.P. as of December 15, 2025.

good rate for converting U.S. dollars into Argentine pesos.

In Turkey it was the opposite. There was a huge black market for Euros. When I asked the price of something, I would be quoted in Euros and then, maybe, in Turkish lira if I didn't respond. I spent most of my time in Istanbul and Antalya, both of which see massive amounts of visitors from Europe helping to maintain a high circulation of Euros. Locals who received Euros could in many cases use those Euros for things that they need. And if they decided to hold onto the Euros for a while, that could act as a decent inflation hedge against the constant devaluation of the Turkish lira.

How did these two countries end up with inflation problems? From some perspectives, it is surprising. Neither of these economies have problems of excess consumer or industrial demand, a potential source of inflation. And, relatively speaking, neither country suffers from labour shortages. Both countries are fairly young demographically which would normally keep inflation contained (young people generally have more energy and work for less).

The answer to the inflation puzzle has to do with government spending and monetary policies which accommodate that spending. Both Argentina and Turkey have spent well beyond their ability to collect tax revenues. The other commonality is a dependence on foreign investors to buy the debt that the budget deficits create over time.

Argentina and Turkey have gotten into inflationary problems because of excess government spending and the printing of money to finance much of that spending.

The real problem begin when the bonds that were used to finance the deficits mature. It is time to pay the creditors. If the money is not available to do so, then those maturing bonds will need to be rolled over into a new issue of bonds that hopefully foreign investors will be willing to buy at a manageable yield. However, history indicates that bond-buyers will often demand increasing yields to compensate for potential default and foreign exchange risk.

This process can go on until the cost of the debt becomes unaffordable and it becomes tempting for the central bank to print money to meet obligations. Too much money printing is commonly the primary contributor to inflation.

In North America there has been some talk of inflation fading away. It is true that we have come down notably from the inflationary peak of mid-2022. However, I think many analysts, policymakers, and political leaders underestimate how difficult it is to extinguish all the inflationary embers when financial conditions are still historically loose and the U.S.

and Canada are beholden to bondholders to finance government spending that shows no signs of levelling off.

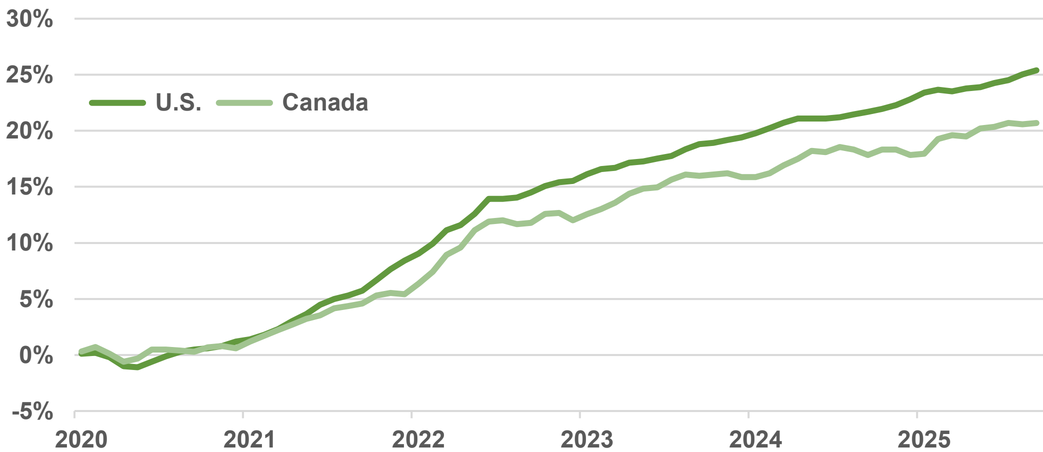
Does this rhyme with what is happening economically in Argentina and Turkey? Yes. Will this lead to us suffering similar levels of inflation? I don't think so. Will it lead to enough inflation to impact consumers to change spending behavior? Probably. Will the impact on consumer impact how they vote? It already has. And voters likely have not seen much improvement as inflation stubbornly remains above the 2% target central bank target which over the last few decades we have been encouraged to believe in. And all of this is on top of the most significant burst of North American inflation in more than a generation (**Chart 3**).

Like Argentina and Turkey, government spending in North America shows no signs of slowing down.

And our reliance on bondholders, many of them foreign, increases inflationary risks for us.

Chart 3:

Cumulative Consumer Inflation



Source: Bloomberg Finance L.P. as of December 15, 2025

In 1966 Nobel-winning economist Milton Friedman wrote: "Inflation is always and everywhere a monetary phenomenon." If policymakers have forgotten that lesson, then maybe they can look to Argentina and Turkey for a refresher.

We may not experience very high inflation rates, but even a modest amount can cause economic challenges for consumers.

Model Portfolio Update[3]

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 during November.

No changes to the strategies or the holdings in the model portfolios during November.

Gold continued its 2025 momentum and was up almost 6% during November in Canadian dollar terms.[4] Continued overseas central bank buying, potential currency debasement, and more retail investor interest provided the fuel.

Gold and silver were significantly higher because of positive investor sentiment and because of concerns over currency debasement.

Not to be outdone, silver was up over 16% in Canadian dollars.[5] At the margin it may have been investors' fear of missing out on the year-long silver rally that helped propel the latest jump in price. Despite gold's remarkable ascent, silver has done *even better* this year, and by a significant amount.

Canadian equities were the other notable performers in November with mining stocks tracking the prices of the underlying metals.

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[3] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of December 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.
[4] Bloomberg Finance L.P. as of December 15, 2025.
[5] Ibid.

As of this writing, we did get a 0.25% cut in the U.S. Federal Funds Rate. Equity markets initially breathed a sigh of relief. However, as the week wore on, investors started selling primarily in sectors that had become vulnerable in terms of valuation (which I discussed last month in this section). Those sectors involve a connection to the Artificial Intelligence (AI) boom. And, generally, the closer the connection, the greater the recent selloff.

Despite a reduction in short-term interest rates, the markets found reason to worry about Artificial Intelligence (AI) stocks that may have risen too far too fast.

Without the clear assurance of continued rate cuts, investor anxiety is beginning to focus on the financial math behind the AI buildout. The "canary in the coal mine" here is Oracle Corp. stock which shot up to $328 USD in September on news of its $300 USD billion wager on OpenAI (the company behind ChatGPT), only to plummet to $190 USD recently when investors began to stress about the amount of debt that will need to be incurred.[6] In recent days, that debt concern has been aimed at companies other than Oracle.

Much of the AI boom may need to be financed with more debt than originally anticipated.

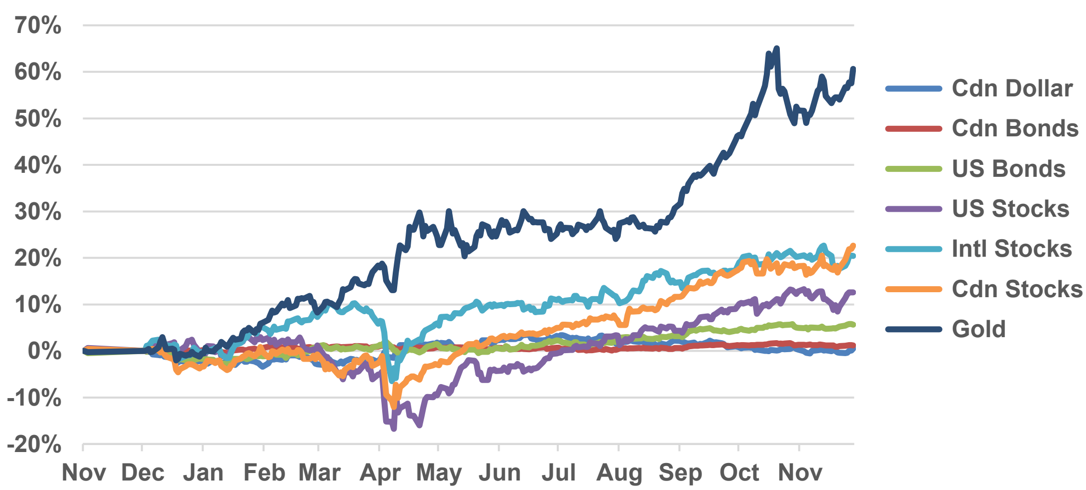
Most of our AI exposure is limited to companies that produce the electricity needed to drive AI. As a result, our relative performance has been a little better than what the overall market performance recently might suggest. Perhaps that will be a trend for a while longer unless there is a shift back to more positive sentiment surrounding AI.

Our AI exposure is underweight relative to the market which helped to cushion the impact of the selloff.

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 4**).[7]

Chart 4:

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



Source: Bloomberg Finance L.P. for the interval from December 1, 2024 to November 30, 2025

[6] Bloomberg Finance L.P. as of December 15, 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 December 15, 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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Index returns are shown for comparative purposes only. Indices are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index.

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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 sixth year in a row.

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