Investment Commentary – Spring 2019

Summary

The first four months of the year has been a welcome relief for investors as the Canadian market is up approximately 14% year to date offsetting the negative 4th quarter which saw the Canadian market close out the year down 11.74%. The sharp recovery off the December lows was driven by a remarkable pivot by central banks from a tightening bias to a more accommodative monetary policy. Notable policy shifts in the US, Europe, China and to a lesser extent Canada has provided a tailwind for the riskier assets such as equities. The bond market also rallied after experiencing negative returns last December.

Global economies are now showing some early evidence that they might have run their course during the first quarter. The vast majority of the slowdown has occurred outside the US, particularly within China and Europe. China recently cut its economic growth target for a second time in six months which is now forecasted to be 6 - 6.5%. If China does grow at 6% this year, it would be the slowest pace of economic growth in almost three decades which will have an impact on the global economies and potentially stock markets as well.

Model performance

Our Canadian Dividend Equity Model Portfolio underperformed the S&P/TSX Index in the first quarter with a total return of approx. 9.5% vs. the benchmark of 12%. The year over year return was 8% however which outperformed the benchmark by 3%for the same period. We raised some cash last October and have not deployed it to preserve our strategic asset mix and to maintain a more neutral equity weighting across all our models.

During the quarter, Waste Connections (WCN), a recently addition to the portfolio was up almost 8% and Emera (EMA) climbed approx. 7% benefiting from the prospect of declining interest rates. Bank of Nova Scotia (BNS) detracted from performance due to declining interest rates and due to an earnings miss.

The Balanced Growth portfolio which consists of 5% cash, 25% fixed income, and 70% equity was up approx. 9% for the first quarter and 6% for the year ending March 31, 2019 outperforming the benchmarks for its asset mix. The beat was due to the global exposure and the strong performance of defensive stocks.

Trades

Due to the strength in TFI International (TFII), we sold the remaining position. We also sold Northwest Company (NWC) on expectations the stock would be flat and Whitecap Resources (WCP) to reduce our exposure to the small cap market. We allocated these proceeds to Waste Connections (WCN), Parkland Fuel (PKI) and Algonquin Power (AQN) to add dividend growth and companies that demonstrate more resilient businesses. We sold TD Bank (TD) in favour of Bank of Nova Scotia (BNS) due to relative valuations. Towards the end of the quarter, we sold Sierra Wireless (SW) in favour of Pembina Pipeline (PPL) to increase the defensive part of the portfolio.

Dividend Increases

During the last quarter the following companies increased their dividends: BCE, Brookfield Asset Management (BAM.A) Chartwell Retirement Residences (CSH.UN), Enbridge (ENB), Parkland Fuel (PKI), and Suncor (SU).

What's next?

The TSX posted a Q1 return well above its historical average which was in fact, the strongest start to the year since 2000. The first quarter has historically been good to equity investors helping to prepare for a more challenging quarter ahead. The earnings recently reported in Q1 have been better than analysts predicted in terms of revenue and earnings growth and the market has moved from a 12% return in the first quarter to a year to date return of 14% for the TSX.

As we move into a quarter that is typically weaker in terms of earnings reports and into the summer which is also a generally weaker time for equities, and because of the successful performance we have experienced year to date, we expect that some of the rally may subside. We also anticipate market volatility to remain heightened due to US/China relations, risks to global growth, geopolitical events and the risk of an inverted yield curve. We have positioned the portfolio to weather these risks by maintaining our strategic mix in fixed income and cash and we have rotated our equity exposure to more value than growth, focusing on quality companies with low earnings variability and secure cash flow.

We wish you a happy spring and summer ahead! As always please contact any one of us at any time with any questions or concerns.

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