Investing Wisely

A Newsletter from Mike Wise

January 2026

I enjoyed Christmas in Los Angeles with my daughter Liz and her family. They are extensively renovating their house and of course the reno was way behind schedule, so we lived in a construction zone – which actually made the whole visit more memorable and fun! Liz reports that it is getting close to completion now, and they actually have a kitchen.

The LA weather was quite cool and rainy. Something they call a Hawaiian Express came through on Christmas Day and dumped an impressive amount of rain on the area. I only tested the hot tub once; the pool was too cool for my taste.

Eshan, Liz and Edgar with Edgar's Sister Maureen – Joshua Tree National Park, December 2025

Edgar's sister Maureen was also visiting from Edmonton. She wanted to see the desert, so we drove to Joshua Tree National Park (it is near Palm Springs). While the sky was clear blue, we almost froze to death from a temperature near freezing and a howling north wind. Who said that deserts are hot?

Anyway, I'm back in Calgary again, and have no plans for any exotic trips. Work responsibilities are keeping me busy. Please let me know if you'd like to get together for a meeting to discuss your financial affairs. My mission statement remains the same: *Helping my clients achieve their most important Life Goals.* Helping you is the reason why I'm in business.

Missy my border collie fills up my free time. She absolutely requires a long walk every day and I have her enrolled in Sheep Herding and 2 classes of Agility. These lessons are probably for training me more than the dog!

Where We Are

Table 1 shows how stocks, bonds and commodities performed last year. Most of my clients have a balanced portfolio. My pension-style Canadian Neutral Balanced Benchmark was up 12.0% in 2025. This is an after-fees benchmark with a weighting of 60% equities (2:1 CAD/US) and 40% fixed income.

Central banks in all major economies have begun lowering their administered interest rates. In Canada, the Prime Rate went down by 1%, from 5.45% at the start of the year, to the current 4.45%. The Prime Rate affects the rates savers can get from investments like GICs, while borrowers benefit from lower short term interest rates.

The Canadian dollar strengthened by more than 3c versus the US dollar, but fell by almost 5c relative to

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Table 1
2025 Returns - Year to 31 December

	31 Dec 2024 Price	31 Dec 2025 Price	YTD Change
Equities			
TSX (CAD)	24727.94	31712.76	28.2%
S&P500 (USD)	5881.63	6845.50	16.4%
NASDAQ 100 (USD)	19310.79	23241.99	20.4%
Commodities			
Oil (WTI; USD)	$71.87	$57.62	-19.8%
Gold (Comex; USD)	$2639.30	$4341.10	64.5%
Fixed Income			
DEX Universe Bond Index (CAD) - Total Return	1168.9	1195.8	2.30%
Govt of Canada 10-Yr Bond Interest Rate	3.225%	3.435	0.21%
5-yr GIC Rate (rate as of Jan 20)	3.10%	3.68%	0.58%
High Interest Savings Account	3.20%	2.20%	-1.00%
Exchange Rates			
USD/CAD	$0.6951	$0.7282	$0.0331
EURO/CAD	$0.6712	$0.6213	-$0.0499

the Euro last year. This affected the stock market returns from both US and Foreign stocks, when converted back to Canadian dollars in things like RRSP/RRIF accounts. US stock market returns were hurt by the looney's strength; European returns were bolstered by the looney's weakness.

Stock markets rebounded in a major way after a rough 1st quarter, and were up strongly again last year, as shown in Table 1. Perennial laggard Toronto continues to be one of the top-performing stock markets in the world! The S&P/TSX out-performed the S&P500 by 12% over the past 12 months, and even out-performed the tech-heavy NASDAQ Index by 8%, even before taking the currency exchange rate into account.

Peacock at Los Angeles County Arboretum

On the commodities side, oil is not doing well, and is bouncing around the $60/bbl mark, down almost -20% last year. Bad news for Alberta! Gold, however, continues to do well, and was up 64% in 2025. (It is up another 10% so far in 2026!). As I mentioned in my previous letter, gold has out-performed the S&P500 stock market index over the past 10 years.

Something is going on in the global financial system that I don't fully understand. There appears to be a synchronized aversion to US government-backed assets like currency and bonds. Foreign buyers have disappeared from the weekly US Treasury Bill auctions (this is where the US deficits get financed), forcing the Federal Reserve to intervene. It also explains why gold and silver are doing so well. Foreign central banks are buying gold to fill their vaults with something other than US paper. India recently announced that it would allow silver to be used as collateral for bank loans, valuing the silver at a 10:1 ratio to gold.

I do find it mysterious that the Euro is so strong relative to the US greenback. Europe's economies are not doing well, and that's an understatement. They are plagued by unpopular leadership (particularly the UK, France and Germany, where the leaders have popularity ratings in the teens) that seems more focused on Ukraine than domestic issues. Germany is a particular economic basket case, yet the German stock market is booming; it was up 23% last year, measured in Euros.

Is it all Trump Derangement Syndrome, or is there something going on in the US financial/political/economic system that we just don't know about? I think this is something that we need to keep in the back of our minds as we otherwise enjoy what appears to be shaping up as yet another year of strong stock market returns.

Where We're Heading

The 2nd year of the 4-year US presidential cycle has historically been a tough year for the US stock market, and by extension stock markets throughout the year. Think of 2022 as the most recent example of this phenomenon.

However, so far 2026 has been pretty good for stock market investors. As I write this in the 3rd week of January, the TSX300 Composite Index is up by 4.5% so far this year, the S&P500 Index is up 1.0%, Germany's DAX is up 1.7% and Japan's Nikkei100 is up an astounding 6.6%.

Geopolitics gets all the headlines, but it is unimportant. Who cares about Greenland or Ukraine or Venezuela or Iran if there is money to be made in the stock market?

At least in my investing time horizon, the big market reversals have all originated within the banking system and the related bond, mortgage and currency markets. This is where we need to keep our eyes focused. The massive run-up in the price of gold (and especially silver) is telling us something. So is the weakness of the US dollar relative to other world currencies. As I wrote in the previous section, something is going on in the global financial system that I don't know about. It is an "known unknown", as Donald Rumsfeld once famously said.

The US Federal Reserve has had to pause its program of Quantitative Tightening (reducing the size of its balance sheet; this reduces the amount of money flowing through the financial system) because the US Treasury is having trouble selling the bonds it has to sell to finance the US fiscal deficit. Chart 1 shows the recent pause and slight growth in assets as the Fed has had to purchase some of those bonds itself with newly-printed cash. It is not a crisis yet, and isn't full-blown Quantitative Easing, but it is a sign of trouble when the world's largest economy is having trouble finding buyers for its debt. Japan is the largest foreign holder of U.S. government debt, owning approximately $1.13 trillion in Treasury securities as of mid-2025.

Japan is the world's 3rd largest economy (possibly 4th, after Germany), and is the world's most indebted major economy, with its debt amounting to 235% of GDP according to Wikipedia. 88% of the debt is held domestically, with the Bank of Japan holding almost half of the debt, and insurance companies and commercial banks holding the remainder.

Chart 1
US Federal Reserve Assets (x millions)
Source: Federal Reserve Bank of St Louis

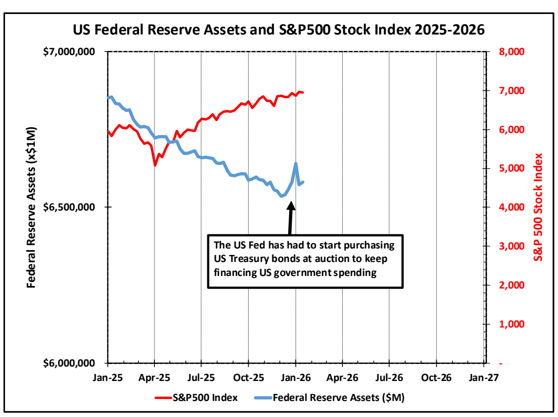
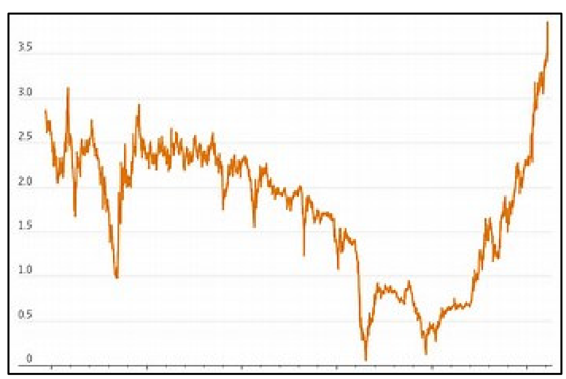


Chart 2
Japan 30-year Bond Yield, 2000-2025
Source: Wall Street Journal



Japan is mired in economic stagnation, and the new Prime Minister, Sarae Takaichi, is proposing tax cuts and increased government spending as a way to increase domestic demand. She has called for elections to be held on February 8 to get a mandate to implement this policy.

The bond market has reacted to this policy change, and the yield on Japan's long-term bonds have shot up to unheard-off levels (for Japan). See Chart 2.

Why should this matter to us in Canada? It matters because of something called the Carry Trade. For more than a decade, banks and other financial institutions have feasted on Japan's very low interest rates, borrowing vast amounts in yen, then investing the proceeds in higher-yielding investments, like US or Canada bonds, and pocketing the difference. Now, almost overnight, that interest spread has disappeared and the banks are having to close out their positions all at once.

According to Google's AI program: "Canadian banks hold about 50% of their assets and liabilities abroad … this links them closely to global volatility, including the rapid unwinding of carry trades which can trigger market volatility … (but Canadian banks) do not appear to be concentrated in the most speculative, highly-leveraged yen-funded positions."

While Canada's banks might not be directly affected, we have yet to hear from US or European banks that might be more exposed.

Hoar Frost in a Forest West of Calgary

The threat of a financial meltdown is out there, but still seems somewhat remote. I think we should remain on the offence, and enjoy the good returns that the stock market is giving us right now.

A RRIF client might consider having 2 years of RRIF payments stashed away in a cash-like instrument like a high interest savings account, and a further 3 years of RRIF payments in a low-volatility mutual fund. This is the defensive side of your portfolio, and will represent around ⅓ to ½ of the assets. The remainder of the account can be kept in investments designed for growth. Call me to discuss how we can implement such a strategy in your portfolio.

Morning Coffee on the Guest Terrace at Casa Amapola, Costa Rica

I've listed the Guest House of Casa Amapola on Airbnb for guests who desire a shorter stay while touring the Caribbean side of Costa Rica.

We're also making the entire property – the Owner's Residence plus Guest House – available to anyone who would like a long-term snowbird destination, or a work-from-home retreat in Paradise. Starlink satellite Internet operates at >100mB speeds, so Casa Amapola is a viable option for those able to work remotely for an extended period.

Call, text or email me if you'd like more information.