CIBC PRIVATE WEALTH

THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

IN THIS ISSUE:

Volume 17– Issue 3 April 2026

STAN CLARK
Senior Wealth Advisor

Human intuition is powerful and often useful. What it is not, however, is good at judging probabilities. As I discuss in this issue's behavior finance article, when making important decisions, including financial ones, do not, repeat not, let your gut feel rule. In our *Quarterly Economic Update: Resilience over reaction*, Michael Chu and I look at what's happening with the markets in this era of war, uncertainty over artificial intelligence, the unusual drop in gold prices and much more – including why, despite all this, outlooks remain positive.

Stan

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Behavioral Finance

INVESTORS, BE WARY: OUR INTUITIONS DON'T HAVE A FEEL FOR PROBABILITIES

By Stan Clark, Senior Wealth Advisor

Let's start with a puzzle. Imagine there are 100 passengers boarding a 100-seat jetliner. Somehow, between the gate and the door, the first passenger has lost his boarding pass. He takes his chances with a random seat.

After him, every subsequent passenger takes their assigned seat, if it's available. Otherwise, they take a random unoccupied seat. What is the probability that the last passenger to board will find their assigned seat unoccupied?

The most common answer for this, produced by our intuition, is one in 100. There are 100 seats. So, chances should be one in 100 that the last passenger's assigned seat will be the one left at the end. Some people might think the chances are one in 99, or some similar number. But the actual answer is: It's exactly 50%! The last unoccupied seat will either belong to the first or the last passenger. And, it's equally likely to be either.

That doesn't seem intuitive. Yet, if you think about it, that last remaining seat *couldn't* belong to any other passenger. For example, it couldn't have belonged to passenger 37 – had it been empty when passenger 37 came along, she would have sat in it.

This is an example of how our intuition, although powerful and useful in many ways, does not have a good feel for probabilities. Even people well educated in statistics make mistakes when using intuition to figure out probabilities.

Another example is the famous Monty Hall Problem, based on the game show *Let's Make A Deal* and named after its original host, Monty Hall. When the problem was first introduced, even many mathematics professors got it wrong. Here goes:

You are given the choice of three closed doors. Behind one is a car; behind the other two, goats. You make your choice, say door #1. Monty, who knows what's behind each door, then opens one of the other two doors, say #3, to reveal a goat. He then asks if you want to change your choice to pick door #2. Your quandary is: Will it be to your advantage to switch?

Most people would say there are now two doors, making the odds 50:50, so it doesn't matter. In fact, your odds would be twice as high if you switched your choice to the other door. That's because the odds were already twice as high that it was one of the other two doors *before* Monty opened door #3. The fact that he showed you which of those two doors the prize was not behind didn't change the odds. But it's hard for most people's intuition to feel this.

In other areas of mathematics, like geometry and algebra, we usually have an intuitive grasp of the answers. We use formal "proofs" as a check. However, with probabilities, our intuition often leads us astray. Perhaps that's why the other areas of math were developed thousands of years ago, whereas probability theory wasn't formulated until the 17th century.

Investing often involves making choices under uncertainty. Our natural weakness in this area makes our "gut feel" very unreliable. Be wary of those who use a subjective approach to buying stocks and bonds. The subjective approach often involves assessing probabilities intuitively. Even the

TEAM TALK

Heather Guzak
Wealth Advisor

Heather and kids, Kyoto Japan, March 2025

What keeps you busy outside of work?

My two kids keep me extremely busy after work. My son Quentin (12), swims competitively 5 days a week with a swim meet occupying most weekends. He has also recently taken up boxing after watching many Netflix specials! My daughter Tayla (10) swims competitively 4 days a week and is also in competitive gymnastics. My after work hours are spent as a chauffeur for them!

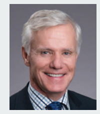
Any upcoming trips planned?

My family and I have several trips planned in the coming months which makes the after work hustle a bit easier! My kids and I are headed to Palm Springs for my birthday in May, where we will rent out a house with a pool and relax for days. I also surprised Tayla with a short trip to Las Vegas to see our favorite boy band perform at the Sphere, so that will be a nice little girls trip. Then in August, we are all headed to France and Italy for 3 weeks of exploration.

brightest people are simply not very good at this.

Also be wary of jumping to conclusions on anything based on only a few years of data. People's natural tendency is to put far too much weight on small numbers of observations.

This is one more reason why it's important to use a disciplined, systematic approach to financial planning and investing. If you don't, the odds are you'll get the odds wrong – and this can cost you a lot of money over your lifetime.



Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Quarterly Economic Update:

RESILIENCE OVER REACTION

By Stan Clark, Senior Wealth Advisor and Michael Chu, Senior Wealth Advisor

In what seems to be the new normal, much has again happened in a short period of time. The first quarter of 2026 ended on a very different footing than where it began.

The year opened with economic momentum, earnings growth and a combination of fiscal and monetary stimulus. But then the markets became dominated by war in Iran, triple-digit energy prices and concerns about the economics/disruption of artificial intelligence (AI). Now higher energy prices not only risk slowing economic conditions, but also revive inflation fears. In this *Quarterly Economic Update*, we discuss the markets for the first quarter of 2026 – and what may lie ahead.

The effects of the oil shock did not affect every market equally. Canada, with heavier energy and materials exposure, proved to be a beneficiary. International stocks also outperformed those of the U.S., extending a trend that started last year. Gold, a traditional safe haven, disappointed by falling in price even as financial conditions tightened. U.S. mega-cap technology companies, which have led markets for some time, came under pressure due to questions about the economics of capital expenditures. Also due to fears that AI is disrupting the software sector faster than anticipated.

At home, the TSX was up 3.9% in the first quarter of 2026. The World Equity Index, a gauge of stocks around the world and heavily weighted with U.S. stocks, was down 2.2 % (in C$).

	1st Qaurter 2026 Returns	Forward P/E	Forward Earnings Yield	Dividend Yield	10 Year Bonds*
Canada	3.9%	20.1	5.0%	2.3%	3.5%
U.S.	-3.0%	25.7	3.9%	1.2%	4.3%
Europe	-1.3%	16.8	6.0%	3.0%	3.3%
EAFE (Europe, Australasia, Far East)	0.1%	17.3	5.8%	2.8%	3.0%
Emerging Markets	1.2%	16.5	6.1%	2.3%	3.4%
World	-2.2%	22.7	4.4%	1.7%	4.1%

Source: Bloomberg

*Weighted average for regions

Valuations

There's better value in the stock market at current levels. The forward price-to-earnings (P/E) ratio of the S&P 500 peaked in October 2025 at 23.0. By the end of March 2026, the P/E had fallen about 18%, to 18.9. Over the same period, S&P 500 forward earnings rose 12.5%, reaching record-high territory. In other words, stocks became cheaper even though company earnings continued to improve.

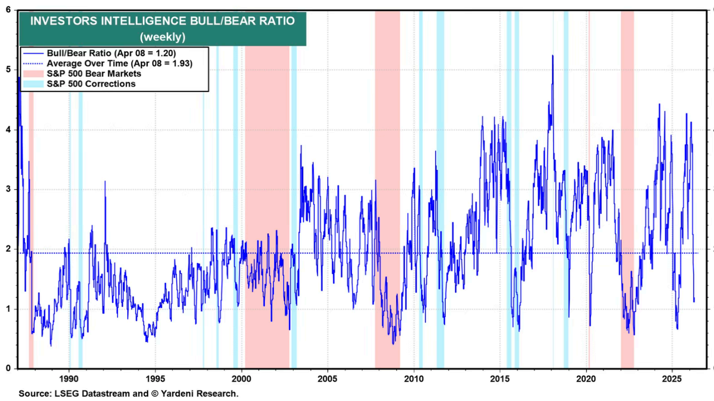
The valuation multiple initially dropped due to concerns about AI companies' profitability, and then fell more amid fears that the war could trigger a global recession. However, industry analysts didn't blink and continued to raise their collective earnings outlook. Forward earnings estimates are also rising for mid- and smaller-size companies, as well as across more industries – which is a bullish development.

Still, U.S. valuations remain elevated on an absolute basis and also relative to those of other countries. But valuation isn't the only consideration for a good investment. The resilience of U.S. growth, as well as the insulation from higher energy costs, are also important.

Lowering chance of recession

Ed Yardeni's favourite stock market sentiment indicator remains negative, which is bullish from a contrarian perspective. But, with the market remaining sensitive to the war, things can change quickly.

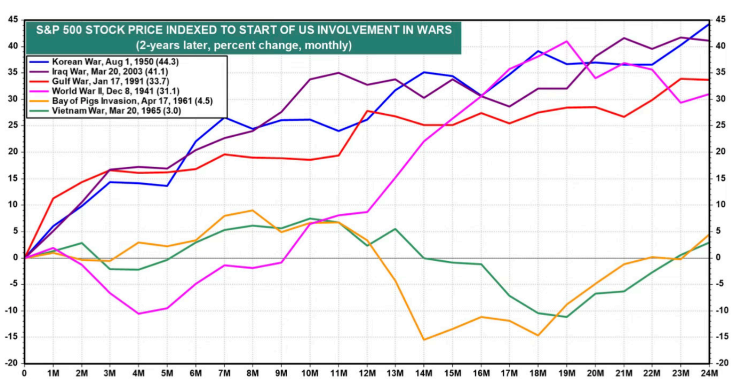
Yardeni has lowered the risk of recession back down to 20% from 35%. Recently released data suggested that the U.S. economy was on a resilient growth path heading into the latest oil price shock in March, when the war was raging. The labour market also seems to be improving. But inflation remains stuck above target, as it was even before the war. Supply shocks will undoubtedly boost inflation over the next few months.



Interestingly, Wall Street corporate analysts are even more optimistic than Yardeni for S&P 500 revenues and earnings. Yardeni is still targeting 7700 for the S&P 500 for the end of 2026 (up 18% for the year), but may raise his estimates to match the analysts'. Then again, he and the other analysts could all be wrong about the unlikelihood of a recession – which would force them to lower their estimates.

Stocks higher after war

The S&P 500 has been higher two years after the past four major U.S. military engagements, with gains of 31% to 44% following the Korean War, Iraq War, Gulf War and World War II. While it's not a smooth line, it does remind us to be resilient and keep perspective when markets are volatile.



Not just an oil shock

As in the past, the current oil shock should prove to be temporary. It's also important to remember that, compared to the 1970s, the world is much less exposed to oil prices. Economic exposure to oil has declined in the decades since, with oil consumption per $ of GDP down 62%. So, there should be less pain compared to previous oil shocks.

Most people have been focusing on the effects of higher oil prices. That's important, but there's more to it. The blockade at the Strait of Hormuz – through which about 20% of the global oil and liquefied natural gas (LNG) normally transits – has exposed a set of cascading vulnerabilities in the global supply chain.

Oil is just the first degree; downstream effects impact may more things. These vulnerabilities include disruptions in fertilizer production (affecting food), plastics and helium (used in semi-conductor fabrication).

When the war ends, oil prices could unwind almost as fast as they increased at the war's start. But maybe not to the pre-war levels due to the damage to the physical energy infrastructure – damage that could take years to fully rebuild, combined with fundamental changes to maritime insurance and transit confidence.

Gold

Everyone wondered why the price of gold plunged 18% from the record high on March 2, a couple days after the war started, to the low on March 26. Normally during a worsening inflation outlook and mounting geopolitical risks, the price would go up. Both of these tend to be bullish developments for gold and, despite the recent drop, probably will remain so.

The decrease in gold's price is partly due to the strengthening U.S. dollar. Another reason could be that countries in the Middle East, scrambling to spend more on defence, are funding payments in other currencies by selling their gold holdings.

But perhaps gold prices were too high over the past several months, and a lot of leverage also entered the market. Gold seems to have an inverse relationship with the S&P 500 over the short term, though both share the same long-term trends. Yardeni is still projecting 10,000 for the S&P 500 and, based on this relationship, $10,000 for gold for the end of the decade.

Private credit

Private credit has been in the headlines lately. Normally when we need a loan, we just go to the bank. But sometimes the bank doesn't like the risk profile of certain borrowers. Say someone wants to start up a new restaurant. The bank might be reluctant, so maybe that someone ends up borrowing from family.

Private credit refers to privately negotiated loans between a borrower and a non-bank lender. It gives the borrower access to capital with customized details. Private credit is nothing new, but has grown significantly in size. Traditionally only institutions were lending, but now everyday investors are also lending, because the yields are attractive compared to regular bonds.

But, like any kind of borrowing, the risk is in the borrower defaulting. The biggest difference in private credit is liquidity – or lack thereof. Private credit isn't meant to be traded or sold. So, while an investor is attracted to being paid higher interest to lend money, they are generally stuck if the credit market goes south.

The bond markets are fairly efficient. Just like you would demand a higher interest rate for a higher risk borrower – as a lender, a higher interest rate would indicate that the loan is higher risk too. It might all work out, but remember that no extra yield is free.

As the credit market matured, retail investors became more involved. However, many of these investors overlook the liquidity constraints. As a result, they can't always get their money when they want to – which is what's happening now. Default risk is increasing and investors can't recoup their money.

So, there's a bit of incompatibility between private credit and public investments. Optimism and higher interest rates in private credit have turned to disappointment and potential losses. The jitters started in mid-2025, when a couple of big blowups in two privately owned companies spooked investors about credit and what might be lurking beneath the surface. Meanwhile, private credit's outside exposure to software companies – which until recently have been considered relatively safe – began to cause concern. This led to investors wanting to get out of higher-risk lending, but unable to do so.

There are some parallels to the 2008 financial crisis. Note, though, some key differences that should keep a major default contained. The private credit industry is under pressure, but the biggest players are investment firms rather than banks – so the systemic risk should be less. The total private credit market in the U.S. is estimated to be about $1.5 to $2 trillion, compared to the $10 trillion mortgage market back in 2008.

AI apocalypse

Much has been written about the potentially frightening future of AI with respect to unemployment, stock markets and the economy. Predictions have varied from dystopian to utopian and everything in-between.

Professor Jeremy Siegel says that most negative predictions have no historical or economic basis. Siegel describes a hypothetical scenario where AI enables every worker to double their productivity. In other words, to be able to produce twice the output, whether it's cars, reports, etc. In such a world, the five-day workweek could be cut to 2.5 days. In this scenario, the average hourly wage would double, since workers would be producing the same level of goods or services in half the time.

Siegel's view is supported both in theory and in historical evidence. In this scenario, most workers would want to take advantage of their higher wages to expand their income and raise their lifestyle. They could work more and, with their longer weekends and higher income, do/buy more things.

Critics of AI say many white-collar jobs would be eliminated. According to Siegel, most white collar jobs rely on workers' intelligence, diligence and discipline. These skills can be transferred to industries such as entertainment, leisure and healthcare, which will expand because of the surge in workers' income.

Pessimists maintain that the speed of the AI revolution will make these historical comparisons irrelevant. That said, many of us remember predictions that Amazon and the internet would eliminate all retail/brick-and-mortar shopping. These assertions failed to take into account the great flexibility of people to adapt to sudden changes.

For example, before the Industrial Revolution, people worked 12 hours a day, seven days a week, to produce the goods for bare-bones survival. Today, the basics are made in less than a day. In the 1800s, most Americans worked on a farm. Today less than 2% of them do, yet the U.S. exports food.

Siegel says that, instead of the AI revolution sending the economy into a tailspin, quite the opposite will happen. This, in turn, will lead to the greatest increase in the standard of living since the Industrial Revolution. Although some industries will be impacted, the dramatic increase in consumer income will more than offset the loss of jobs.

Looking ahead

The most immediate question facing investors is the war in the Middle East. Several outcomes remain plausible: a brief and contained conflict; a more prolonged disruption to oil prices; or a broader escalation that weighs more heavily on the global economy and reshapes the energy and security landscape for longer than expected.

Market volatility has increased. But we are reassured by better valuations and growing corporate earnings expectations. The key is to guard against temptations to stray from well-established philosophies and processes. It's worth reminding our readers that the Stan Clark Financial Team doesn't rely on impossible attempts to predict the future. Rather, we aim to build diversified portfolios coupled with resilient financial plans. Together, these can adapt and adjust to whatever the future brings.

Uncertainty and volatility will always be around. They're just part of investing. But our approach will remain consistent, which includes having a sound plan with an established set of sensible guidelines to help us responsibly steward our clients' investments through uncertainty.

Stan Clark is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.

Michael Chu is a Portfolio Manager and Senior Wealth Advisor for The Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

SCFT Trivia

Trivia Time!

Thank you for reading this month's newsletter. Test your knowledge with our trivia questions! Each question relates to one of the articles featured in this edition. See how many you can get right, and check your answers at the bottom of the page. Good luck and happy quizzing!

Hint: You can find the answers inside this newsletter.

1. When making decisions about stocks and bonds, avoid being influenced by people who:
   a) Rely on information instead of that trusty old gut feel.
   b) Urge you to look at many years of data. Short sample years are plenty and potentially misleading.
   c) Use a subjective approach, which often involves assessing probabilities intuitively. Even the brightest people are simply not very good at this.
   d) Believe in disciplined, systematic approaches over intuition.

2. The S&P 500 has had a consistent reaction for every two years after the past four major U.S. military engagements, i.e., the Korean War, Iraq War, Gulf War and World War II:
   a) Indifference.
   b) Heavy losses.
   c) Panic selling.
   d) Gains of 31% to 44%.

3. The oil shock resulting from the current Middle East war:
   a) Should prove to be temporary.
   b) Is different compared to the 1970s, as the world is now much less exposed to oil prices.
   c) Should be less painful compared to all previous oil shocks.
   d) All of the above.

4. Private credit refers to privately negotiated loans between a borrower and a non-bank lender. Traditionally only institutions were lending, but now everyday investors are also lending, because the yields are attractive compared to traditional bonds:
   a) True b) False

Answers: 1. C, 2. D, 3. D, 4. A

CIBC WOOD GUNDY | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca