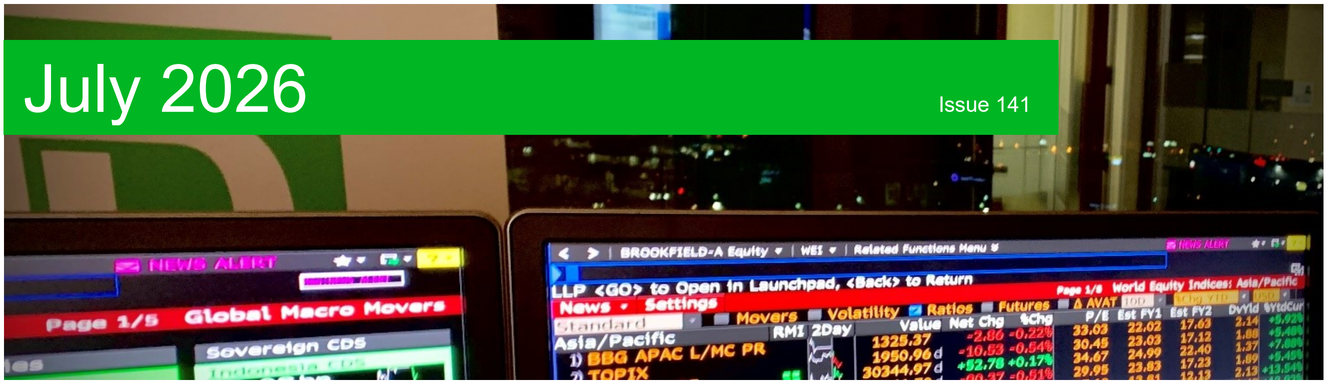
The Charter Group Monthly Letter



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Economic & Market Update

Revolving Door at No. 10 Downing Street


Official Portrait, 2016. His Majesty's Government.

Since 2011, Larry the rescue cat has lived at the U.K. Prime Minister's residence in London. Given that he is a roaming indoor/outdoor cat (known for hunting mice), we know that the door at No. 10 Downing Street is, in some sense, porous.

And now that Larry is about to welcome his 7th Prime Minister, the door at No. 10 is also fluid in a symbolic sense. 😊

The voters in the U.K. seem to have become perpetually grumpy which is contributing to short tenures for Prime Ministers over the last decade.

What might be the source of this?

With Andy Burnham's appointment, he will become that 7th Prime Minister since David Cameron resigned almost exactly 10 years ago in July 2016.

Travelling to various points in the U.K. for a couple of weeks earlier this month, I looked for clues as to why this leadership carousel has persisted for a decade and if there were any investment or economic lessons to be learned.

A vibe in response to politics and the economy that I sensed was one that *The Economist* magazine recently referred to as "sulphurous." I had to look that up. It is a way of saying "harsh or corrosive in tone."

And the further north in England that I travelled (where Andy Burnham is from), the more pronounced this was. Londoners have referred to this northern state of mind as "chippiness." Much of it has to do with political power being more concentrated around London. The fact that the northern economy isn't quite as robust likely fuels this sentiment (despite net transfer payments heading north). Burnham has also expressed a desire to establish an informal "No. 10 North" at his home in Manchester as a way of appealing to the regional grievances.

All of this often boils down to money. Paraphrasing an old adage: "If one can figure out how the money flows, they are close to figuring out the politics." An economically disadvantaged region subsidized by another region. That explains the politics in many countries, including Canada.

There has always been some regional angst which is one factor contributing to the ouster of some Prime Ministers.

However, one thing that has changed over the last decade, and which has contributed to the short leadership tenures in the U.K., is that we are now in an era of economic tradeoffs. This was not prevalent in the period from the late 1980s to the late 2010s. Citizens and policymakers in leading countries did not need to deal as much with tradeoffs. General global conditions allowed for easy money policies without immediate concern for inflation or debt crises. Things have changed. And it's hard to deal with change.

Perhaps this has been inflamed by the new era of economic tradeoffs where it is difficult to ramp up the spending to pay for election promises.

Canada & the U.S. are beginning to wrestle with this new landscape of tradeoffs. However, the U.K. is having a more difficult time with it. Their economic situation was a little worse to begin with and they lack some of the inherent economic advantages that we see in North America. The U.S. has an innovation advantage. And Canada has an abundance of resources that the world needs more of. It also helps that Canada is geographically fused to the U.S., a ready market where transportation cost of exports is low. This is still more than sufficient to counter the impact of tariffs.

The era of economic tradeoffs has hit the U.K. harder than Canada or the United States.

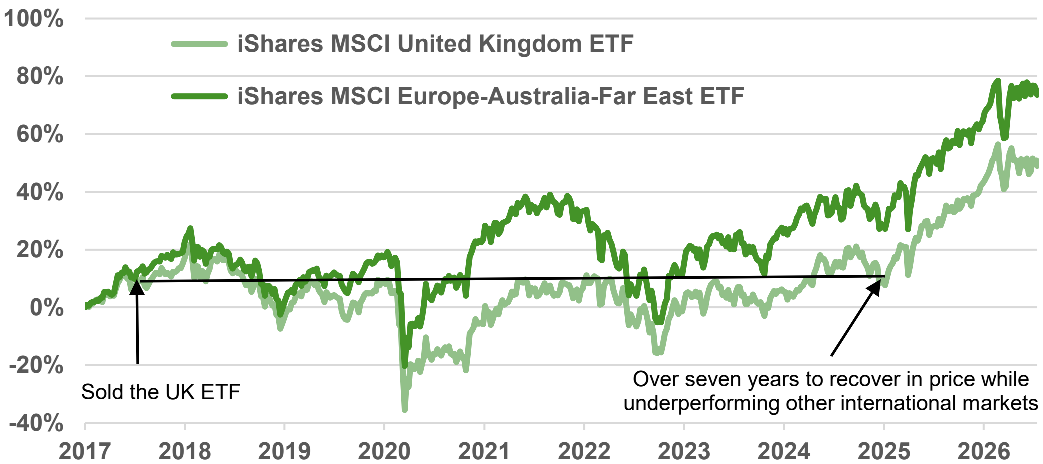
But we could be heading in that direction as government debts continue to increase.

At the time of Brexit I felt that the U.K. had an opportunity despite exiting the European Union. This kind of situation can heighten a national focus fueled by necessity. If one is foregoing the net benefits offered by a trading union, then what better time to zero in on tax policy and regulation to maximize productivity and innovation. Well, that didn't happen. Perhaps too much bureaucratic inertia, a lack of political will, and a population that hadn't been sold on the potential upside of policies that would be difficult to implement at first.

Also holding back the U.K. is the infrastructure that is still hemmed in by the development patterns and population centres that better suited the industrial revolution more than a modern innovation-based economy. That was a major reason for selling the U.K. index ETF that we had in the model portfolios up until 2017 (**Chart 1**).

Chart 1:

U.K. Stocks vs International Stocks ex-North America



Source: Bloomberg Finance L.P. as of July 21, 2026

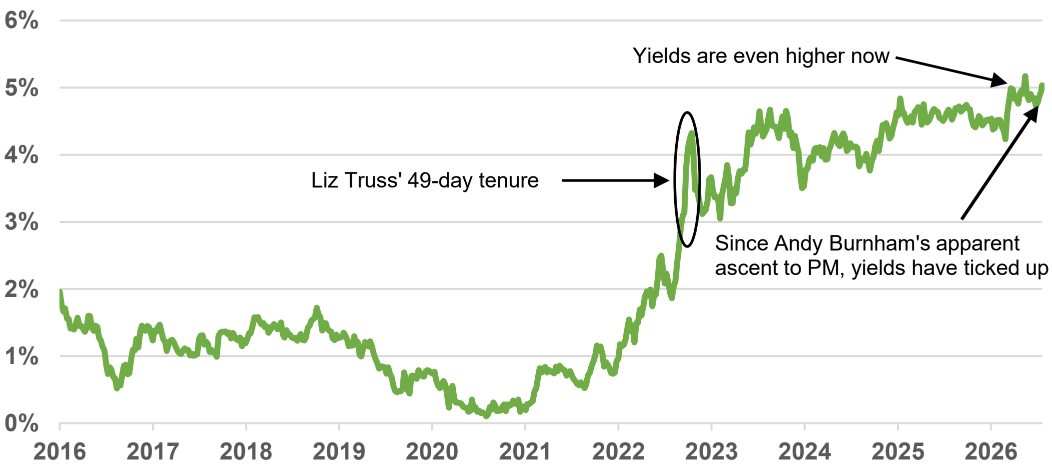
Bond market reaction dramatically shortened Liz Truss' tenure as Prime Minister.

All of this has enhanced the challenge of economic policy tradeoffs. We have seen this when spending and debt are increased without a credible plan to control the spending at some point. The most dramatic example was in 2022 when Prime Minister Liz Truss proposed a budget that sent the market for U.K. government bonds into a tailspin. It was a budget that a government probably could have gotten away with just a few years earlier. Instead, bond investors sold, driving interest rates higher and leading to Liz Truss' resignation a few weeks later. Bond holders didn't like the fact that there was no plan to address their concerns. With her resignation, bond yield fell back some. However, within six months they started rising again as a warning to future governments and are now higher than they were at the peak of the Liz Truss budget kerfuffle (**Chart 2**).

Plus, the bond market sent signals warning against over-spending to Sir Keir Starmer.

The recent outgoing Prime Minister, Sir Keir Starmer, was from the Labour Party which traditionally espouses more spending. There was hope that he would follow through on expectations of more spending. However, he and his Chancellor of the Exchequer (the finance minister) were restrained by the pressure of the bond market. They realized that they didn't have the latitude to increase spending without running into the problems that sank Liz Truss. As a result, after two years of not being able to communicate this effectively to voters, the Labour Party put pressure on him to resign. But that may not do much good. His successor Andy Burnham is going to need to face those same bond market vigilantes. In fact, market interest rates have been bumping up since it was effectively concluded that Burnham had become the heir apparent. How will he explain to his rank and file and supporters that he is just as constrained as Starmer was? Not easy. Could it be the recipe for another short tenure?

Chart 2:
Yield on 10-Year U.K. Government "Gilts"



Source: Bloomberg Finance L.P. as of July 21, 2026

With all the U.K. Prime Ministers over the last decade, the lack of bold spending contributed to negative approval ratings in my opinion. In my view, most cases involved other aggravating factors ranging from being out of touch, minor scandals, or leadership challenges. Perhaps in the U.K. the heightened frustration with household financial difficulties amplified the impact of these other missteps.

The bond market might send those same signals to Andy Burnham if he tries to deliver on costly promises.

Eventually I think the economic tradeoffs in Canada and the U.S. will become more pronounced as we have already seen in other G7 nations. We might see more rotation in political leaders as a result unless things are preempted with more austere budget policies. However, that is currently not a winning election formula. So, I am not expecting such policies anytime soon.

How will the U.K. public react if he does not deliver?

Larry is getting up there in age. I read recently that he is 92 in "cat years." However, with the fact that the era of hard economic choices and tradeoffs may be with us all for a while, there is a reasonable chance that he will live to see his 8th U.K. Prime Minister.

Model Portfolio Update[1]

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

	Target Allocation %	Change
Equities:		
Canadian Equities	15.0	None
U.S. Equities	34.0	None
International Equities	11.0	None
Fixed Income:		
Canadian Bonds	18.2	None
U.S. Bonds	9.8	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2.0	None

There have been no changes to the asset allocations in any of the model portfolios during June and into July. A bond matured in June, the proceeds from which were rolled into a B.C. provincial bond with a maturity of three years. And another portfolio rebalancing was conducted at the time of that bond rollover.

Except for a maturing bond which was replaced, no other securities were changed.

Gold was off over 10% during June. However, it was a positive month overall for the model portfolios as gains in stocks and a decline in the Canadian dollar contributed to the results.

The model portfolios were rebalanced at the time of the bond replacement.

Both the stock and bond markets feel like they have entered a narrow trading channel over the last couple of months. There has been a continual ebb and flow of headlines concerning AI, IPOs, and the hostilities in the Persian Gulf. One week, things move in one direction, and then next week in the opposite direction. Earnings for the second quarter might have been expected to help the markets break out of the channel. But even that has had an ebb and flow to it.

The headlines are going back and forth on things like AI, IPOs, and the Persian Gulf which has helped to keep the market in a narrow channel.

[1] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of July 21, 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.

On the horizon, there aren't many potential near-term catalysts. Beyond that it might be the run-up to the U.S. mid-term elections in November that helps the market to break out. That could provide a lift to equities as investors get a sugar high from all the talk of spending and handing out stuff. The bond market might not react so well if there is a sense that the spending could add to inflation and further push back on hope of interest rate cuts.

There are not many catalysts ahead that might push the market to break out of the recent trading channel.

We might need to wait until to U.S. midterm elections and all the campaign promises to lift the markets higher.

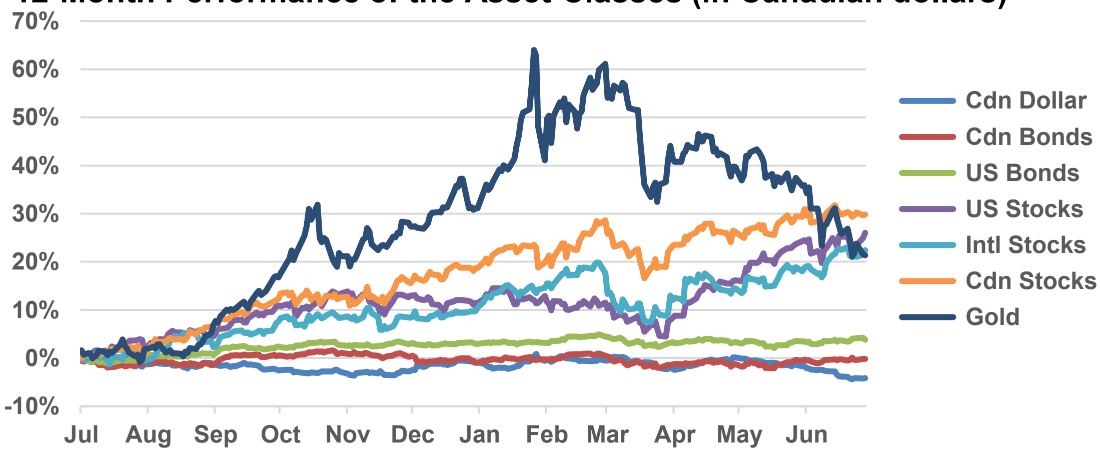
One challenge that markets could face involves the massive raising of capital by major AI-related tech firms. To finance the data center buildout firms that have historically financed capital spending through internally generated cash flow are now seeking to raise capital via the bond market, SpaceX being the most significant example (the $25 billion is expected to be used by its xAI division). As discussed in previous market and economic update presentations and in previous issues of this newsletter, a spike in the demand for capital has the potential to lift the cost of capital (the price of which is reflected by higher interest rates for everyone trying to borrow). When higher interest rates are used in the calculation of the present value of a stock, that value will be decreased assuming all other variables are held constant. That could be the recipe for a general stock market correction.

One concern going forward is the potential for a climbing cost of capital (interest rates) if too many large companies rush to market too quickly to raise capital. That's generally a negative for both stocks and bonds.

Below is the 12-month performance of the asset classes that I have used in the construction of The Charter Group's model portfolios. (**Chart 3**).[2]

Chart 3:

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



Source: Bloomberg Finance L.P. for the interval from July 1, 2025 to June 30, 2026

[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 iShares Core Canadian Universe Bond ETF; 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[3]

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

[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 Mark and Keith commit all their own investable wealth to the same model portfolios in which clients are invested.

The information contained herein is current as of July 21, 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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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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