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The Markets

	March	Change in Month	Year –To- Date
S&P TSX	32768	–4.6%	3.3%
S&P 500	6525	–5.1%	–4.5%
Dow 30	46341	–5.4%	–3.6%
Oil	\$101.78	51.3%	77.2%
Gold	\$4709	–10.8%	9.0%

The entire month was focused on the war in Iran and Trump’s social media posts. The US and Israel began incursions into Iran just before the month began. Oil prices were on steroids and finished the month up more than 50%. Fears of rising inflation led to rising interest rates and lower bond prices. The broader equity markets declined due to the uncertainty. Trump repeatedly commented that the war was already won and that he could end it at any time. Iran used their most effective weapon by closing the Strait of Hormuz to most shipping. More than 20% of the world’s oil traverses this waterway. As the month ended Trump indicated a deal was possible to end the war. This comment alone led to a 3% rise in the S&P 500 but still left it down more than 5%. It makes me think of Fawly Towers and “Don’t mention the War”.

As you might expect rising oil prices helped propel Energy stocks to be the best performing index and weaker gold prices caused the Gold stocks to fall in sympathy. The Energy index was up 15%. The Information Technology stocks in Canada finally stopped declining. They had been weak as investors worried that software companies might be decimated by Artificial Intelligence. The US technology stocks are less software related and continued pull back. The Utilities Sector was essentially flat for the month as investors looked for less volatile stocks. Rising interest rates put pressure on interest sensitive sectors like Financials and REITs. The second weakest area of the market, after Gold stocks, were small capitalization stocks that tend to be more volatile. Fears that higher Oil prices would crimp the consumers’ pocketbook led the Consumer Discretionary stocks to decline more than 7%. In short, other than the Energy, Info Technology and Utilities all other sectors had negative returns. Even then, Info Tech and Utility stocks were up less than half a percent.

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

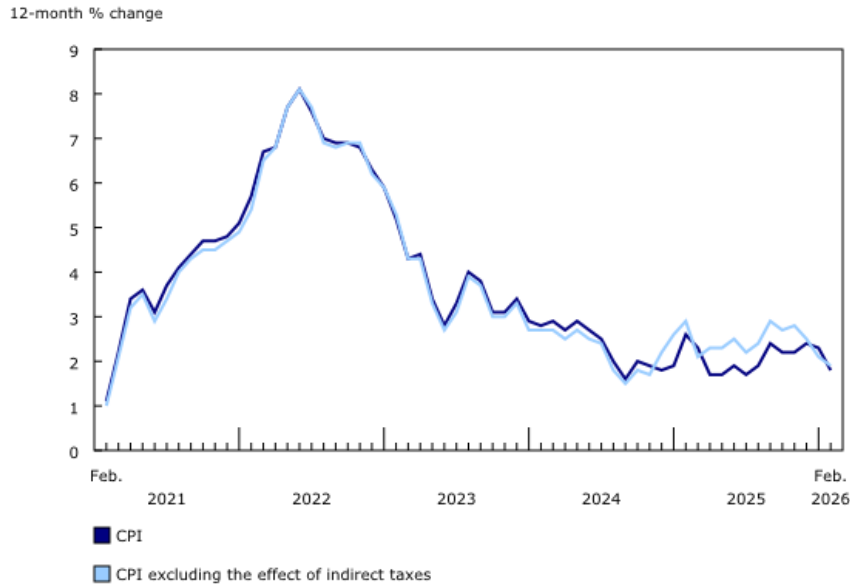
CPI is the Consumer Price Index. The index is the most common measure of inflation. The data released in March reflects the survey made in February. This makes this report almost meaningless as it does not include any of the price swings in April. That said, if the war in Iran ends shortly after March month end the March report could be an anomaly. I analyzed this report as many of the positives will likely be reversed when we get the next report.

February CPI rose 1.8% year-over-year. This is below the target 2% set by the Bank of Canada. A key fact to note is that if there were a spike in prices in the same month last year then the price increase might look lower on a year-over-year basis, therefore you must look at the monthly trend and not just the one-year rate. Statistics Canada reported that restaurant prices jumped in February 2025 when the HST holiday ended and prices rose. This resulted in a lower price increase than if the survey were taken at the beginning of the month.

Like the theme from Jaws, I hear the dunta dunta dunta of rising prices. For the 12 months ending in February factors that helped moderate inflation were Gasoline and Natural gas which declined 14% and 17% respectively. You only need to go to the local gas station to notice that prices are significantly higher than last year and last month.

I noticed when I went to the local grocery store the price of beef had risen and stayed high. Like most people I looked for alternatives but found that if many of us start to replace beef with chicken the price of chicken also rises. The other day there were two stories about the price of beef on the news. One story they indicated there is drought out west and this caused farmers to reduce their herd size which will keep beef prices higher. The second story was that China was lowering tariffs on some Canadian beef and seafood products. The farmer said this was good as the expanded market would help get better prices for his beef. What? The farmer thinks it is good to have higher prices. Of course he does. Especially now fertilizer prices are up 30% plus due to the Iranian war.

The chart on the next page shows the rate of CPI. The second line shows CPI if the HST holiday were not included. You can see taxes have an impact on inflation. If you look back to 2022 there was a major spike in the CPI to 8%. The increase was caused by Russia's invasion of Ukraine. Exports of Russian oil and food and fertilizer from Ukraine were restricted due to the closure of key ports. Not very different than today in the Middle East. The central banks said the increase was transitory, but the costs of transportation and other energy consuming industries began to work their way into to most goods. Yes, the rate of increase slowed by prices are still higher than they were. The question is: "will this war end quickly and prices return to their prior levels or will this be more than transitory?"



Source: Statistics Canada

Here are some asides.

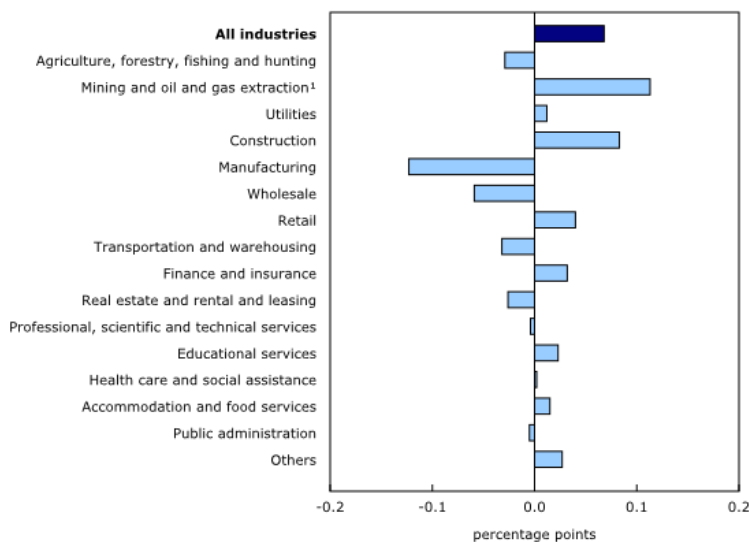
Someone told me flights to Bermuda went from \$700 Canadian prewar to \$750 USD. The difference in the currency alone will add 30% plus to the cost of the flight.

In the US there is a psychological point when prices impact politics. The magic number is \$4 per gallon for gasoline. On the last weekend of the month the average price of gasoline was \$3.99 per gallon. The price of oil rose, and we know what should happen next, the price went over \$4 per gallon. That day Trump announced there was a chance the war was going to end quickly as negotiations were progressing. Magically the price was below \$4 per gallon. Trump is crazy, crazy like a fox. He still wants to be viewed as a hero by his people. The average price for gasoline in California is \$5.88 per gallon but they are a high taxed Democrat state.

2. Canada GDP

Canada’s Gross Domestic Product edged up by 0.1% in January, continuing a modest growth trend driven primarily by a 0.2% expansion in goods-producing industries, while service industries remained flat. Gains in mining, quarrying, oil and gas extraction, and construction indicate some resilience, the overall momentum remains slow, with growth observed in only nine of twenty industrial sectors. One interesting note is Canada’s population declined for the first time in decades, so GDP per person would be stronger. Not that long ago an influx of foreign students caused an increase in population which shrank GDP per person. They say there are liars, darn liars and those who spout economic data.

Significant gains in the energy sector and a 1.1% increase in construction were partially offset by a 1.4% contraction in manufacturing, heavily impacted by a 10.8% plunge in motor vehicle production due to shutdowns. Additionally, wholesale trade fell by 1.2%, with severe winter storms contributing to disruptions in transportation. The chart below shows the impact on GDP by sector. You can expect Energy to be a major contributor to GDP in March as it measures economic activity in dollar terms and the price of oil was up 50 percent in March. However, consumers may have reduced spending in other areas. Ironically, higher prices make nominal GDP higher, but inflation adjusted, or real GDP, may not rise.



Source: Statistics Canada

All that glitters is not gold

You always hear that gold is a hedge against uncertainty. This thesis was proven wrong in March 2026. You cannot have much more uncertainty than a war in the middle east. Several times the US President said he could declare victory but continued to fight. After weeks of bombing, Iran was still able to launch weapons that hit oil tankers and oil production facilities in neighbouring countries.

One of my favorite explanations offered by experts is there was profit taking. It is as valid as the explanation for any decline in a market: "there were more sellers than buyers". According to this argument investors decided they should lock in profits after a significant run up in the commodity. Normally you hear that a stock or a commodity cannot get through a certain price, usually a round number. Gold cut through several round numbers, \$4500, \$5000 then \$5500 with ease. The only way this explanation works is once the price started going down then investors realized that there was the possibility that the price could decline.

Many suggest gold is a hedge against inflation. The argument is based on the fact governments will print cash and devalue their currency which leads to inflation. If gold holds its relative value it should rise at the rate of inflation or even more if of increased inflation is expected. Higher oil prices should work their way into the cost of goods. Gasoline in the Toronto region has spiked from \$1.30 to \$1.80. This impacts consumer spending. I can't turn on the news without seeing people at the gas pump complaining about the price of gas. Airlines have begun adding fuel surcharges of 20% to 30%. The cost to transport goods will rise and be passed on to the consumer. The cost of food is likely to increase as urea fertilizer prices rose more than 30% in one week and this is the time farmers put fertilizer down for this year's crop. Either they can pay more or they can put down less fertilizer and have smaller yields. We have the risk of inflation, but gold has done nothing but deflate this month.

Those who do not like gold like to point out that it does not have a yield like T-bills and you must pay to store it. The implicit cost of holding gold is forgone interest. The threat of inflation often causes interest rates to rise, and rising rates are bad for gold. Just last month the odds were the Federal Reserve was going to cut rates multiple times in 2026. Today there is a greater than 50% chance of a rate HIKE by the end of 2026. It was not that long ago the thought was once Powell's term was over the new Fed Chairman would enforce Trump friendly policies and begin to lower rates. This does not seem to be the view today.

One factor that supported gold over past year has been purchases by Central banks, including China. Some countries have slowed or stopped as the price of gold rose. Turkey's central bank sold close to 60 tonnes of gold in 2 weeks in March. If you assume 60 million tonnes at \$5000 per ounce this would exceed \$4.8 billion US dollars. This is small relative to the gold market but is significant that it occurred while the price of gold collapsed. Once traders know there is a large seller they try to get ahead of the seller by selling first. This cascades as traders try to get out before the next price decline. It appears that Turkey has stopped its selling which may help support the gold market.

Another factor that could have led to gold price declines was the fact they stopped going up. Huh? Some investors, called momentum investors, buy a stock or a commodity when it is going up. They sell once an investment begins to decline. Their argument for selling is that once something starts to drop, they do not want to find out how low it will go. Let's assume that you want a 10% weight in gold and it goes up 50% you would have 15% of your portfolio in gold. Then you sell to bring your weight back to 10%. The momentum investors note that there seem to be some people selling gold, so they attempt to get out before the others do. This becomes self fulfilling. However, sometimes declines are brief, and the momentum investors might come back to drive the price higher. They are still selling.

Anyone can explain why something went down, it is much harder figuring out when it will decline or when will the bottom be reached.

Summary

“Don't Mention the War” Fawltly Towers.

The entire month was spent switching from believing the war in Iran is ending to it will be a major offensive back to it could end any time. This impacted commodities, equities and the bond market. In our reflection section we analyzed the reasons Gold failed in its role as hedge in troubled times. We have been told for decades that gold is a hedge when there is inflation. The one aspect that was not considered is that gold does poorly when interest rates are high. High interests raise the cost of holding gold or at least make the zero-interest earned on gold seem much less attractive than the alternative GIC or T-bill. The other factor is one country alone sold 60 tonnes of gold to shore up its liquid reserves. This one sale would be approximately \$4.8B USD. The third reason for the decline is once it stopped going up momentum investors also sold. Over the past year gold has served its role as a hedge; it just failed miserably in March 2026

We still see value in dividend paying stocks. If you know when and how the war will end you can design a portfolio that will surge depending on the result. With no certainty it is difficult to say it is time to sell, or this is a buying opportunity. I have almost lost count the number of times we have seen down days followed by spikes upward and vice versa. If investors in the US market got their statements based on the March 30th levels, they would have asked why didn't you sell. The S&P 500 rose 3% on March 31st, so why didn't we take advantage of the decline and catch the upswing? We did not make significant changes to the portfolios in March but will reassess once we have greater clarity.

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