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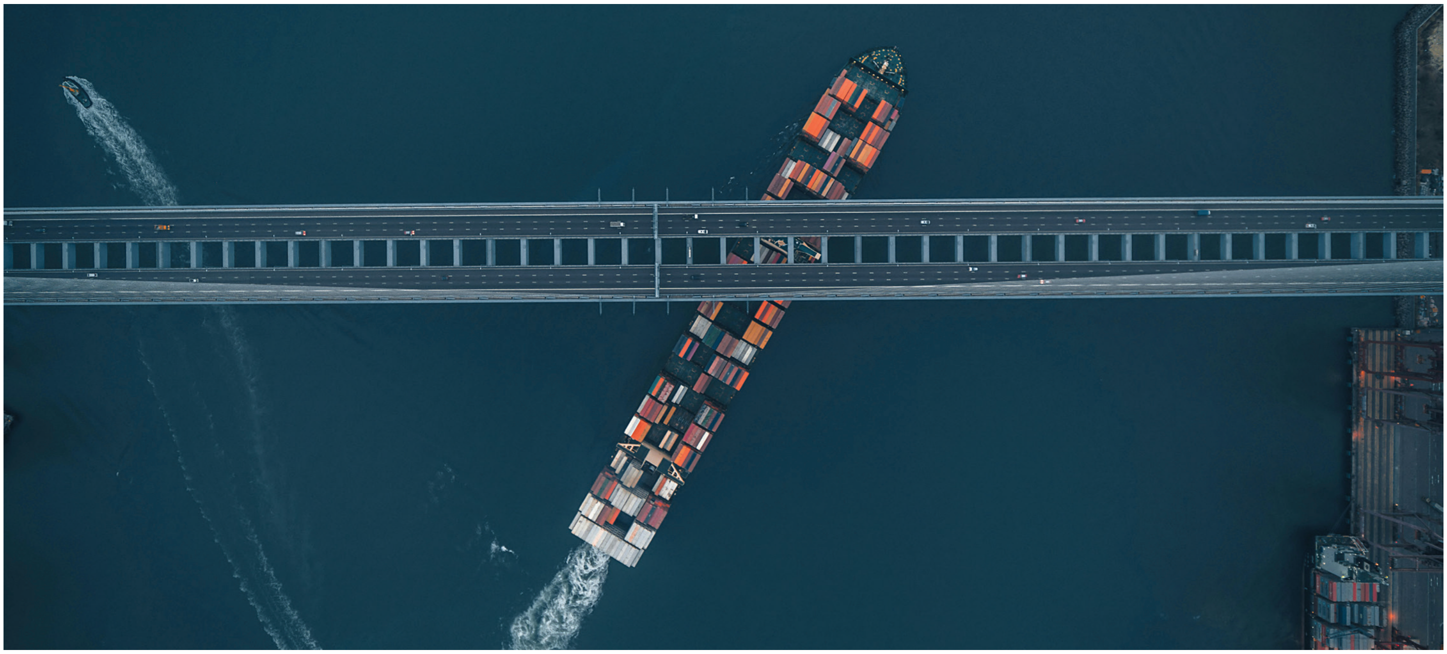
The Year of the "Unloved" Rally: A 2025 Retrospective

January, 2026

If 2024 was the year of the breakout, 2025 was the year the stock market climbed a historic "wall of worry." As the year began, the consensus among forecasters was grim. In the process of electing Donald Trump to a second term, economists and strategists warned that the combination of extended tax cuts, aggressive deregulation, and sweeping tariffs would overheat the economy, forcing the Federal Reserve to abort its rate-cutting cycle. The consensus was that 2025 would bring "stagflation lite"—sticky inflation caused by tariffs, coupled with slowing growth due to high borrowing costs. Bearish sentiment was widespread, fueled by fears that the AI "bubble" was set to burst, anxieties over renewed trade tensions created by Trump's rhetoric, and the belief that consumer spending had finally hit a wall. Major institutions predicted volatility and flat—or even negative—returns, urging investors to brace for a hard landing.

The reality, however, defied the pessimists at every turn. The market did have a moment of panic on "Liberation Day" (April 2nd, 2025) when Trump announced his major shift in U.S. trade policy, adopting aggressive new protectionist measures through sweeping "reciprocal tariffs". The correction was immediate and violent and for roughly one week, panic gripped the financial system.

Facing mounting pressure from crashing markets and corporate backlash, on April 9th, the administration announced a "90-day pause" on the implementation of the most severe tariffs to allow for negotiation.



This walk-back triggered a furious relief rally, turning the panic into the year's ultimate "bear trap." Instead of crumbling, the market staged a resilient, broad-based rally. The S&P 500, which many feared would retrace its steps, instead surged, delivering double-digit returns (slightly under 18% in USD) by year-end and flirting with the 7,000 milestone.

The driver of this performance was a "soft landing" that transitioned into a steady expansion. Corporate earnings did not collapse; they accelerated. The "Magnificent Seven" continued to deliver, but crucially, the rally broadened to include industrials and financials, proving the market was standing on more than just hype. Inflation remained sticky but manageable, allowing the economy to absorb higher rates without breaking. Let's not forget that the Fed did lower interest rates starting in September… 3 times.

Ultimately, 2025 served as a stark reminder that market sentiment is not market destiny. Investors who stayed on the sidelines awaiting a "perfect" entry point missed one of the most robust years for compounding returns in recent history, as the market punished pessimism and rewarded those who held firm through the April storm.

Is a 50-year mortgage a good idea?

Although it is highly unlikely to happen in Canada, this idea is currently being floated (most notably by The Trump administration in late 2025) as a way to lower monthly mortgage payments. While it sounds interesting, the mathematics prove that it is actually a bad idea:

- On a typical median home (priced between $400k-$500k), extending the loan from 30 to 50 years may only save $150-$250 per month;
- Because 50-year loans are riskier for banks, the interest rate charged on the mortgage will likely to be higher and could wipe out the savings on the monthly payment;
- Due to the length of the mortgage, you could end up paying more than double the total interest over the 50 year life of the loan, compared to a 30 year mortgage;
- Since most of the payment is to cover interest costs, you would build very little equity in the home: after 10 years, you would still owe 97% of the mortgage principal that you borrowed versus 85% on a 30-year mortgage;

The longer the mortgage amortization period is, the less equity is built up in the home, and the more it looks like a rental that comes with a forever debt trap.

In summary, a 50-year mortgage makes a home “affordable” in the same way a credit card minimum payment makes a luxury item “affordable.” It lowers the barrier to entry today but extracts a massive amount of wealth from you over your lifetime.

Housing affordability is the current topic for all politicians and government (federal, provincial and municipal) both in Canada and the US. While all searches for solutions revolve around subsidies for the buyers (the demand side of the equation), would it not be as or more productive to also address the supply side of the equation – how to build more houses at a cheaper cost? To start with, taxes and regulation costs account for 35%-37% of a new home price...

Perspectives on the AI industry: is it a "Bubble"?

Before going any further, and having read a great deal about the topic, we would like to clarify that we have no ability to judge whether the "bubbly" behavior of companies in the industry is justified. However, we can certainly comment on the "bubbly" behavior of investors regarding the industry. So, is there a bubble around AI in the financial world?

Market bubbles are the result of the investors' excessive optimism to new technological or financial developments. The "New Thing" understandably inspires great enthusiasm. It is when the enthusiasm reaches irrational proportions that bubbles are formed.

A book titled *Boom: Bubbles and the End of Stagnation* by Hobart and Huber proposes that there are 2 kinds of bubbles: "Inflection Bubbles" and "Mean-reversion Bubbles". As you can guess by the name, the first type will change the world state forever (railways, electricity, automobiles, internet) whereas the second kind refers to fads. Fads merely rise and fall and there is no expectation of overall progress to mankind (subprime mortgage bubble).

In 2002, after the internet bubble crash, Carlota Perez's book entitled *Technological Revolutions and Financial Capital* noted there were historically similar crashes, including the Industrial Revolution, railways, electricity and the automobile. She observed that not only are bubbles not regrettable, but they are also necessary for a new technology to "be installed" and "deployed". What marked the deployment period is the popping of the bubble; what enabled the deployment period is the money-losing investments made during the boom.

Hobart and Huber say, "*not all bubbles destroy wealth and value. Some can be understood as important catalysts for techno-scientific progress*."

To paraphrase Howard Marks, in the financial world, "Mean-reversion bubbles" bring nothing to the world and destroy wealth. "Inflection bubbles" bring progress to mankind for a more prosperous future, **and they also destroy wealth**. The key is not to be one of the investors whose wealth is destroyed in the process of allowing progress.

We can certainly identify in the markets a high degree of exuberance in regard to anything that is AI-related. The question is whether it is, as Alan Greenspan says, irrational. Given all the unknowns regarding the potential of AI, no one knows for sure. Bubbles can only be identified with hindsight.

Warren Buffett said it best: "*As investors, our reaction to a fermenting industry is much like our attitude toward space exploration: We applaud the endeavor but prefer to skip the ride.*"

Our position at Claret is to stick with our philosophy of buying a diversified portfolio of well managed, free cash flow positive companies at a reasonable price, and to be selective, prudent and above all, patient. And 2026 is no different.

As for asset allocation strategy, we do believe that interest rates are at levels that make many high yield bonds a lot more interesting on a risk/reward basis, yielding on average above 8%.

And to end the year on a high note, we would like to provide you with some AI humour….

By asking Gemini 3 (Google AI) for a summary of global financial and political events during 2025, chronologically in time (from January to December) with a touch of irony and sarcasm…

Below is what came out, enjoy!

The Year We Almost Learned Our Lesson: A 2025 Retrospective

If historians ever look back at 2025, they will likely describe it as the year humanity collectively looked at the precipice, shrugged, and decided to set up a picnic table right on the edge. It was a year of "historic" firsts, "unprecedented" seconds, and the same old thirds. As we sip our synthetic champagne this New Year's Eve, let's rewind the tape on a year that promised the "Intelligent Age" but mostly delivered high-definition chaos.

The Winter of Discontent (January – March)

The year kicked off with the usual optimism that lasts exactly until the credit card bills arrive. In January, the global elite descended on Davos for the World Economic Forum to discuss "Collaboration for the Intelligent Age." The irony of flying private jets to a Swiss ski resort to discuss carbon footprints and inequality was, as always, lost in the fondue. Meanwhile, on January 20, the United States inaugurated its President (again), ushering in a "bold new vision" that looked suspiciously like a rerun of a show we'd all binge-watched a few years ago. Markets rallied, then panicked, then rallied again—the financial equivalent of a sugar crash.

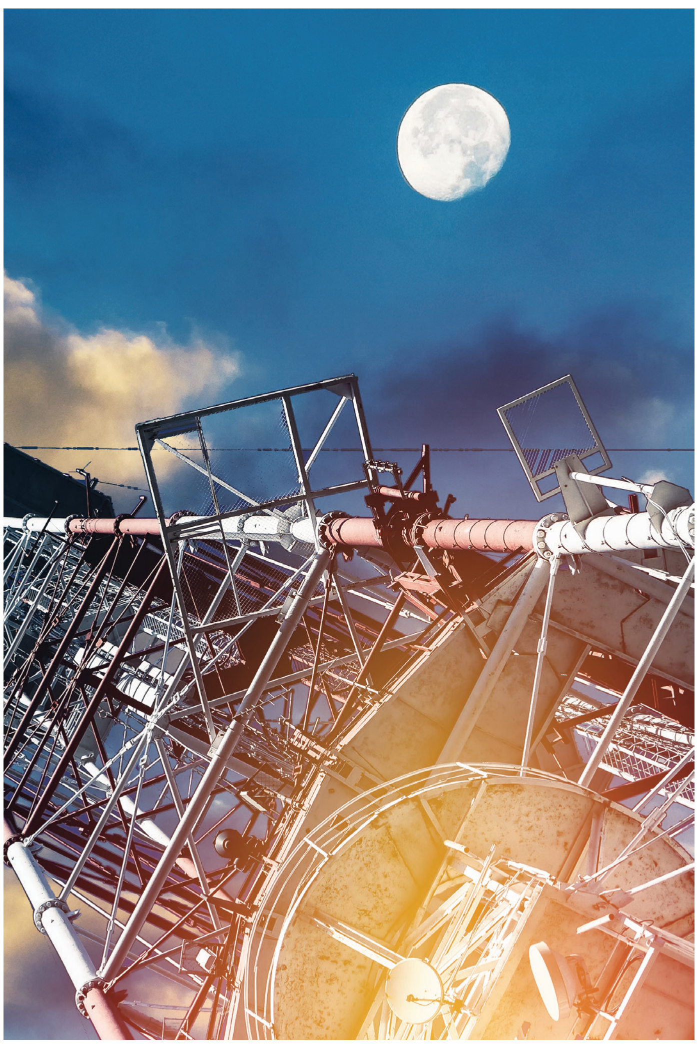
February brought German efficiency to a grinding halt. On the 23rd, Germany held snap federal elections after the "traffic light" coalition finally turned off. The result? A parliament so fractured it required a coalition guide more complex than the assembly instructions for a Kallax shelf. The Munich Security Conference followed (Feb 14-16), where leaders gathered to agree that things were indeed "very bad" before posing for a group photo that screamed "existential dread."

By March, the economic "soft landing" promised by central bankers began to feel more like a "bumpy taxiing on a runway made of lego." Tariffs started flying like confetti, reminding us that "globalization" is just a fancy word for "we're all expensive together."

The Spring of Surprise (April – June)

April 28 saw Canada head to the polls earlier than a polite guest leaving a party. The federal election, triggered by a budget dispute that nobody actually read, resulted in a political map so colorful it looked like a spilled bag of Skittles. The outcome settled nothing, proving once again that in democracy, the only guaranteed winner is the headache.

In June, the G7 leaders met in the scenic Canadian Rockies. They released a communiqué promising to solve AI safety, climate change, and the perfect sourdough recipe. Two weeks later, at the NATO Summit in The Hague (June 24-26), the mood shifted from "collaborative" to "defensive," with members arguing over 2% GDP spending targets like college roommates splitting a pizza bill.



The Summer of Escapism (July – September)

As the planet sweltered through another record-breaking July (ironically making the "cold war" rhetoric feel misplaced), the BRICS nations met in Brazil to discuss a new world order. They floated the idea of a new currency, which terrified the US Dollar for about 15 minutes before everyone remembered you can't buy oil with "vibes."

Then, finally, a moment of unity. In September, humanity looked up. The NASA Artemis II mission launched, sending four astronauts—including a polite Canadian—around the moon. For ten glorious days, we forgot about inflation and trade wars, united by the realization that leaving Earth was becoming an increasingly viable life strategy.

The Autumn of Reality (October – December)

Reality crashed the party in October. The "Intelligent Age" AI bubble didn't exactly burst, but it certainly hissed. It turned out that LLMs could write poetry but couldn't fix global supply chains or lower the price of butter. Tech stocks wobbled, and "AI Ethics" officers became the year's most exhausted employees.

November brought the COP30 climate summit in Brazil. Delegates praised the lush Amazon rainforest while nervously checking weather apps for heatwaves back home. Promises were made, timelines were extended, and the can was kicked down the road so hard it achieved escape velocity.
And here we are in December. The holidays arrived with a supply chain hiccup or two (your smart fridge is still stuck in a port somewhere), and we close the year with the Myanmar elections on the 28th, reminding us that the fight for democracy is a global, year-round endurance sport.

So, here's to 2025. It wasn't the end of the world, even if it occasionally tried to be. We survived the elections, the summits, and the tariffs. Now, if someone could just figure out how to lower the rent in 2026, that would be a true miracle.

Now a final word from Claret –

We want to start by thanking you for your continued support of Claret and for your continued trust in all of its professionals.

We have continued to invest heavily in technology to remain at the leading edge of what is available with regard to portfolio management software. That includes but is not limited to, cloud computing services, client portals – so you can have access to your current investment information - client relationship management tools, and cybersecurity support to allow us to be as effective and secure as possible regarding confidentiality and client privacy.

We have also added professionals to our next generation on each management team – as we wish to meet **your** next generation at a service level that better suits **their** needs. Claret's legacy should be, and will be, an enduring and sustainable firm that will provide services that meet the client's, all clients', needs. If you feel that there is something we could do better – or just differently – for either you, or your next gen, please just let us know. We would be grateful for your input, and we love to hear from you.

So once again, thank you, we look forward to sharing another great year with you in 2026.

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