HIGGINS INVESTMENT GROUP INC.

March Market Analysis

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The Markets

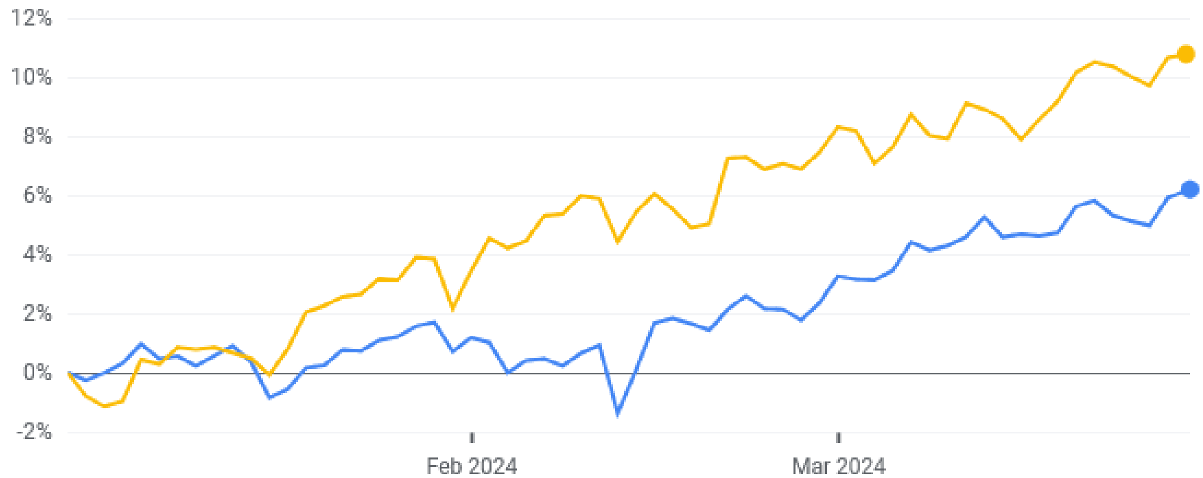
	March	Change in Month	Year –To-Date
S&P TSX	24917	−1.9%	0.7%
S&P 500	5611	−5.8%	−4.5%
Dow 30	42002	−4.2%	−1.1%
Oil	$71.46	2.2%	−.04%
Gold	$3158	10.1%	19.7%

Although we have tried to focus on general business prospects and avoid a heavy discussion of the impact of tariffs, we have to admit the markets were almost entirely influenced by tariffs. In Canada we got a new, so far unelected, prime minister and a snap election call and the markets shrugged. Deals were brokered and broken for peace in the middle east and in Ukraine and the markets barely budged. When Trump threatened increased tariffs, the markets weakened. The President indicated that April 2nd, when new tariffs would be applied would be Liberation Day. As we got closer to the date it was leaked that not all tariffs would be implemented and that they might be targeted and not include sector specific tariffs The new concern that caused further weakness was the fear of stagflation. It appears that the economy may be slowing but the costs of tariffs would cause prices to rise. By the time you read this it might be after Liberation Day and we may see the market in a totally different position.

Gold lived up to its reputation as a safe haven in a time of uncertainty. Gold stocks rallied along with the underlying commodity. Gold stocks rose 14% in March which pulled the Material index up more than 6%. This is one of the reasons the TSX has handedly outperformed the US indexes for the month and year-to-date. The other major commodity related sector, Energy, rose 4.5% for the month. The third strongest sector was the Consumer Staples. At the other end of the spectrum were the Information Technology stocks that had a double-digit decline in March. The tariff threats weighed the Industrials and Banks to negative returns. The US indexes had their worst quarter since 2022, a year with a double-digit decline.

The graph on the next page 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

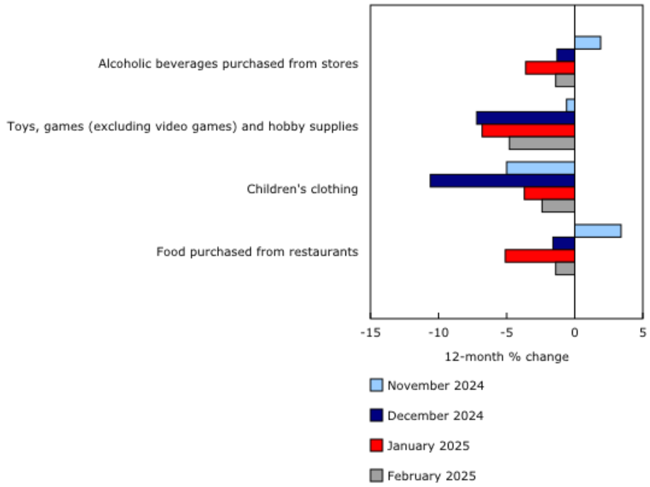


TSX, S&P 500 source google.com/finance

Economic Indicators

1. **Canadian CPI**

CPI is the Consumer Price Index. The index is the most common measure of inflation. The CPI has been volatile as the government exempted many products from HST for 2 months. Lower taxes allowed inflation to moderate in December and January. As the taxes were restored to their previous levels half way through February, the February rate of inflation increased from January's level. CPI was reported at 1.8% in January and 2.6% in February. It is difficult to make forecasts on the sustainable rate of inflation with these tax changes. The rate of inflation will take a dramatic decrease in April when the carbon tax comes off gasoline and natural gas to heat your home. The price of gasoline will decline by 17.6 cents per liter on April 1st. When I looked at my last Enbridge gas bill the carbon tax for the month was almost equal to the cost of the natural gas.



The chart above shows the impact of the tax break on CPI. The tax exemption did not apply to liquor but did apply to wine and beer. That is why the impact was lower than on the other categories. The decline was less than the HST rate in Ontario as the tax break only applied to provinces that harmonized their taxes with the federal government, hence the H for harmonized. Alberta does not have a provincial sales tax so the decline would only have reflected the 5% GST.

2. US Consumer Confidence

Consumer spending comprises two third of the US economy. Therefore, spending by consumers can make or break economic growth. The Conference Board surveys US consumers to gauge their confidence level and spending intentions. Real spending is what drives the economy, not intentions, but you need some way of anticipating consumer spending and these surveys are one of the best ways of getting a sense of what it to come.

Here are the titles of press releases for the past 4 months:

- US Consumer Confidence tumbled again in March
- US Consumer Confidence Dropped Sharply in February
- US Consumer Confidence Retreated in January
- US Consumer Confidence Pulled Back in December

I think you can see the beginning of a trend. The decline began as consumers worried about the impact of tariffs on the US economy. Not so much that there would be tariffs, but they were concerned that they could not make plans as the timing and the magnitude of the tariffs constantly shifted.

The March 2025 report paints a bleak picture. Consumer expectations hit a 12-year low. The expectations index is based on consumers' **short-term** outlook for income, labour and business conditions. The index is at a 65.2 level which means nothing unless you know the index was at 100 when created in 1985 and that a level below 80 is generally an indicator that we could be entering a recession. A lack of confidence likely leads to lower spending which will induce a recession.

The last paragraph only covered on part of the total consumer confidence index. There are many components of the total index.

You might expect the stock market to weaken as 44% of those surveyed expect stock prices to decline. You are unlikely to invest if you think stocks are going to decline. This sentiment indicator showed only 33% expected the market to decline in the previous month's survey. There was a 10% decline in those who expected the market to rise.

Consumer malaise was broadly based

Outlook for Business Conditions declined

Outlook for Labour Market declined

Outlook for Income Prospects decline

Outlook for family's expected financial situation hit a 30-month low.

Historically March has been an inflection point for markets. We all know that major market declines occurred in the second half of some years. You only need to think of the crash in 1929 and the decline in 1987. On the other hand, markets have hit highs and low in March in recent history.

In last month's commentary we showed empty store shelves caused by panic buying at the onset of the Covid related lockdown. The markets declined as countries around the world began to lockdown and the World Health Organization declared a pandemic. It didn't take people long to see that government policies that injected liquidity allowed spending to continue. This led to a recovery in the stock market. There were still supply chain issues but stores did have inventory. The markets began their assent shortly after.

Everyone talks about the end of the tech bubble in 2000. As 1999 came to an end markets rallied as it became clear that Y2K would not cause all computers to fail. If you remember people worried that computers might interpret 00 in the date as being 1900. I knew a very intelligent broker who took thousands of dollars cash out so he would be able to buy things if all banking failed. As a side note, I am not sure where he would have shopped as the retailers were all computerized. The stock markets continued to rise until their peak at the beginning of March. The economy was hot and interest rates had begun to rise. Higher interest rates led to higher discount rates which lowered the valuation of the technology stocks. Once investors began to focus on valuation, and not price to hope, the technology stocks fell.

In 2008 markets pulled back. If you have read the Big Short or seen the movie you know that there was a giant housing bubble in the US. The bubble worked its way into the largest financial institutions and caused a collapse of the stock market. Newly deregulated financial institutions increased leverage and became active in the subprime mortgage market. The subprime are mortgages issued to investors with lower credit ratings. Interest rates began to rise and some borrowers could not handle the payments. This triggered defaults in the securities issued by the banks backed by the subprime loans. The wheels came off the cart when Lehman Brothers filed for Chapter 11 bankruptcy in September 2008. Most people assumed Lehman was too big to fail and it would be bailed out. At the time, sentiment was that the average man's taxes should not go to the rich guys on Wall Street, so Lehman was allowed to collapse. Whoops, the financial markets hemorrhaged. Banks would not even lend to each other and liquidity dried up. This caused the stock market to collapse. As time passed, the government took over major lenders such as Fannie Mae and Freddie Mac. This ensured mortgage bonds would still be issued and funded. This along with forced mergers and other supports renewed confidence in the markets. It took a few months, until March 2019, for the markets to begin to turnaround.

We live in a world of uncertainty. Will this March be an inflection point? Will investors fret about the negative impact of tariffs? Will interest rates decline to offset any potential economic slowdown? No matters what happens someone will offer an 'I told you so" explanation after the fact.

Summary

**"But if, baby, I'm the bottom
You're the top.".** Cole Porter.

In this month's reflection section, we noted that March has had more than its fair share of market bottoms or tops. We do not know what will happen regarding tariffs or counter tariffs. Government programs could offset some of the impact as they did during Covid. Interest rates could come down if the economy slows or might rise if inflation spikes. This might be a normal month or it could be a chance to catch a rally or avoid a decline.

We still see value in dividend paying stocks. Some companies will be relatively unscathed by a tariff war, such as the pipelines. Others like the banks will suffer if their customers lose their jobs in steel plants or auto plants. However, the banks have started to build up reserves to cover the fact that many loans could go into default. I am not saying these stocks will not decline if there is a broad market decline but I believe that over time they will continue to thrive and collecting a dividend that is higher than what I can earn on a bank account is not a bad start.