

# Quarterly Market Update



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## Recovery Still in Progress, Despite Crosswinds

After months of summer slumber, market volatility once again reared its ugly head in September. While it caught some off guard, the past 20 years of historical returns show September typically has the worst month-over-month showing for the Canadian stock market (S&P/TSX): it averages a return of -1.3% vs. a range of +1.8% to -0.8% for the remaining months. We continue to believe the global economy remains relatively early in the current economic cycle, as conditions remain highly accommodative.

### Key Points:

- Global growth is still bifurcated, but hovering above trend. This growth is being led by strength across advanced economies, which we believe are tracking ahead of their emerging market peers on vaccination rates/reopening efforts.
- Inflation is rising everywhere and likely to stick around longer than expected, it continues to run “hot” and has even picked up momentum around the world.
- US and Canadian economic growth remains strong. The U.S. averaged 6.4% annual growth rate over the first two quarters of 2021. While GDP growth is expected to moderate into 2023, it is still expected to remain above trend. The Canadian economic outlook remains robust despite near-term softness in the economy.
- We continue to prefer equities to fixed income and cash. Given relative valuations and the earnings outlook, we favour the Canadian equity market versus the U.S. market.

**Bottom Line:** To paraphrase Warren Buffet, the time to worry is when no one else is (ie., Q4/2019) and the time to buy is when everyone is selling (ie. Q1/2020). The markets rarely go up in a straight line and, despite all the conflicting headlines and volatility in recent economic data prints, the Canadian economic outlook remains positive. We recommend clients stay invested and capitalize on pullback opportunities.

**\*\*Please note that the commentary within this newsletter is related to the Langill & McHenry Investment Advisors Private Investment Management Group (PIMG) discretionary portfolios.**

## ***Key Takeaways:***

### **Stocks**

- Despite a challenging September, the stock market was relatively flat in Q3 2021 (Canada +0.2% and the U.S +0.6%). However, the strong U.S. dollar (+2.3% in Q3 2021) enhanced U.S. stock returns held by Canadian investors on a currency-adjusted basis to +2.9%.
- Stocks have rebounded from March 2020 coronavirus lows, with both Canadian and US equities posting positive strong returns over a two year period. Over the last 24 months, US stocks performed better than Canadian stocks rising ~50%, while Canadian stocks posted an increase of ~28%, in local currency.
- 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 central banks!

### **Bonds & Preferred Shares**

- Bonds struggled in Q3 2021 resulting in a decrease of -0.5%. Central banks continue to provide accommodation to financial markets to combat liquidity and credit concerns surrounding COVID-19 lingering impacts. These stimulus actions have stoked fears of stronger inflation and resulted in rising interest rates, which is negative for bond prices.
- Canadian preferred shares continued their strong performance from the first six months of 2021, rising +2.8% in Q3 2021. Preferred shares are benefiting from the expectation of improved economic conditions and the introduction of limited recourse capital notes (LRCNs), which has inspired a supply imbalance in the preferred share market in favour of preferred share prices.

## Our Models

- Our all equity stock portfolios, Dividend Growth (DG), and Yield & Growth (Y&G), advanced +0.3% & +2.2% for Q3 2021 and +22.1% & +32.3% over the last twelve months, relative to our benchmark at +1.4% and +25.0%, respectively.
- Our capital preservation bond portfolios, DG and Y&G versions, returned +0.8% & +0.6% for Q3 2021 and +2.7% & +3.4% over the last twelve months, relative to our benchmark at -0.3% and -3.2%, respectively.
- For our Completion and Small Completion ("Balanced Growth") portfolios, in Q3 2021 they rose 2.0% and 1.3%, while over the last 12 months they increased 17.3% and 12.6%, relative to our benchmark at 1.3% and 16.5%, respectively.
- Top performers in our stock portfolios for Q3 2021 were Tractor Supply Co (TSC) up 10.1% in our DG portfolio, while Power Corporation of Canada (POW) rose 7.7% to lead performance in our Y&G portfolio. Laggards in our portfolios for Q3 2021 were Magna Intl (MG) falling 16.5% in our DG portfolio, while Rio Tinto ADR (RIO) fell 12.7% in our Y&G portfolio.
- We made some changes in our models in Q3 2021 regarding both asset allocation and specific securities:
  - With respect to asset allocation and our Balanced portfolio by way of example, we used the stock market's recent strength to trim 2% from equity and rebalanced 1% each of the proceeds to cash and fixed income equally.
  - On the stock side of the portfolios, in the DG models, we sold our position in TD Bank (TD) and replaced it with Jamieson Wellness (JWEL); we also sold Medtronic (MDT) and purchased Lennar Corp (LEN). In the Y&G models, we sold our position in Pfizer (PFE) and replaced it with Finning Intl Inc (FTT); we also sold Cisco Systems (CSCO) and purchased Bristol Myers Squibb Co (BMY).
  - Within our Completion model, we added Apollo Global Management (APO) with proceeds from the sale of Blackstone Inc (BX). In the Small Completion model, we added new positions in two exchange traded funds (ETFs), iShares MSCI Emerging Market ETF (XEM) and First Trust NASDAQ 100 Equal Weighted ETF (QQEW) by trimming some of the existing position in iShares MSCI World ETF (XWD).
  - On the fixed income side of the portfolio, we did not make any changes to our specific investments.

***\*\*For information on model returns please email Adam McHenry at  
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## "Dividend Growth (DG)" Stocks We Own:

### Dividend Growth (DG) All Equity Portfolio (2021-09-30)

Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Air Products and Chemicals Ord Shs	3.8%	2.3	10.4%	24.0	0.4
Lennar A Ord Shs	3.7%	1.1	21.0%	6.5	0.6
Bank of New York Mellon Ord Shs	3.9%	2.6	12.8%	11.8	na
Morgan Stanley Ord Shs	6.8%	2.9	20.5%	13.4	na
Northrop Grumman Ord Shs	4.3%	1.7	12.8%	14.0	1.6
Tractor Supply Ord Shs	5.1%	1.0	14.6%	25.0	na
Tyson Foods Ord Shs Class A	2.3%	2.3	33.2%	11.3	1.8
Union Pacific Ord Shs	4.1%	2.2	7.5%	17.9	2.2
UnitedHealth Group Ord Shs	5.8%	1.5	20.8%	18.7	1.0
Algonquin Power Utilities Ord Shs	4.2%	4.7	14.3%	18.7	5.1
Empire Ord Shs Class A	6.4%	1.6	5.4%	13.7	3.0
Imperial Oil Ord Shs	6.0%	2.7	10.7%	8.9	0.7
Manulife Financial Ord Shs	6.1%	4.6	10.0%	7.0	na
Magna International Ord Shs	3.8%	2.3	12.7%	na	0.1
Quebecor Ord Shs Class B	3.5%	3.6	65.2%	11.6	2.9
TC Energy Ord Shs	4.7%	5.7	14.4%	14.2	5.0
Comcast Ord Shs Class A	6.5%	1.8	13.0%	15.4	2.4
Intact Financial Ord Shs	5.3%	2.0	9.4%	15.2	na
Broadcom Ord Shs	6.3%	3.0	53.0%	15.7	1.7
Jamieson Wellness Ord Shs	4.3%	1.7	na	25.8	1.8
<b>Cash &amp; Equivalents</b>					
Cash (CAD\$)	3.1%	0.0	na	na	na
<b>Langill &amp; McHenry All Equity DG Portfolio</b>	<b>100.0%</b>	<b>2.5</b>	<b>18.3%</b>	<b>13.2</b>	<b>2.1</b>

Note: For illustration purposes only.

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

Source: Refinitiv Eikon

## "Dividend Growth (DG)" Bonds & Preferred Shares We Own:

Capital Preservation Portfolio Dividend Growth (DG) (2021-09-30)				
Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
ALBTA 2.200 06/01/26 Bond ReOpened	7.8%	104.72	2026-06-01	1.3
PPLX 2.990 01/22/24 '23 MTN ReOpened	7.8%	104.03	2024-01-22	1.4
CMHT 2.350 06/15/27 Bond ReOpened	7.9%	105.89	2027-06-15	1.4
MFC 3.317 05/09/28 '23 FRN Sub Deb	7.9%	104.78	2023-05-09	1.1
CMHT 2.100 09/15/29 Bond ReOpened	7.7%	102.71	2029-09-15	1.7
CHP 2.848 05/21/27 '27 Sr Deb	7.8%	104.09	2027-05-21	2.3
FFH 3.950 03/03/31 '30 Sr Note	7.8%	104.01	2031-03-03	3.5
BMO 1.600 03/19/29 Cpn step 2.750 on 03/19/28	7.3%	97.94	2029-03-19	2.4
<b>Preferred Shares</b>				
TC Energy Cumulative redeemable min rate first Pref Shs Series 15	7.4%	25.67	2022-05-31	4.8
Element Fleet Management 5 75 Cum Pref Shs Series I	7.2%	25.70	2022-06-30	5.6
Capital Power Cumulative Rate Reset Pref Shs Series 11	7.4%	26.15	2024-07-01	5.5
Emera Cum Prf Shs Series J	7.4%	26.44	2026-05-15	5.8
<b>Cash &amp; Equivalents</b>				
Cash (CAD\$)	8.5%	1.00	na	0.0
<b>Langill &amp; McHenry Capital Preservation DG Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>5.0 yrs</b>	<b>3.5</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

## "Yield & Growth (Y&G)" Stocks We Own:

### Yield & Growth (Y&G) All Equity Portfolio (2021-09-30)

Issue Name	Portfolio Weight	Dividend Yield %	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
<b>Equity</b>					
Bristol Myers Squibb Ord Shs	4.0%	3.3	4.0%	7.5	1.4
Gilead Sciences Ord Shs	4.5%	4.1	16.1%	10.2	1.9
International Business Machines Ord Shs	4.8%	4.7	5.4%	12.1	2.5
Kimberly Clark Ord Shs	4.2%	3.4	4.0%	18.0	2.1
3M Ord Shs	4.6%	3.4	7.5%	16.7	1.3
Pepsico Ord Shs	4.9%	2.9	7.8%	22.8	2.4
Rio Tinto ADR Reptg One Ord Shs	3.5%	11.3	11.8%	5.8	na
Telus Ord Shs	2.8%	4.5	7.3%	22.9	2.8
BCE Ord Shs	4.9%	5.5	5.1%	18.9	2.5
Bank of Nova Scotia Ord Shs	3.6%	4.6	5.8%	9.9	na
Canadian Natural Resources Ord Shs	9.2%	4.1	13.1%	9.1	1.3
Enbridge Ord Shs	5.0%	6.6	11.7%	16.5	4.5
Fortis Ord Shs	4.9%	3.6	6.8%	19.7	5.5
Finning International Ord Shs	4.5%	2.9	2.5%	14.2	1.4
North West Company Ord Shs	4.3%	4.4	na	12.8	1.2
Power Corporation of Canada Ord Shs	7.6%	4.3	7.4%	9.7	1.4
Royal Bank of Canada Ord Shs	6.3%	3.4	7.1%	11.3	na
Merck & Co Ord Shs	4.1%	3.5	6.6%	12.2	0.8
AbbVie Ord Shs	4.4%	4.8	18.5%	7.9	2.4
CT REIT Units	4.9%	4.9	3.6%	15.2	6.8
<b>Cash &amp; Equivalents</b>					
Cash (CAD\$)	3.1%	0.0	na	na	na
<b>Langill &amp; McHenry Y&amp;G All Equity Portfolio</b>	<b>100.0%</b>	<b>4.3</b>	<b>8.2%</b>	<b>11.8</b>	<b>2.4</b>

Note: For illustration purposes only.

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

Source: Refinitiv Eikon

## "Yield & Growth (Y&G)" Bonds & Preferred Shares We Own:

Capital Preservation Portfolio Yield & Growth (Y&G) (2021-09-30)				
Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
<b>Bonds</b>				
CAGV 1.000 06/01/27 Bond ReOpened	10.7%	99.60	2027-06-01	1.1
PEELR 2.300 11/02/26 Debenture	10.7%	105.00	2026-11-02	1.5
TZ 2.750 07/08/26 '26 Sr Note	10.6%	104.21	2026-07-08	1.9
LX 2.284 05/07/30 '30 Sr Note	10.8%	99.04	2030-05-07	2.5
CWB 1.570 09/14/23 Sr Note	10.6%	100.88	2023-09-14	1.2
BMO 1.400 03/15/28 Cpn step 2.250 on 03/15/27	10.7%	97.30	2028-03-15	2.2
<b>Preferred Shares</b>				
Fairfax Financial Holdings Cumulative 5 Year Rate Reset Pref Shs Series M	9.2%	25.82	2020-03-31	4.8
Enbridge Cumulative Redeemable Minimum Rate Reset Pref Shs Series 17	9.0%	25.45	2022-03-01	5.1
Pembina Pipeline Cumulative Redeemable Minimum Rate Reset Class A Pref Shs Series 21	9.1%	25.58	2023-03-01	4.8
<b>Cash &amp; Equivalents</b>				
Cash (CAD\$)	8.5%	1.00	na	0.0
<b>Langill &amp; McHenry Capital Preservation Y&amp;G Portfolio</b>	<b>100.00%</b>	<b>-</b>	<b>5.0 yrs</b>	<b>3.0</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



## 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.

### PIMG Completion Models as of 2021-09-30, CAD

#### Completion & Small Completion Model Holdings:

Issue Name	Ticker	Currency \$	Q3 2021 %	Last 12 Months %
iShares Canadian Corporate Bond Index ETF	XCB	CAD \$	-0.7	-3.5
iShares MSCI World Index ETF	XWD	CAD \$	2.1	21.8
iShares MSCI Emerging Markets Index ETF	XEM	CAD \$	-5.7	na
First Trust Nasdaq 100 Equal Weight ETF	QQEW	USD \$	-4.7	na
Vanguard Canadian Short-Term Corporate Bd Idx ETF	VSC	CAD \$	0.2	0.9
PIMCO Monthly Income (CAN) ETF Series	PMIF	CAD \$	0.5	6.0
Horizons Active Preferred Share ETF	HPR	CAD\$	3.0	10.7
Berkshire Hathaway Ord Shs Class B	BRK.B	USD\$	-0.4	22.6
Graham Holdings Company Ord Shs Class B	GHC	USD\$	-5.4	na
Fairfax Financial Holdings Sub Voting Ord Shs	FFH	CAD \$	-5.9	33.8
Onex Ord Shs	ONEX	CAD \$	-0.4	2.7
KKR and Co Ord Shs	KKR	USD \$	4.4	15.4
Apollo Global Mgmt	APO	USD \$	-0.2	na
Cymbria Corporation Class A	CYB	CAD \$	-10.1	30.8

*Note: For illustration purposes only. Holding period returns captured, if "na" that signals that position was not held over that timeframe.*

*Source: Refinitiv Eikon*

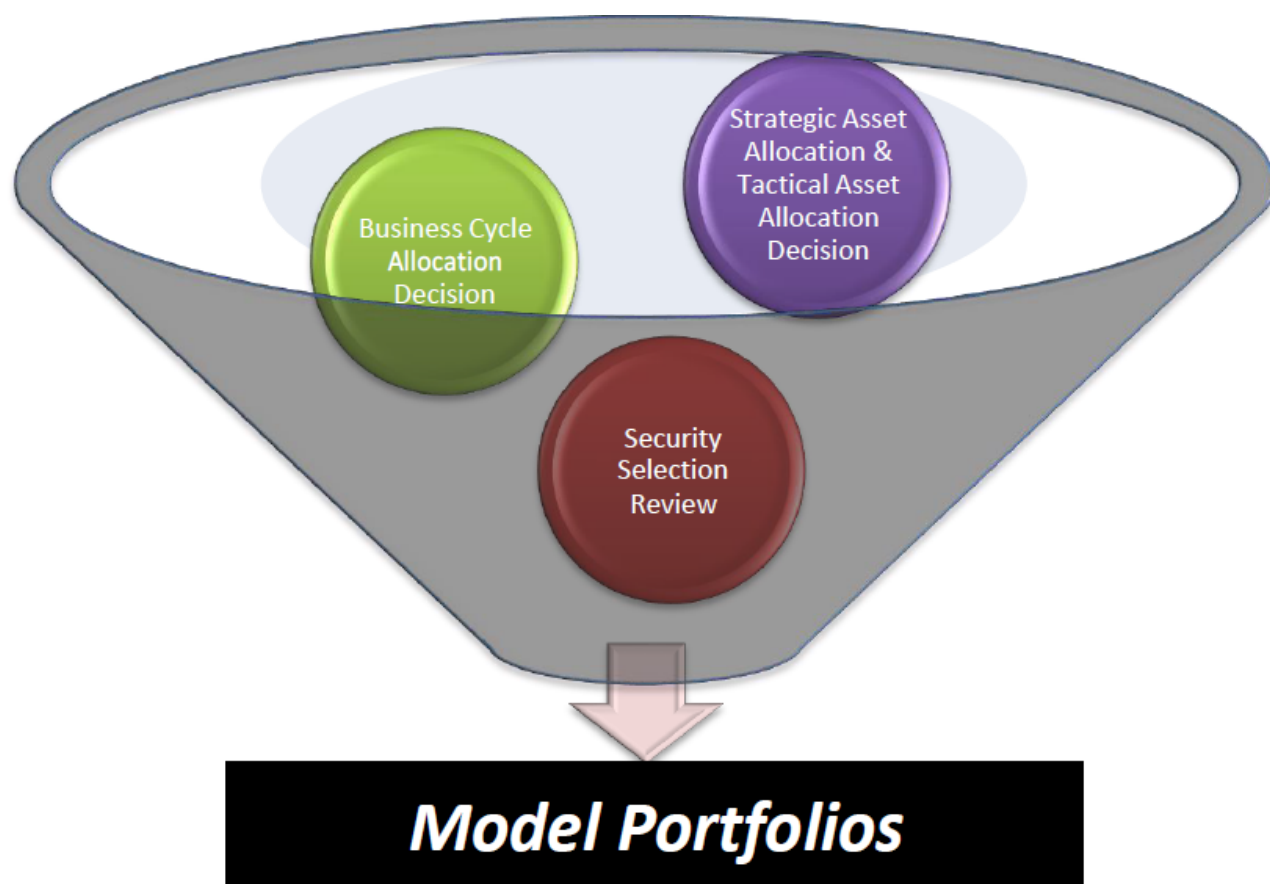


## Model Portfolio Process

**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 & equivalents, fixed income (bonds & preferred shares), and equity (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:

### LANGILL & MCHENRY MODEL ASSET ALLOCATION

Asset Allocation	Cash %	Fixed Income %	Equity %
<b>Capital Preservation</b>	<b>8.50%</b>	<b>91.50%</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>3.00%</b>	<b>69.00%</b>	<b>28.00%</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>3.00%</b>	<b>53.00%</b>	<b>44.00%</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>3.00%</b>	<b>43.00%</b>	<b>54.00%</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>3.00%</b>	<b>32.00%</b>	<b>65.00%</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>3.00%</b>	<b>17.00%</b>	<b>80.00%</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>3.00%</b>	<b>0.00%</b>	<b>97.00%</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, dividend yield target +0%

### **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
- Negligible embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-4 preferred shares, investment grade credit, short and laddered duration (<10 years)
- Diversify by geography, sector and style
- Large capitalization ("blue chip")



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