HIGGINS INVESTMENT GROUP INC.

# February Market Analysis

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**The Markets**

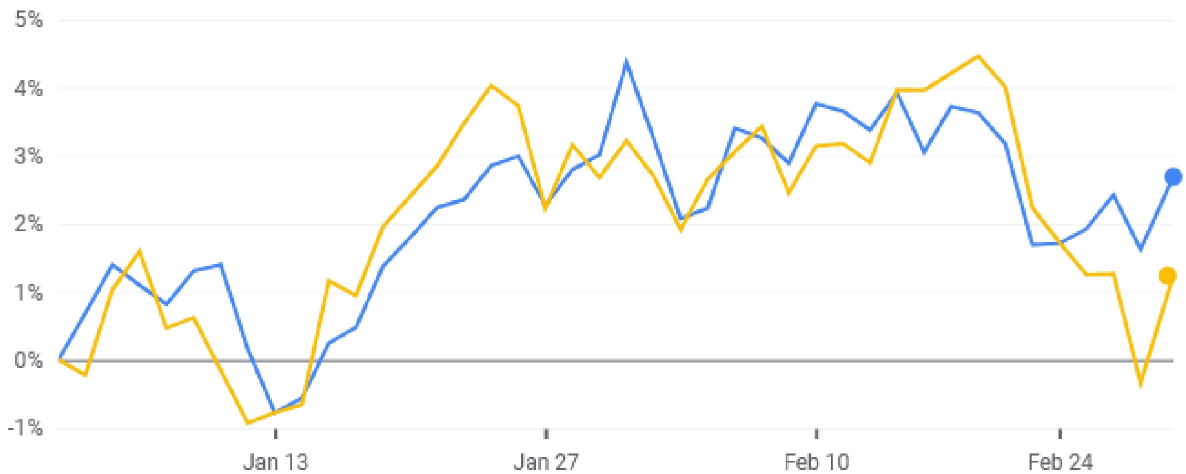
| | February | Change in Month | Year –To-Date |
|---|---|---|---|
| S&P TSX | 25393 | −0.5% | 2.6% |
| S&P 500 | 5954 | −1.4% | 1.3% |
| Dow 30 | 43841 | −1.6% | 3.2% |
| Oil | $69.94 | −4.3% | −2.5% |
| Gold | $2867 | 1.3% | 8.7% |

The short explanation for the market movements this month was euphoria can only last so long. Markets rallied when Trump was elected president and continued to move up into his inauguration. Investors built in expectations for executive orders that would lead to a strong economy. As we have said, repeatedly, the market hates uncertainty. Last month we indicated we would not comment on the tariff threats as the level and timing changed daily. This month the uncertainty caused by the tariffs began to weigh on the markets. Markets were flat to down. AI euphoria also weakened as Nvidia beat earnings expectations but by less than was hoped. Telsa fell as European sales fell, possibly due to Elon's actions as the Doge Czar. In a similar vein, cryptocurrencies such as Bitcoin, fell by more than 15% as the President had not taken any action to support them. The market was trading lower as valuations began to matter. That said, the month closed with markets rallying more than 1.5% in the last day of the month, despite the increased uncertainty created by a shouting match in the Oval office over the lack of US support for Ukraine. I guess we can say Thank You to the president for the uncertainty created in the market.

As you might expect in a period of uncertainty, Gold and Gold stocks, were leaders. For awhile investors put money into crypto currencies as a safe haven but it appears that gold has regained the golden crown as the true safe haven. A takeover of a mid-tier renewable energy company led to a recovery of other renewable companies in the Utilities sector of the TSX. The stocks included in the Low Volatility portion of the index had solid positive returns. At the other end of the spectrum were the always volatile Cannabis stocks that declined more than 6% and were down 11% year-to-date. Some had hoped that the US would relax restriction on cannabis. Bank stocks declined on fears of the impact of tariffs on their loan book. Energy stocks were down in sympathy with the weaker commodity price. The US markets were pulled lower due to weakness in the Magnificent 7. Nvidia was up on the month but down more than 10% from its midmonth peak. Telsa is down more than 25% year-to-date. The Canadian market outperformed despite the threat of tariffs.

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

### 1. Non-tariff tariff discussion

Last month I stated that I would not comment on tariffs. That was my intention again this month. I had someone contact me while I was preparing this commentary. I told them that I was busy with month end. The next day I got a text asking about the tariffs. I realized that clients and others want some commentary on the Trump Tariffs.

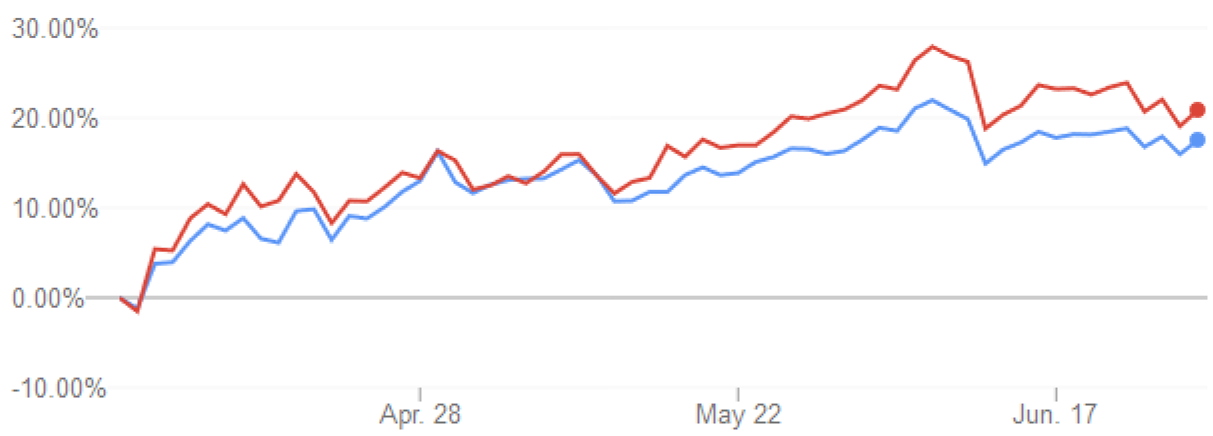
First, I think that you have probably seen enough analysis or man on the street interviews on the topic. It does not matter that Mrs. Smith says she will purchase Canadian goods the trick is she has to follow through. In the winter I cannot get Canadian lettuce. Ask people if they think it is cruel to have chickens locked in cages and Mrs. Smith will tell you she opposes the mistreatment chickens. Then open her grocery bag and you will not see organic eggs in her bag but the cheaper regular eggs. Talk is cheap. We all want to reduce our carbon footprint but not even the new Liberals want to have you pay the carbon tax.

The reason I did not intend to write a commentary on tariffs as there are too many unknowns. When we typically analyze a stock, we look at its fundamentals and compare it to the other investment alternatives. Ask me if I like a stock I can provide an informed opinion. Ask me about the tariffs and I do not have an informed opinion.

I know this is a February commentary but it took me a few days to pull it together and I got caught up in people's questions. On Monday the 3rd, Trump confirmed he would impose a 25% tariff on Canadian and Mexican imports plus a second 10% tariff on China. The markets were surprised and the US markets had their worst day year-to-date. If the experts were surprised, I was in good company. On Tuesday the sell off continued.

Is this a buying opportunity? I do not know. I could tell you if I knew how long the tariffs would be imposed. If there were going to be retaliatory tariffs followed by retaliation for the retaliatory tariffs. I do know that one of the causes of the Great Depression was beggar they neighbour tariffs. Things are a bit different as we have a social safety net with employment insurance.

To put things into perspective, look at this chart




This is a steady increase in the price of stocks.

This is a picture of the grocery store at the time the stocks began to rise


Yes, the stock market rose despite empty shelves and mass unemployment caused by Covid related lockdowns. Ask yourself if you thought the beginning of a pandemic was a time to focus on investments or a time that you could forecast. I did not know when the pandemic would end but did stay with stocks I thought could recover when the economy recovered. The same is true with the tariffs.

## Reflection

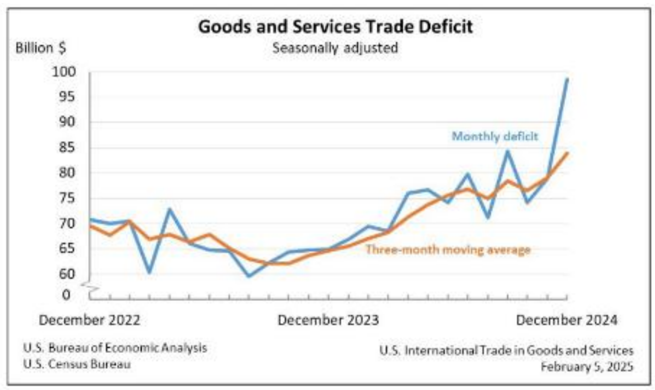
### Not what I expected

The magnificent 7 might become the dynamic duo. At the end of February the magnificent 7 lagged the other 493 stocks in the S&P 500 by 12%.

Tesla, for example, raced upward as Trump came to power and Elon Musk was seen as a close confidant. Musk was made a senior member of the Department of Government Efficiency. His title and role are uncertain as he can only take certain actions as someone who is not a government employee or in the cabinet on the other hand he does not have as many restrictions as a free agent. He has walked into departments and issued mass layoffs, including the departments responsible for monitoring automobile manufacturers and satellite contracts. This means he can fire those monitoring his company. The US government wants tariffs on imported cars, Tesla's sold in the US are made in the US, so another win. However, and it is a big however, Elon Musk is viewed as being at one with Trump. It was announced that Tela's sales in Europe declined by 45% despite an increase in the sale of electric vehicles.

Nvidia has been relatively unchanged in the past 4 months. In February the stock rallied only to fall near the end. Nvidia announced sales that were higher than was expected by the analysts who cover the stock. Earnings were solid and they are essentially sold out for all of next year. You would expect an increase in the price of the stock. But not if everyone expected earnings to be better than expected. I know that everyone can't believe earnings will be better than expected as then the true number expected does not reflect expectations. (You might have to read that sentence more than once). The company generally gives analysts guidance for sales and earnings expectations. The analysts know the company generally beats the guidance so the analysts increase their expectations. This is the number that matters. Now everyone knows how the game is played so everyone learns to expect even higher numbers and Nvidia typically delivers.  This quarter they beat estimates by a relatively small amount, so some were disappointed. They beat expectations but not what investors had hoped for. A second factor weighing on the stock is increasing tariffs that could have an impact on their future sales.

The threat of tariffs could lead to increased trade deficits. At first it seems illogical but it is the most natural outcome. If you think the price of something will increase due to 25% tariff it is best to take delivery the months before the tariff. So, the tariff will lead to lower imports when it is imposed as some companies actively purchased items in advance.


Balance

* The December non-petroleum deficit ($125.5 billion) was the highest on record.

Imports

* December imports of goods ($290.8 billion) were the highest on record.

* December imports of consumer goods ($72.3 billion) were the highest since June 2022 ($73.9 billion).

* December imports of industrial supplies and materials ($67.3 billion) were the highest since July 2022 ($70.9 billion).

* December non-petroleum imports ($271.6 billion) were the highest on record.

Exports

* December exports of consumer goods ($19.8 billion) were the lowest since October 2022 ($19.5 billion).

**Summary**

**"Our favorite holding period is forever.".** Warren Buffet

Things are not always what they seem. Even Warren Buffet who espouses the concept of holding forever has raised cash to over 30% of his company's portfolio. The threat of tariffs has led to an increased trade deficit as companies took delivery of goods in advance of the tariffs. At the end of February, the Magnificent 7 stocks lagged the performance of the 493 other stocks in the S&P 500. Year-to-date the Magnificent 7 underperformed the other stocks by more than 12%. Not that long ago you were told you better not miss out on the AI boom. Today people are looking at valuations. We have tried to avoid commenting on tariffs as we do not have enough information to make an informed decision. How long will they last? Will there be a counter tariff? I looked at the market in 2020 and saw the markets rise almost 20% in three months while store shelves were empty and people learned to work from home.

We continue to focus on purchasing companies with what we believe to be solid long-term prospects. We tend to prefer dividend paying stocks that continue to pay income despite the market fluctuations. One factor we like is not just the yield, but the potential for the company to increase its dividend over time. As you have seen throughout this commentary it is difficult, if not impossible to make a good decision on the markets regarding the tariffs. That said, we will hold on to companies with solid earnings and a history of increasing dividends.

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