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This and prior newsletters are available at www.Higginsinvestment.com

The Markets

	April	Change in Month	Year -To-Date
S&P TSX	33964	3.7%	7.1%
S&P 500	7209	10.5%	5.3%
Dow 30	49652	7.1%	3.3%
Oil	\$105.39	3.5%	88.4%
Gold	\$4630	-1.7%	7.1%

It was as if the war was merely an after thought. In March equity markets declined based on the uncertainty of the war in Iran. As hostilities continued into April investors appeared to take everything in stride. The situation did not get worse. There is still the prospect of Europe running out of jet fuel in a few months. Investors decided they should return to the AI related stocks and focused on earnings reports. Despite the uncertainty created by the war and the impact of higher energy prices on consumer spending, more than 80% of the companies beat earnings estimates for the first quarter. Most companies reiterated expectations for growth. The S&P had its best month since 2020. To put that in perspective the only time it was better was in November 2020 when it was announced there was a vaccine for Covid. The market climbed a wall of worry as yields on long-term bonds rose. Typically, higher interest rates are bad for the equity markets.

Five of the TSX sectors had double digit returns. The market was led upwards by the small Health Care sector. The US relaxed the rules related to medical marijuana which caused the cannabis stocks in the Health Care sector to surge upward. A combination of strong potential demand for base metals to be used in data centres combined with industry bottlenecks led the Base Metals sector to more than a 20% return in the month. After selling the software stock for the first 3 months of the year, investors returned after realizing AI might not eliminate the industry and the Information Technology sector rose more than 15%. The Financial sector was led by the banks as investors realized their previous concerns about a real estate collapse were overstated. Only two sectors had negative returns. The Telecommunications sector was down more than 6%. Continued price wars on cellular phones caused concern for these companies. The other sector with a negative return was Consumer Staples. Investors were concerned that spending on gasoline would reduce consumer spending on other goods such as food.

The graph below presents the performance of the S&P 500 and the S&P TSX for year-to-date.

Year-to-Date Performance S&P 500 and TSX



TSX, [S&P 500](#) source google.com/finance

Economic Indicators

Our economic indicators section is less in depth than in a typical month as nearly every economic statistic is impacted by situation in Iran or will be. It is like driving forward by looking in the rearview mirror.

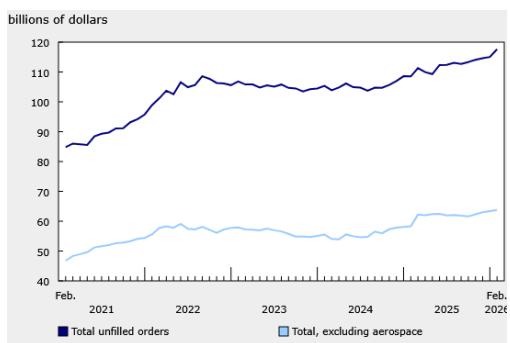
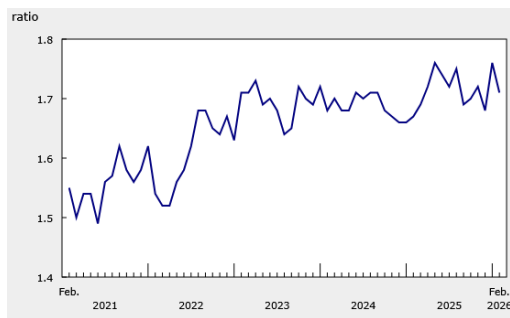
1. Canadian Manufacturing

You must take a step back when looking at the Manufacturing data. The last report was February which is before the price of oil surged.

Total manufacturing sales rose 3.6% to \$71.2 billion in February which followed a 3.1% decline in January. The gains were broadly-based, with 12 of 21 subsectors advancing, led by transportation equipment (+18.8%), machinery (+7.7%), and primary metals. These increases were partially offset by a 3.2% decline in chemical products. Sales rose more than 3% in real terms (inflation adjusted). This indicates most of the growth was volume-driven rather than price-related. Despite the monthly rebound, total manufacturing sales remained 1.7% lower than a year earlier, suggesting the sector is still working through a softer backdrop.

The strength in February was largely driven by a rebound in auto-related production, particularly in Ontario, where assembly plants resumed operations following earlier shutdowns. Motor vehicle sales surged more than 40%. Auto parts were a particular area of strength that led transportation equipment sharply higher. Machinery and primary metals also contributed, with the latter reaching a record high on strong demand for non-ferrous metals, metals that do not contain iron such as copper. Note this data was from February which was before the spike in oil prices.

The two charts below present 2 potential positives. The inventory-to-sales ratio declined, pointing to improved demand conditions. If sales are rising faster than inventories, then you might expect more production to refill the inventories. At the same time, unfilled orders hit a record high and capacity utilization rose to 77.1%, both signals that production momentum improved during the month. Unfilled orders indicate more production might be needed to fill the orders.

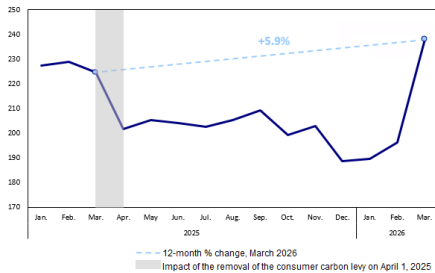


Source: Statistics Canada

2. Canadian CPI

The Consumer Price Index (CPI) rose 2.4% year over year in March. Inflation was pushed up from February’s 1.8% due to high energy prices caused by the war in Iran. Gasoline was the main contributor, as prices jumped more than 20% month over month. Overall energy prices increased almost 4% annually and 13.1% on the month. Food prices also

continued to climb, with grocery prices up 4.4% and fresh vegetables rising 7.8% due to tighter global supply. Despite these pressures, underlying inflation was more contained, as CPI excluding gasoline slowed to 2.2%, suggesting the headline increase was concentrated in a few volatile categories. The chart below clearly shows the spike in gasoline prices. If you look back a year there was a dramatic decline when the newly elected Prime Minister cut the carbon tax on gasoline.



One important factor tempering the overall inflation picture is the lingering impact of the GST/HST holiday from late 2024 to early 2025. The temporary removal of a tax can distort year-over-year comparisons. As this base-year effect fades, it has put downward pressure on certain categories, including restaurant meals and some retail goods, which saw notably slower price growth in March. On a monthly basis, CPI rose 0.9% (0.5% seasonally adjusted), indicating a strong near-term price increase. Looking ahead, with the tax-related distortions now largely behind us and energy prices proving volatile, future inflation readings may provide a clearer signal of underlying trends—but could also remain sensitive to geopolitical developments, particularly in energy markets. The question is how long energy prices will remain elevated.

Tech bubble part II?

The most dangerous phrase in investing is “This time is different”

When investing you must understand that stocks cannot go up forever. Back in 1999 we were told the internet would drive the market higher despite high valuations. Some stocks kept going up based on the concept of price per eyeball. In other words, the more people that went to a website the more valuable the company would be.

I remember the concept of buying the picks and shovels. This is an investment thesis that is based on the concept that during the gold mining boom in the 1800's many miners went bankrupt, but money was made selling them picks and shovels. When you look at the internet boom it wasn't just Pets.com or Amazon, I thought I would include one bankrupt company and one survivor, that were considered good investments. People were told to invest in companies that provided the backbone for the internet. Fiberoptic companies and modem manufacturers also surged. Cisco and Nortel did nothing but rise. Nortel is like Voldemort, the company who's name we dare not speak. Cisco is still a thriving business. At Cisco's internet bubble peak, it traded around \$80 per share. By 2023 it traded around \$15. Twenty-five years late Cisco finally broke through the \$80 level. As I write this, Cisco is trading above \$90 per share. At least Cisco is trading at a somewhat reasonable price earnings ratio of 33.

It was only a couple of years ago that the thesis for buying some of the Magnificent 7 stocks was they had excellent free cash flow. Take Google or Facebook that were monetizing their users with little need for capital expenditures. It was said they had a moat that an upstart would not be able to cross. Facebook/Meta had free cash flow of \$44B in 2023, \$54B in 2024 then they began to invest in AI and free cash flow fell to \$46B in 2025. Meta will spend between \$125B and \$145B in 2026, this is \$10B higher than earlier forecasts. They might spend over \$200B in 2027. So much for the free cash flow story. However, this spending builds a new moat as any new competitor cannot spend \$200B to just keep even with Meta.

If you want to look back at another period where there was a market surge and collapse. As a Post Script, the market ended higher by the end of the year. I am referring to 1987. Everyone remembers the massive pull back that year. Before it fell the reasons it could not fall were everywhere. Earnings were rising which would support valuations. Leveraged Buyouts drove individual stocks higher and once investors sold their stock, they looked for opportunities to redeploy their cash, further driving the market higher. Why did it end? Interest rates. Rising rates presented higher costs to borrowers and gave them an alternative.

And in 2026... The US 10-year Treasury bond yield has been gradually rising. Just prior to the war in Iran the 10-year yield was below 4%. Today the yield is above 4.4%. This doesn't sound like a big change, but it adds 10% to the dollar amount of interest the borrower must pay. I have seen that many investors get concerned when the magic number of 4.5% yield is crossed. One difference between Canada and the US is the US mortgage market is centred on a 30-year term. The US housing market depends on mortgage rates. Below is a graph showing the yield on the 30-year bond. It is at a similar level as a month ago but much higher than when the war with Iran began. This is going to put pressure on the US economy.



There are some reasons for concern but remember Greenspan indicated there was “irrational exuberance” in 1996 and the market continued to rise until 2000.

While proofreading this commentary I saw an interesting article on the front page of the Globe and Mail’s business section. The heading on the article was “EV market sees rebound as incentives and Mideast war drive sales”. The government incentives make sense as \$5K free money might make a difference to the average EV buyer. I was more impressed by the number of car buyers who have psychic ability. The article was focused on the increase in EV sales in February. Since the war began on the last day of February and was expected to be short lived why would anyone with out knowledge of the war and how long it would last decide that February was a good time to buy an EV? This is like most commentators of the market, including myself, who can explain what has happened after it happened. Last month I explained the reasons for the weakness in the price of gold, once I knew why. I did not suggest that I knew in advance that oil prices would stoke the fear that interest rates might not decline. I guess the average analyst is as accurate as the average psychic.

Summary

“Party like it’s 1999” Prince

In our reflection section we looked at some of the arguments for concern about valuations. We looked at the parallels to the tech bubble of 1999. They say the market does not always repeat itself, but it does rhyme. The phrase means that “this time it is different” is a dangerous phrase as you should try to learn from history. Note many factors are different and because of that we are not forecasting a decline but advise caution. We found an interesting article in the paper on May 1st that explained one of the reasons for the spike in EV sales in February was the war in Iran, which did not begin until the end of the month. Be careful when reading or hearing explanations for market moves unless the writer is psychic.

We were not very active with client accounts this month. We take a longer-term view and as we mentioned last month it is difficult to make changes given the almost daily changes to the situation in the Middle East. We and our clients find comfort in the steady stream of income that you get when you invest in dividend paying stocks, such as the Canadian banks.

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