



2026 ANNUAL NEWSLETTER

Dear Valued Investors:

After two consecutive years of near 20% average returns in 2023 and 2024, we're pleased to report another year of double-digit gains for the average Frontwater account in 2025. What makes 2025 especially rewarding is that these results were driven by the disciplined behaviour our clients rely on: staying calm, staying objective, and refusing to react to short-term noise.

It's easy to forget that when the VIX, also known as the fear gauge, spiked in April and headlines turned theatrical, it was discipline—not emotion—that guided every decision. That steadiness allowed us to lean into opportunities, stay positioned for the long run, and ultimately deliver the strong returns we are reporting today.

A Turbulent Spring (and a Reminder of Why Discipline Matters)

The end of Q1 caught many investors off guard when President Trump introduced a surprise round of international tariffs. Overnight, global markets were rattled as he effectively hit the reset button on every U.S. trade pact.

On April 3rd, the S&P 500 fell nearly 5%, its worst day since the 2020 COVID crash. By April 8th, the VIX had surged above 60, a level typically reserved for moments when the world is either ending or convinced it might be. Within days, both the S&P 500 and TSX60 were down 15%.

In Canada, Prime Minister Justin Trudeau found himself the target of pointed criticism from Trump and his associates, Howard Lutnick and Peter Navarro, who spent much of April mocking him as the "Governor of the 51st State." (To be fair, Trudeau didn't help his case by openly expressing his preference for Kamala Harris after the U.S. election.)

As valuations fell, emotions rose. Media outlets—never ones to waste a good panic—gave ample airtime to alarmists and self-appointed "experts" eager to declare that the sky was falling. Even respected newspapers like *The Globe and Mail* indulged in dramatic speculation about U.S. intentions toward Canada, including imaginative headlines about

potential annexation strategies. For the record: most Americans struggle to locate Canada on a map, let alone plan a military operation around it.

Amid talk of trade wars, recessions, and inflation spikes, many investors panicked and sold, believing they were acting prudently. “I’ll get back in when things calm down,” they thought.

“Far more money has been lost by investors trying to anticipate corrections, or trying to time the market, than has been lost in the corrections themselves.” - Peter Lynch

As our long-term investors know, that’s rarely how wealth is built. The optimal time to invest is often when it feels most uncomfortable, and the worst time to sell is when it feels most uncomfortable to buy.

Staying the Course (and Being Rewarded for It)

One of our most important roles as wealth managers—this year and throughout our 17-year history—has been helping clients remain grounded and disciplined amid chaotic headlines.

When markets fell in April and May, we held our positions, leaned in, and dollar-cost averaged into high-quality companies at attractive prices. That resilience paid off. By the second quarter, Lutnick and Navarro had been sidelined, and Treasury Secretary Scott Bessent, the so called “adult in the room”, took charge of U.S. economic affairs, helping restore market confidence.

Wall Street enjoyed a surprisingly calm summer, supported by enthusiasm for AI and strong corporate earnings. Inflation continued to cool globally. In Canada, inflation hovered near the Bank of Canada’s 2% target, with forecasts pointing to stability into 2026. While tariffs caused short-term bumps in consumer prices, strong demand and supply-chain adjustments kept inflation contained.

With inflation under control, interest rate policy became the defining theme of late 2025. After pausing rate cuts early in the year, the Federal Reserve resumed easing in September, lowering rates to 3.5%–3.75% by year-end. The Bank of Canada, having already cut rates four times in 2024, added two more cuts in 2025, finishing the year at 2.25%.

Valuations (High: Yes — But Not Irrational)

We openly admit that it is difficult to imagine a fourth consecutive year of double-digit returns in 2026, but it's not out of the question. The main argument for a stagnant market is that both trailing and forward P/E ratios across North America appear elevated relative to historical norms. The S&P 500, DJIA, and Nasdaq are all trading at forward multiples above 22.5—roughly 10% above the high end of their historical ranges.

But markets were trading at nearly identical levels a year ago, and some were even higher. Investors who sold based on valuation concerns missed out on substantial gains. This reinforces a key lesson: P/E ratios are a tool, not a timing mechanism.

One reason historical comparisons fall short is the changing composition of major indices. Fifteen years ago, industrials dominated the S&P 500. Today, high-growth technology companies do. The “Magnificent 7” alone represent 34% of the S&P500 index. It's not unreasonable for an index with a heavier tech weighting to command a higher multiple.

Lower interest rates also support elevated valuations by reducing the cost of capital and increasing the present value of future cash flows. With rates declining and government policies continuing to support high-growth investment, higher P/E ratios are not only plausible—they're logical.

Looking Ahead to 2026

Given current price levels, our bias remains that well-managed companies will continue to grow earnings and profitability—not just in 2026, but for decades. This approach may occasionally lead to “regret” about not selling at the top, but history is clear: investors who stay the course are rewarded the most.

Of course, we acknowledge the plethora of geopolitical risks that persist, from Ukraine and Russia to Venezuela, Taiwan, and even Greenland. Yet, if COVID taught us anything, it's that the world has an extraordinary ability to keep moving forward through hardship and adversity.

As headwinds fade and tailwinds build, risks appear to be shifting from resilience to reacceleration. In 2026, the global economy is forecasted to grow by 2.5-3% propelled by a number of catalysts capable of pushing the stock market ever higher:

AI Adoption

Expect a significant acceleration in AI integration, transforming energy demand, productivity, and profitability across sectors. The next phase extends beyond tech, reshaping labour demand and growth dynamics across the economy. We expect economy-wide productivity and profitability to accelerate meaningfully in 2026.

Demand For Energy, Data Centres, Intelligent Workforce Rises

Demand for energy and data centres will continue to rise, driven in part by advancements in AI and quantum computing. Despite fears, evidence of AI-driven layoffs remains limited. Companies are doing “more with the same,” enhancing—not replacing—their workforces.

Stabilizing Trade Policy

Recent U.S. trade agreements have stabilized tariff rates and reduced the policy uncertainty that weighed on markets in early 2025. Combined with monetary easing and strong equity markets, this creates a supportive backdrop for economic growth.

Closing Thoughts

For our high-net-worth investors, 2025 was a powerful reminder of the value of disciplined risk management, thoughtful diversification, and a long-term mindset. The headlines may have been dramatic, but beneath the noise, the structural strength of both U.S. and Canadian markets rewarded those who stayed the course.

As we close out 2025, thank you for your trust, your confidence, and your willingness to tune out the noise with us; especially in a year when the headlines did their best to test everyone’s nerves. Working with you and your family is a privilege we never take for granted.

A fourth consecutive year of double-digit returns will certainly be a challenge, but our focus remains exactly where it should be: disciplined strategy, thoughtful risk management, and a steady commitment to long-term success.

Here’s to a calmer, more predictable, and, hopefully, very rewarding 2026.

Warmly,

Jeff Kaminker

President, Frontwater Capital Inc.