Family Wealth Counsel Advisory Group | RAYMOND JAMES®

Investment Commentary – Winter 2019

Summary

What a difference a year can make. At the end of 2019, almost all major markets posted very strong returns and although there were experiences of volatility due mainly to the China free-trade talks, the very negative markets of 2018 were more than erased. So far, this year has also experienced positive year to date returns despite some trade tariff rhetoric, the coronavirus and the impeachment trial. Central banks are easing monetary conditions, and early evidence suggests there is expansion in the economy. Segments of the economy, such as the industrial sector, are struggling to be sure but the consumer has helped to spur some element of growth. The full effect of the corona virus on GDP numbers is not yet known but China is aggressively pumping money into the system and has recently reduced tariffs in an attempt to avoid a major slowdown.

While the rest of the world entered into an easing phase, the Bank of Canada remained on the sidelines giving it room to address a future slowdown which now is very prudent as the global economy may be at risk in the short term. The Canadian dollar remained relatively strong as a result and traded within a range. Oil stocks finally improved over the year but recently have broken down due to an expected reduction in demand from China. Canadian banks underperformed the market due to concerns of large loan loss provisions.

Model performance

Our Canadian equity model portfolio underperformed the S&P/TSX Index for the 12 months ended December 31, 2019 with a return of approx. 16.40% vs. the benchmark of 19.1%. The portfolio far outperformed the market on the three year performance, which was 5.3% average annual vs. the benchmark of 3.7%. While most securities were very productive, detractors to performance include Loblaw, Suncor, Vermillion, Chartwell , BCE, Telus, Bank of Nova Scotia and Nutrien. In the very strong bull market, some of the classic dividend producers and staples did not meet the performance. The only negative security held at the end of the year was Nutrien which we continue to expect to produce long term growth. The portfolio is up 3.2% year to date outperforming the benchmark of 1.5%.

The balanced growth portfolio which consists of 5% cash, 25% fixed income, and 70% equity was up approx. 18.1% for the 12 months ending December 31, 2020 versus the blended benchmark of 18.4% and for the three year period with an average annual return of 6.6%. The portfolio is up 2.2% year to date vs the benchmark of 2.9%

During the last quarter, the portfolio benefited from the very large outperformance from Brookfield Asset Management, Franco-Nevada, Parkland, Manulife, Open Text, Algonquin Power and the Dynamic American Power Growth fund which all posted performances of above 30%.

Trades

We took profits from CP Rail, which was trading near its all-time high and invested the proceeds in the Brookfield Infrastructure fund to increase our global exposure as we continue to favour global markets over domestic markets.

Dividend Increases

During the last quarter, the following companies increased their dividends: Bank of Nova Scotia (BNS), Emera Inc. (EMA), Fortis Inc. (FTS), Royal Bank (RY), Waste Connections Inc. (WCN) and Telus (T)

The Canadian dividend portfolio is now providing a 3.3% yield.

What is next?

The recent pick up in housing activity and a resilient consumer have been supportive to the domestic economy and helped fuel the markets. The Canadian consumer's balance sheet is stretched which can have a meaningful impact on the two key pillars supporting growth; spending and housing. We expect muted growth in Canada but thanks to the strong economic ties to the US and the close correlation to US GDP growth, it should at least be positive. The US consumer is in a much more enviable position relative to the Canadian consumer. China, now Canada's second largest trading partner, may disrupt growth due to not only the virus but also, prior to the outbreak China's growth was showing signs of slowing.

While the valuation of the Canadian market is more reasonable than others, given the now muted global growth outlook, we do not see a robust demand for oil or metals both which are heavy weight sectors of the Canadian market. In addition, expected soft bank earnings and increased loan loss provisions may affect the bank sector another significant weight in the Canadian market. The tail risk to the market is high and as such, our model is biased towards quality in terms of equity and fixed income investments. We continue to have almost one-half of our equity exposure placed outside of Canada. We are adding an allocation to a US midcap fund to diversify our current US exposure. While the US market is extended, an accommodative US central bank, low inflation, supportive employment market, a possible market friendly election and healthier consumer all provide support to the US outlook.

As always, if there are any questions please do not hesitate to contact us.

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