

# Quarterly Market Update



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## Reigniting Growth

We've closed the door on a difficult year and, while we continue to face challenges in the coming months, we can clearly see the path to our new normal. One that will be shaped by both the positive and negative lessons learned over the last nine months. The greater adoption of technology in our personal and professional lives, our ability to innovate and adapt to difficult situations, advancements in supply chain management and logistics, and a greater focus on health care and rapid vaccine development are among the positives that will shape 2021 and beyond. Of course the negatives include millions facing social and economic hardships but, although the road to recovery for many will be long, markets are indicating better days are ahead. North American equity markets managed to claw their way back from the March lows and finish in the black with the economy performing much better than expected. The "whatever it takes" attitude taken by governments and central banks is for the most part the reason why the economy and market performed so well in 2020, and these actions have left us in a much better place to build on the recovery, a recovery that we expect to be somewhat robust in 2021. Positive economic momentum will be one factor driving equity market returns through the year.

**Bottom Line:** the elements are in place for the economy to experience a robust recovery. Expectations are high, but the resiliency of corporations and consumers may provide upside surprise in 2021. Don't bet against the consumer.

**\*\*Please note that the commentary within this newsletter is related to the Langill & McHenry PIMG discretionary portfolios.**

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## Key Takeaways:

### Stocks

- The stock market roared in Q4 2020 rising 9.0% and 12.1% in Canada and the U.S, respectively. Although, the strong Canadian Loonie (+4.5% in Q4 2020) somewhat muted U.S. stock returns on a currency adjusted basis to 7.1%.
- Stocks have rebounded from March 2020 with both Canadian and US equities posting positive returns in 2020. US stocks performed better than Canadian stocks rising 18.4%, while Canadian stocks posted an increase of 5.6%.
- Stimulus measures have created a strong base for a robust recovery and, given the depth of the contraction, these measures will remain in place well into the future. Don't fight the Fed!

### Bonds & Preferred Shares

- Bonds persisted in defying odds by rising in the fourth quarter of 2020. The Feds continue to provide accommodation to financial markets to combat liquidity and credit concerns surrounding COVID-19 economic shutdowns. Corporate bonds rose 1.8% in the last three months of 2020, buoyed by stronger economic and risk sentiment.
- Preferred shares ended 2020 up 6.2%, rising along with the expectation of improved economic conditions and the introduction of limited recourse capital notes (LRCNs), which have inspired a supply imbalance in the preferred share market in favour of preferred share prices.

<b>*Market*</b> <i>(Total Returns in Local Currency)</i>	<b>Q4 2020 %</b> <i>(Oct to Dec)</i>	<b>Calendar Year</b> <b>2020 %</b>	<b>5 Year</b> <b>Annualized %</b>	<b>10 Year</b> <b>Annualized %</b>
<b>Canadian Equity</b> <small>(S&amp;P/TSX Composite Index TR, CAD\$)</small>	9.0%	5.6%	9.3%	5.8%
<b>U.S. Equity</b> <small>(S&amp;P 500 Index TR, USD\$)</small>	12.1%	18.4%	15.2%	13.9%
<b>International Equity</b> <small>(MSCI EAFE Index ETF, USD\$)</small>	14.6%	5.1%	4.4%	2.3%
<b>Canadian Fixed Income</b> <small>(FTSE Canada Universe Bond Index, CAD\$)</small>	0.6%	8.7%	4.2%	4.5%
<b>Preferred Shares</b> <small>(S&amp;P/TSX Preferred Shares Index TR, CAD\$)</small>	7.3%	6.2%	4.2%	2.0%
<b>Currency Exchange Rate</b> <small>(USD\$/CAD\$)</small>	-4.5%	-2.0%	-1.7%	2.5%

## Our Models

- Our stock portfolios, Dividend Growth (DG) and Yield & Growth (Y&G) advanced 7.4% and 2.1% for Q4 and 2020, trailing our benchmark by 7.9% and 11.9%, respectively.
- In 2020, investors focused on expensive, high-growth stocks with little to no dividend obligations (organizations like Telsa and Google). We do not focus on this area and, as a result, our portfolios did not participate as much in the recovery. Instead, our emphasis is on companies with sustainable dividends and dividend growth.
- Although it is never comforting to trail behind the market in performance, we view the unprecedented recovery in the market and the shallow pool of star performers as speculative in nature. Over the longer-term, we expect our strategy will be rewarded as economic conditions begin to improve as the coronavirus pandemic begins to resolve itself in 2021. The last quarter of 2020 and the performance of our portfolios, was a positive sign for this view.
- Top performers in our portfolios for 2020 were Broadcom (AVGO) up +42.1% in our Dividend Growth portfolio, while Sysco (SYY) rose +49.4% to lead performance in our Yield & Growth portfolio.
- Laggards in our portfolios for 2020 were TC Energy (TRP) falling -20.8% in our Dividend Growth portfolio, while Gilead Sciences (GILD) fell 12.9% in our Yield & Growth portfolio.
- No changes to our equity positions were made in Q4 2020 in either portfolio. There were two recent bond maturities in our Yield & Growth bond models, which were replaced with a Bank of Montreal 2021 bond and a Canadian Western Bank 2023 bond. 2021 will be a very active year in both of our bond models as there are a number of bond and preferred share maturities that will occur over the year.

***\*\*For information on model returns please email Adam McHenry at [adam.mchenry@raymondjames.ca](mailto:adam.mchenry@raymondjames.ca)\*\****

## "Dividend Growth" Stocks We Own:

### DG All Equity Portfolio (2020-12-31)

Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Medtronic Ord Shs	5.6%	1.95	12.1%	22.6	1.6
Bank of New York Mellon Ord Shs	4.2%	2.92	12.3%	11.0	
Morgan Stanley Ord Shs	6.2%	2.04	30.0%	13.7	
Northrop Grumman Ord Shs	4.7%	1.90	13.7%	12.1	2.1
Tyson Foods Ord Shs Class A	2.4%	2.76	33.2%	10.4	2.3
Union Pacific Ord Shs	5.7%	1.86	15.4%	22.2	2.2
UnitedHealth Group Ord Shs	6.8%	1.43	24.1%	19.0	1.0
Algonquin Power Utilities Ord Shs	6.1%	3.77	11.7%	22.2	3.3
Empire Ord Shs Class A	7.5%	1.49	5.9%	13.5	2.8
Enbridge Ord Shs	3.9%	7.96	16.1%	14.9	4.7
Manulife Financial Ord Shs	7.4%	4.94	11.6%	7.3	
Quebecor Ord Shs Class B	4.9%	2.44	51.0%	13.3	3.1
Toronto Dominion Ord Shs	5.4%	4.39	9.2%	12.6	
TC Energy Ord Shs	5.1%	6.26	9.1%	12.3	5.0
Comcast Ord Shs Class A	7.9%	1.76	13.3%	17.7	2.9
Intact Financial Ord Shs	6.1%	2.20	9.6%	17.6	1.3
Broadcom Ord Shs	7.4%	3.29	53.0%	17.0	2.2
<b>Cash &amp; Equivalents</b>					
Canadian Dollar	2.8%	0.0	-	-	-
<b>Langill &amp; McHenry All Equity DG Portfolio</b>	<b>100.0%</b>	<b>2.92</b>	<b>19.2%</b>	<b>14.19</b>	<b>2.58</b>

Note: For illustration purposes only.

\*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: Refinitiv Eikon R&A

## "Dividend Growth" Bonds & Preferred Shares We Own:

### Capital Preservation Portfolio DG (2020-12-31)

Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
NEWLF 2.300 06/02/25 ReOpened	9.5%	106.85	2025-06-02	0.8
MAITB 1.550 09/05/21 ReOpened	5.3%	101.43	2021-09-05	0.2
ALBTA 2.200 06/01/26 Bond ReOpened	9.6%	107.44	2026-06-01	0.8
PPLX 2.990 01/22/24 '23 MTN ReOpened	9.6%	107.26	2024-01-22	0.9
CMHT 2.350 06/15/27 ReOpened	9.8%	110.13	2027-06-15	0.8
CMHT 1.750 06/15/22 ReOpened	9.1%	102.31	2022-06-15	0.2
MFC 3.317 05/09/28 '23 FRN Sub Deb	9.5%	106.19	2023-05-09	0.9
CMHT 2.100 09/15/29 Bond ReOpened	4.1%	110.43	2029-09-15	0.9
CHP 2.848 05/21/27 '27 Sr Deb	9.6%	107.21	2027-05-21	1.7
<b>Preferred Shares</b>				
Brookfield Renewable Partners Series 7 Pref Shs Class A	4.4%	25.11	31-Jan-21	5.5
Empire Life Insurance Company Non Cumulative Rate Reset Pref Shs Series 1	4.2%	25.20	18-Apr-21	5.7
TC Energy Cumulative redeemable min rate first Pref Shs Series 15	3.9%	24.90	31-May-22	4.9
Capital Power Cumulative Rate Reset Pref Shs Series 11	1.9%	25.40	1-Jul-24	5.7
<b>Cash &amp; Equivalents</b>				
Canadian Dollar	9.6%	-	-	0.00
<b>Langill &amp; McHenry Capital Preservation DG Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>3.9 yrs</b>	<b>1.60</b>

Note: For illustration purposes only.

\*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: Refinitiv Eikon R&A

## "Yield & Growth" Stocks We Own:

Y&G All Equity Portfolio (2020-12-31)					
Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Cisco Systems Ord Shs	5.7%	3.2	12.6%	14.0	
Emerson Electric Ord Shs	7.1%	2.5	1.2%	22.7	1.1
Gilead Sciences Ord Shs	4.2%	4.7		8.3	0.4
International Business Machines Ord Shs	4.9%	5.2	8.6%	10.3	2.6
Johnson & Johnson Ord Shs	6.5%	2.6	6.3%	17.5	0.2
3M Ord Shs	5.2%	3.4	11.0%	19.1	1.6
Pfizer Ord Shs	5.4%	4.1	6.7%	11.4	2.4
Sysco Ord Shs	6.7%	2.4	7.3%	30.9	2.6
Telus Ord Shs	2.9%	4.9	8.4%	19.1	3.0
BCE Ord Shs	4.7%	6.1	4.9%	16.5	2.6
Bank of Nova Scotia Ord Shs	3.5%	5.2	5.8%	11.4	
Canadian Natural Resources Ord Shs	6.8%	5.6	10.8%	51.5	2.8
Fortis Ord Shs	5.1%	3.9	7.4%	18.3	5.5
Magna International Ord Shs	7.4%	2.3	20.7%		0.6
Power Corporation of Canada Ord Shs	5.9%	6.1	6.6%	9.0	2.0
Royal Bank of Canada Ord Shs	5.8%	4.1	7.1%	12.1	
Merck & Co Ord Shs	5.0%	3.2	5.1%	12.9	1.0
Restaurants Brands International Ord Shs	4.3%	3.4	46.1%	22.2	4.7
<b>Cash &amp; Equivalents</b>					
Canadian Dollar	2.9%	0.0	-	-	-
<b>Langill &amp; McHenry Y&amp;G All Equity Portfolio</b>	<b>100.00%</b>	<b>3.81</b>	<b>10.14%</b>	<b>15.19</b>	<b>2.09</b>

Note: For illustration purposes only.

\*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: Refinitiv Eikon R&A

## "Yield & Growth" Bonds & Preferred Shares We Own:

### Capital Preservation Portfolio Y&G (2020-12-31)

Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
CAGV 1.000 06/01/27 Bond ReOpened	10.8%	103.58	2027-06-01	0.4
CMHT 1.150 12/15/21 Bond	6.6%	100.99	2021-12-15	0.2
PEELR 2.300 11/02/26 Debenture	11.3%	108.15	2026-11-02	0.9
BMO 1.610 10/28/21 ReOpened	10.6%	101.38	2021-10-28	0.3
TZ 2.750 07/08/26 '26 Sr Note	11.3%	108.77	2026-07-08	1.3
MFC 2.818 05/13/35 '30 FRN Sub De b	11.2%	107.29	2030-05-13	2.0
CWB 1.570 09/14/23 Sr Note	10.6%	102.11	2023-09-14	1.0
<b>Preferred Shares</b>				
TC Energy Cumulative redeemable min rate first Pref Shs Series 13	5.0%	25.52	2021-05-31	5.4
Enbridge Cumulative Redeemable Minimum Rate Reset Pref Shs Series 17	5.5%	24.11	2022-03-01	5.3
Pembina Pipeline Cumulative Redeemable Minimum Rate Reset Class A Pref Shs Series 21	6.8%	22.79	2023-03-01	5.4
<b>Cash &amp; Equivalents</b>				
Canadian Dollar	10.3%	-	-	0.00
<b>Langill &amp; McHenry Capital Preservation Y&amp;G Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>4.4 yrs</b>	<b>1.80</b>

Note: For illustration purposes only.

\*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: Refinitiv Eikon R&A

## Completion Models:

If you have an account within your portfolio with < \$100,000, you may also be invested in a portfolio of investments that are outside the Dividend Growth and Yield & Growth models. We call these investments either “completion models” or “satellite holdings.” The completion and satellite portfolios help to customize all of your accounts for your unique risk tolerance, tax circumstances and liquidity needs. For a sense of the securities we own in the completion and satellite portfolios, we have listed our two completion models below.

### AMP Completion Models as of 2020-12-31, CAD

#### Completion & Small Completion Model Holdings:

Issue Name	Ticker	Currency \$
iShares Canadian Corporate Bond Index ETF	XCB	CAD \$
iShares MSCI World Index ETF	XWD	CAD \$
Vanguard Canadian Short-Term Corporate Bd Idx ETF	VSC	CAD \$
PIMCO Monthly Income (CAN) ETF Series	PMIF	CAD \$
Berkshire Hathaway Ord Shs Class B	BRK.B	USD \$
Fairfax Financial Holdings Sub Voting Ord Shs	FFH	CAD \$
Cymbria Corporation Class A	CYB	CAD \$
Horizons Active Global Dividend ETF Class E	HAZ	CAD \$
Bristol Gate Concentrated Canadian Equity ETF	BGC	CAD \$
Bristol Gate Concentrated US Equity ETF	BGU	CAD \$

Source: Refinitiv Eikon R&A

Note: For illustration purposes only.

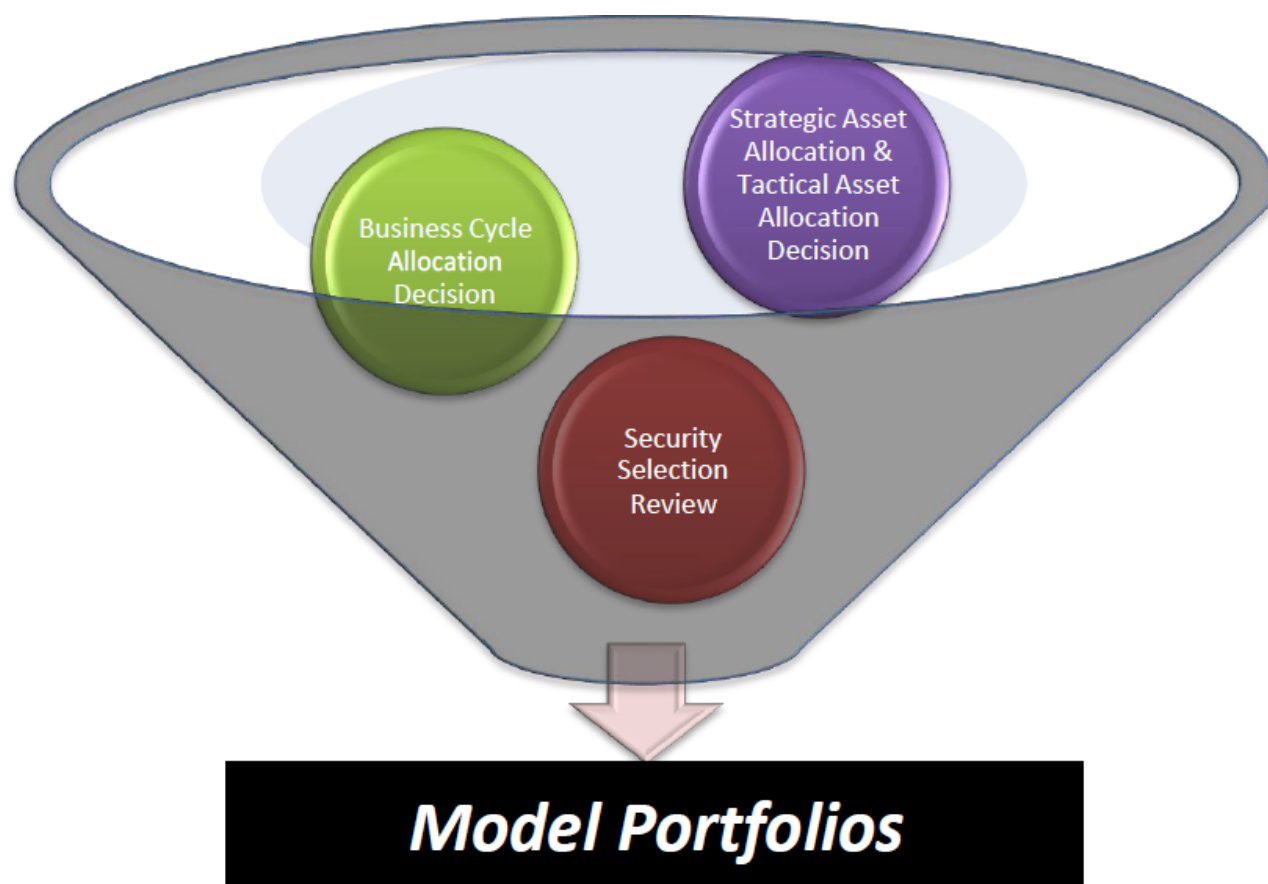


## Model Portfolio Process

When we select investment securities for our model portfolios, we follow a disciplined three step process:

1. Examine our asset mix vs. our expectations for long-term returns. This review helps guide our model portfolios allocation to Cash, Bonds & Preferred Shares, and Stocks.
2. Review our business cycle allocation vs. our expectations for broad market. We then allocate to sectors of the market and security factors that are expected to perform well.
3. Assess securities for inclusion in the portfolio based on: (i) Dividend growth, (ii) Leverage, (iii) Valuation and (iv) Market structure. Securities reflecting these features are typically of higher quality than average.

After the third step is complete, we include a portfolio of investment securities in our model portfolios reflecting our expectations for the market going forward.



## Our Investor Profiles & Asset Allocations:

Asset Allocation	Cash %	Fixed Income %	Equity %
<b>Capital Preservation</b>	<b>10.00%</b>	<b>90.00%</b>	<b>0.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>75-100%</i>	<i>0-25%</i>
<b>Benchmark Capital Preservation*</b>	<b>0.00%</b>	<b>100.00%</b>	<b>0.00%</b>
<b>Income</b>	<b>5.00%</b>	<b>69.00%</b>	<b>26.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>55-100%</i>	<i>0-25%</i>
<b>Benchmark Income*</b>	<b>0.00%</b>	<b>80.00%</b>	<b>20.00%</b>
<b>Balanced Income</b>	<b>5.00%</b>	<b>53.00%</b>	<b>42.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>35-85%</i>	<i>15-65%</i>
<b>Benchmark Balanced Income**</b>	<b>0.00%</b>	<b>60.00%</b>	<b>40.00%</b>
<b>Balanced</b>	<b>5.00%</b>	<b>43.00%</b>	<b>52.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>25-75%</i>	<i>25-75%</i>
<b>Benchmark Balanced**</b>	<b>0.00%</b>	<b>50.00%</b>	<b>50.00%</b>
<b>Balanced Growth</b>	<b>5.00%</b>	<b>34.00%</b>	<b>61.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>10-60%</i>	<i>40-90%</i>
<b>Benchmark Balanced Growth***</b>	<b>0.00%</b>	<b>35.00%</b>	<b>65.00%</b>
<b>Growth</b>	<b>5.00%</b>	<b>17.00%</b>	<b>78.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-45%</i>	<i>55-100%</i>
<b>Benchmark Growth*</b>	<b>0.00%</b>	<b>20.00%</b>	<b>80.00%</b>
<b>All Equity</b>	<b>5.00%</b>	<b>0.00%</b>	<b>95.00%</b>
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-25%</i>	<i>75-100%</i>
<b>Benchmark All Equity*</b>	<b>0.00%</b>	<b>0.00%</b>	<b>100.00%</b>

\*Note: Active weights % are determined based on their deviation from the neutral weight % indicated

\*\*Note: model ranges legend = TAA low% to TAA high %

\*Benchmark comprised of proportions of XBB, XIC and IVV.

## Model Portfolio Management Philosophy

### **Model Portfolio Objectives for Dividend Growth and Yield & Growth:**

- We designed both of the model portfolios with a conservative investment approach. The portfolios may not participate as much in gains when markets are rising. However, they are expected to be more resilient in falling markets to protect capital. As a result, the portfolios will tend to be less volatile and capital will be given more opportunity to compound over a long-period of time.

### **Dividend Growth (DG):**

- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +6%/yr

### **Yield & Growth (Y&G):**

- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +0%/yr, dividend yield target +2.5%

### **Other Portfolio Parameters (both DG and Y&G):**

- 14 models with different asset allocation based on risk and return objectives including Capital Preservation, Income, Balanced Income, Balanced Growth, Growth and All Equity
- Zero embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-3 preferred shares, investment grade credit, short and laddered duration (<7 years)
- Diversify by geography, sector and style
- Large capitalization (“Blue Chip”)



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