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The Markets

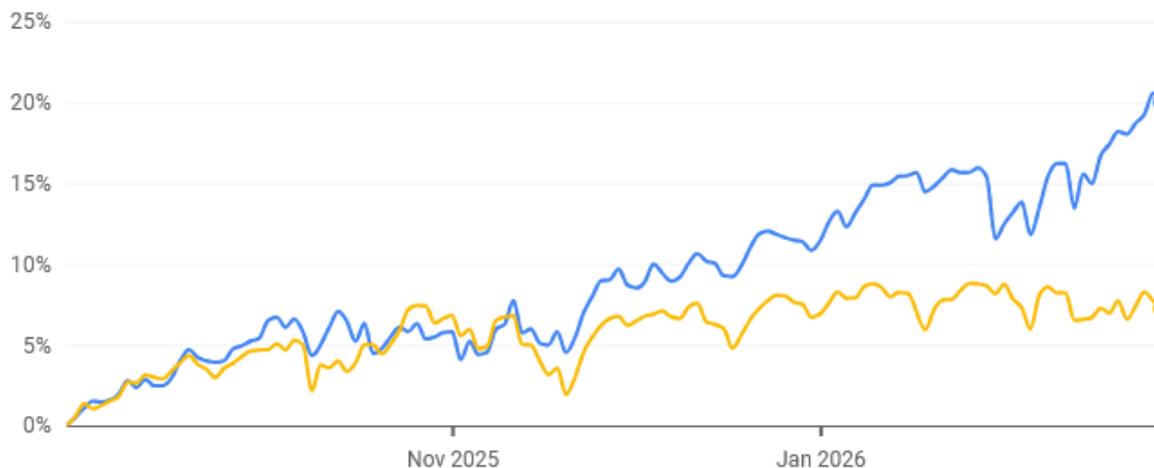
	February	Change in Month	Year –To- Date
S&P TSX	34340	7.6%	8.3%
S&P 500	6878	–0.9%	0.5%
Dow 30	48892	0.2%	1.9%
Oil	\$67.25	3.1%	17.1%
Gold	\$5279	11.3%	22.1%

The markets mostly ignored world events. It was a news filled market. The Supreme Court ruled that the President did not have the authority to apply tariffs without the support of the other legislative branches. This created some uncertainty as Trump announced blanket tariffs of 10% only to be raised to 15% the next day. The European Union said they would not approve the current trade deal if these tariffs were applied. Some technology stocks fell as some believed that AI could negatively impact software companies such as Reuters. Near the end of the month a manager wrote a dystopian version of the future where AI wiped out white collar jobs which led to a broadly based decline. In the background was the threat of US action in Iran. (The US bombing began in February but after the markets were closed.)

A year ago, I wrote, “As you might expect in a period of uncertainty, Gold and Gold stocks, were leaders.”. We now know that the US attacked Iran but the markets were already closed, so the market reflected the uncertainty. The fears of war led to an increase in both oil and gold prices. Energy stocks on the TSX rose double digit percentages in the month. Year-to-Date the Energy sector is up more than 20%. Gold stocks were the second strongest sector with a return exceeding 8%. Despite all the major banks reporting better earnings they underperformed the broader index with a 4.5% return. The technology shares were weaker again this month as fears of AI replacing software as a service caused significant weakness in the sector. The speculative stocks on the venture exchange also provided negative returns in the month. The major indexes in Canada and the US are market capitalization weighted which means as material stocks increase in value their impact on the market increases.

The graph below presents the performance of the S&P 500 and the S&P TSX for past 6 months.

Performance S&P 500 and TSX



TSX, S&P 500 source google.com/finance

Economic Indicators

Reflection

Not what I expected

When I started this commentary on February 28th, I was prepared to discuss significant economic events and their impact on the markets. Then it seemed less relevant that Canada's Gross Domestic Product shrank in the fourth quarter. There was the US Supreme court ruling Trump's tariffs were not legal and had to be revoked. That too became less relevant when the US and Israel began bombing Iran and Iran began to retaliate.

I am not an expert on global affairs and their impact on the markets, but we do have to consider the impact on the markets.

The early reports indicated the price of oil and gold had spiked and equity markets would likely pull back. The question was how high the commodities would go and how low would the markets fall.

The Israeli stock market closed shortly after the stock markets open in North America. You would expect war would be bad for the stocks on the Tel Aviv exchange, especially when other Iranian proxies, such as Hezbollah, launched rockets into Israel from Lebanon. When I looked at the markets not only was the Tel Aviv 30 not in decline, but it spiked up by more than 4%. As I indicated I am a student of the impact of conflicts on the market not an expert so the fact I did not predict this result is proof. When the horrors of October 7th, 2023, became public the Tel Aviv index fell by 6.5%.

When Russia invaded Ukraine oil prices spiked above \$100 per barrel. Russia, and many others thought the war would be quick as the mighty Russians ran over the former satellite of the USSR. We are now entering the 4th year of the conflict. Theoretically there are major restrictions on shipment of oil from Russia. Yet the price of oil was less than \$60 per barrel only a few weeks ago. Every time I drive by Pearson Airport in Toronto, I see a plane with Cyrillic writing parked on the tarmac. The plane is not allowed to leave Canada as there is the fear it could be used to support the Russian war effort. As an aside, no good deed goes unpunished, the plane was carrying PPE for Covid.

In 2025 the US executed strategic bombing in Iran to take out their ability to produce weapons grade uranium. After the one day of bombing oil prices collapsed and the equity markets rallied. If a year ago bombing Iran was good for the markets, you might think it would be good in 2026. Unfortunately, this is a different mission as the US wants a change in regime and to ensure they get what they wanted they executed the Supreme Leader by bombing his enclave. There is the risk this could drag out for weeks. The US expected the Iranians to take to the streets and take over. Not very likely while bombing is going on and the current leaders have sent drones and missiles into neighbouring countries, not just Israel.

To help put things into perspective, while writing this the US market began the day with broad based losses, by noon the NASDAQ had turned positive. This only highlights the risk of claiming to know how the market will react to world events.

To help put the fog of war into perspective, 3 US fighter jets were shot down early in the incursion. They were not shot by Iranian weapons but by friendly fire from Kuwait who mistook the fighters for an invasion.

Summary

“I know nothing, I am not here - I did not even get up this morning!” Sargent Schultz from Hogan’s Heroes

In the reflection section we discussed how difficult it is to anticipate the impact of world events on equity markets. We are not at the “I know nothing” phase but we do admit when we do not know something. We study the markets to get a better handle on them, but I cannot tell you how fast the war in Iran will end, I cannot tell you if and when the Iranian people will support a new leader or if the leader will be another theocrat or a relative of the Shah. It is this uncertainty that will make the markets volatile over the next few weeks. At least tariffs are no longer the lead story. However, I do know the CUSMA trade deal is up for renewal later this year and the President feels that Canada has taken advantage of America. That may be the greater threat to the markets, but I do not know this for sure, but it is likely. Unlike the character in the sitcom, I did get up early this morning to get a better handle of the war on the markets and more importantly on our portfolios.

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 or military actions. That said, we will hold on to companies with solid earnings and a history of increasing dividends.

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