claret Asset Management

QUARTERLY LETTER | Q2.2025

"The years say what the days cannot tell" (Ancient Chinese Proverb)

July, 2025

As we were writing the last quarterly letter at the beginning of April 2025, these were some of the headlines:

"Stock Market Nosedives After Trump Unveils Flurry of Tariffs on 'Liberation Day'"

"Dow Plunges 4,000 Points in Two Days, S&P 500 Enters Correction Territory Amid Tariff Fears"

"Wall Street's 'Fear Gauge' (VIX) Spikes to Highest Level Since COVID-19 Crash"

"Global Markets Reeling: Asian and European Indexes Down Amid Trade War Concerns"

"Stagflation Fears Rise as Tariffs Threaten Economic Growth and Fuel Inflation"

"Big Tech Giants Bear the Brunt: Nvidia, Tesla, Apple See Significant Declines"

"Oil Prices Tumble as Trade Tensions Spark Worries about Global Demand"

"Recession Risk Looms: Experts Warn of Economic Slowdown as Tariffs Take Hold"

Who would have thought that it was also the <u>bottom</u> of the sharp correction triggered by the "Trump tariffs". From that point on, the US market rallied 24.50%, the Canadian market moved up 19.33% and the European market is up 14.78% for the 2nd quarter ending June 30, 2025.

After this market rebound, here are some headlines from the same sources...

"S&P 500 Nears Record High, Completing Stunning Comeback from April Sell-Off"

"Dow Rallies as Trump Administration Pauses Key Tariffs for 90 Days"

"Consumer Sentiment Rebounds from April Lows, Signaling Cautious Optimism"

"Big Tech Leads the Charge: Nvidia, Microsoft, Apple Drive Market Higher"

"Jobs Report Fuels Hopes for Soft Landing, Unemployment Remains Low"

"Federal Reserve Signals Patience on Rates, Easing Investor Jitters"

"VIX Retreats: Market Volatility Eases as Trade War Fears Subside"

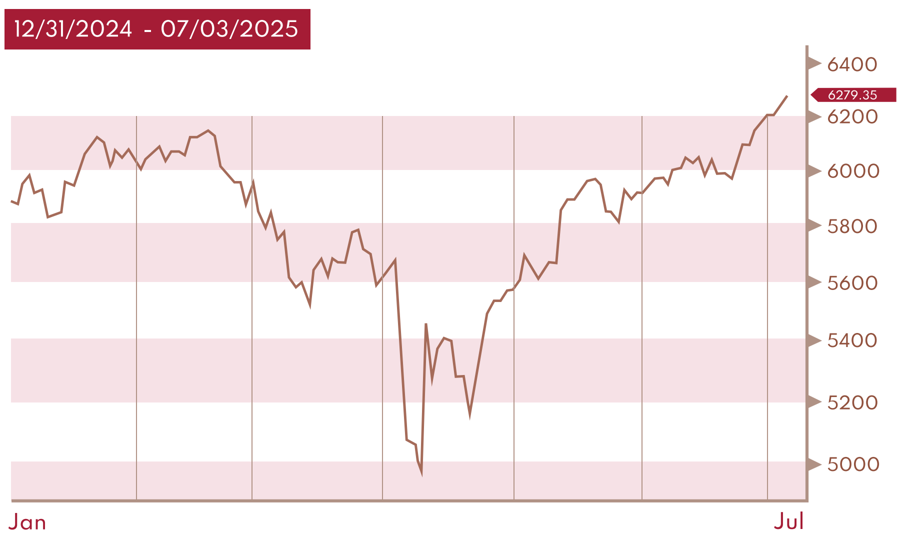
"Global Stocks Follow Suit: European and Asian Markets Recover Ground"

"Q2 Earnings Outlook Brightens Amid Tariff Reprieve, Analysts Upgrade Forecasts"

Talk about another knee-jerk reaction perhaps?

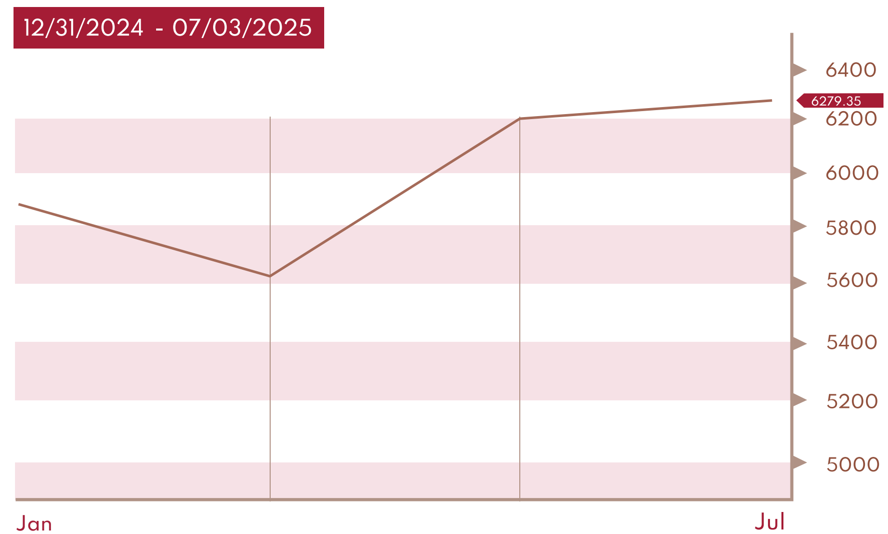
It is, however, quite interesting to notice that investors' emotional state varies a great deal depending on how frequently they observe the markets. The following 2 charts depict the same period of market action, from December 31, 2024, to June 30, 2025, and on the same scale. The only difference is the periodicity: the first chart is the daily close and the second chart is the quarterly close.

DAILY CLOSE



Source: Bloomberg

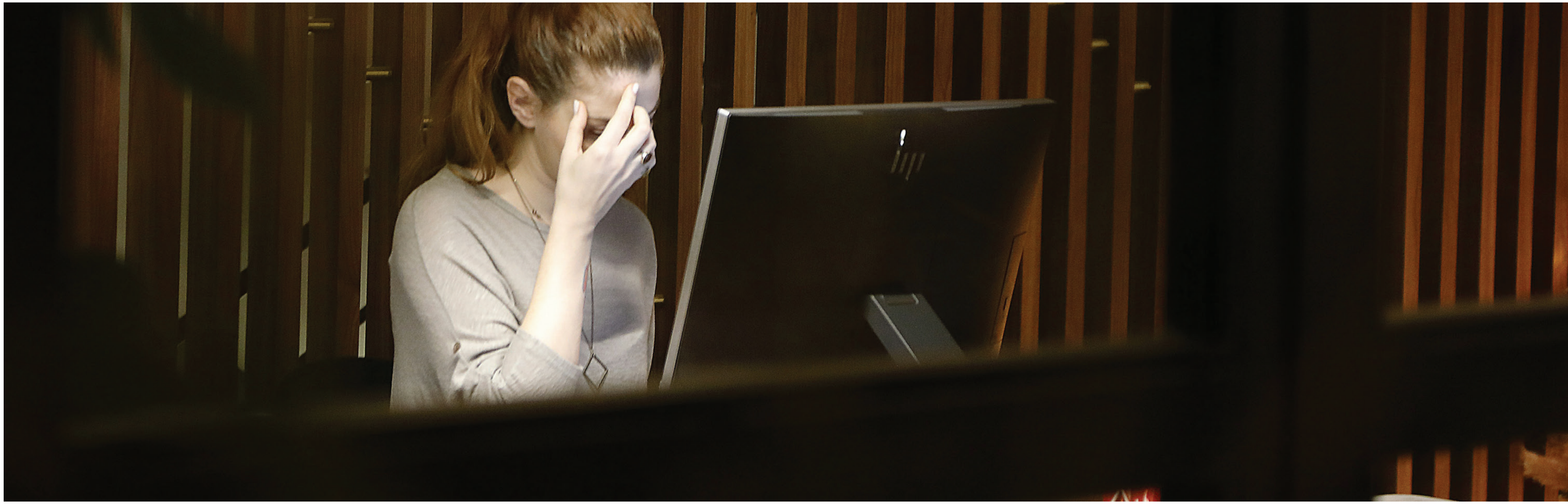
QUARTERLY CLOSE



Source: Bloomberg

You tell me which one causes more fear and heart palpitations? However you feel, it is pretty much the emotional pain of volatility...

We would rather stick by our long-term principle that economic forces are ALWAYS stronger and longer lasting than political forces. Last we looked, the economy in the US is reasonably strong and so is the world economy. Hence, it is always better to focus on valuation and to search for good companies to invest in.



There are many more reasons to ignore the short-term reactionary nature of market participants and here are a few:

- As crazy and cruel as it is, do you know that since the beginning of the war between Israel and Hamas on October 7, 2023, the Israeli stock market is up a whopping 57%? Such is the counter-intuitive nature of stock markets.

- Since COVID started in 2020, the official worldwide death toll from the pandemic is over 7,000,000 people. The US alone accounted for 1.2+ million and yet, the US stock market is up 141%. Is this what you would have expected?...

- Since we founded Claret in 1996, the list of troubling events we have been through is exhausting, starting with the Thai currency collapse, the Russians default on their debt, the Long-Term Capital Management debacle that threatened the global financing system, the H1N1 flu, Y2K, The Tech Bubble, 9/11, The Afghan War, Recession, The Iraq War, SARS, the 2008 Subprime mortgage crisis, Real Estate Collapse, Global Financial Crisis, Oil price collapse, Ebola, Crimea invasion, Brexit, Trump impeachment, China trade War, COVID-19, Invasion of Ukraine... and on it goes...

  While we have missed a few events, that is still an intimidating list of trouble. Despite all that has gone "wrong" worldwide, a combined portfolio of 50% in the SPTSX index (representing Canada) and 50% in the S&P 500 (representing the US) is up a total of more than 1230% in those same 29 years (dividends included), an annual compounding rate of 9.3%.

As tempting as it is to try to use world events to profitably move in and out of the markets, but as timing the markets and events is virtually impossible, it is pretty difficult to improve on a Buy and Hold strategy that has had such a good track record.

As we look into the next 29 years, we clearly can't promise the same magnitude of returns. Interest rates being as low as they are, it is quite unlikely that the market can achieve that same performance, although we are quite confident to say that equities, over that much time, will continue their historical pattern and still outperform government bonds and cash.

Other Current Headlines...

About housing affordability for young people:

- In analyzing the supply and demand of housing, it is obvious that supply is the main problem. Just maybe, all levels of government should review and analyze the main reasons why developers and contractors don't build enough new houses, and multi-family dwellings but rather keep building condos. Could there be a solution if we lighten up regulations in certain types of construction? And offer tax incentives to build more of the first 2 kinds of dwellings and less of the last one?

- As for the buyers, here in Canada, maybe we should make the (mortgage) interest payments for first-time home buyers tax deductible, along with an eventual related capital gains tax on their first property...

About the hiring frenzy in the AI (Artificial Intelligence) industry:

- We are a little apprehensive about the magnitude of salaries big tech firms are paying for "talent". It sort of reminds us of the internet bubble when an obscene amount of money was spent on anything internet that amounted to a gigantic waste of shareholders' money. We should not lose sight of the fact that purchasing this talent for these mind boggling sums may also simply reflect an opportunity to hobble a competitor's progress in AI and do so before another competitor can scoop the AI "star" that they have now taken off the market.

But perhaps overall, it may be worth it since the internet has changed the way we operate in the digital economy. However, only a few start-ups at that time made it to the big leagues. Most early investors lost money, either by buying in the wrong companies or by getting out too early.

As Charlie Munger used to say: *"It is not supposed to be easy. Anyone who finds it easy is stupid"*.

Have a great summer.

- Alain Chung, CFA, Chairman and CIO, on behalf of the Claret team.