



MCMURTRY INVESTMENT REPORT

Investment Commentary June 2019

Asset Mix Changes

I am not making any asset mix changes at this time. There remains enough political and economic uncertainty to maintain a high cash surplus.

Corporate earnings growth rates continue to ratchet down to 3-4% from double digits last year. Market valuations on 2020 earnings are at 15-16 times, marginally lower than the 16-17 long term average multiple.

Global economic growth remains challenged with both Germany and Japan having negative interest rates.

Inflationary expectations continue to remain historically low causing a great deal of uncertainty at the Federal Reserve Bank.

Given the weak global economic outlook combined with the ongoing trade war between the US and China, the probability of an interest rate decline in the US this year has gone up dramatically.

Probability of an Impending US Recession

The US yield curve has inverted once again and this has created more market uncertainty. Although historically this has frequently been a signal of an impending recession, this might not be the case this time. Taking into consideration the low to negative interest rates globally, the US bond market offers the best yields. This has caused massive global and domestic demand for US Treasuries resulting in longer yields falling below short Treasury Bill yields.

However, the prospect of lower rates implies the economy is more vulnerable than we think to the threat of an escalation in the trade wars.

Many economists believe that an all out trade war would depress global GDP by at least 0.5%.

While still historically low, corporate bond spreads over US Treasuries are rising once again which is not a good sign.

This month the probability of an impending recession is still low, but a little higher than last month with the threat of more tariffs by both countries.

China and its Ongoing Trade War with the US

Both the US and Chinese Presidents do not want to appear to be giving in to the demands of the other country. However, both have a lot to lose without any definite compromise on the trade front.



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Personally, I am sick and tired of Trump's antics and so is the rest of the world. The global economy is not a poker game and should not be viewed as such.

Prospects of lower rates

Interest sensitive stocks continue to perform well in this period of flat to falling interest rates.

Financial stocks continue to have difficulty with the combination of an inverted yield curve, falling net interest margins and rising non performing loans.

Equity Sectors

I remain overweight Industrials, Consumer Staples, Technology, Utilities and REIT's.

I remain market weight Financials, Energy, and Healthcare.

Energy remains a very difficult sector but should improve with the upcoming OPEC meeting where they are expected to cut production once again. The US Refineries are also coming back on stream from being temporarily shutdown and this will help to improve demand for crude oil.

I am reducing my exposure in Communications Services from overweight to market weight as a result of increased potential regulation on both Facebook and Google.

I remain underweight Materials, and Consumer Discretionary.

Common Equity Changes

In the Industrial sector I added New Flyer Group on May 30 to both portfolios with their recent acquisition of Alexander Dennis, the British double decker bus manufacturer.

In the Financial sector I am deleting both Bank of Nova Scotia and Keycorp Bank. Scotiabank had disappointing quarterly earnings for the last four quarters and is underperforming its more US exposed peers like TD, RBC and Bank of Montreal. Keycorp, the US bank is having difficulty competing with larger regionals and NY City banks that are more diversified in their product mix.

In the REIT's sector I am adding the USSPDR XLRE Real Estate ETF to both portfolios. This ETF offers exposure to all types of US real estate including the fast growing data centres and cell towers.

In the Energy sector, I am adding Canadian Natural Resources, the high quality domestic producer that recently made an accretive acquisition of the Canadian assets of Devon Energy.

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McMurtry Investment Report - Portfolios (June 2019)

	Income		Growth	
Cash	Alterna Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)		Alterna Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)	
Bonds -Regular	iShares XSB Short Term iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't		iShares XSB Short Term iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't	
Bonds - High Yield CORP	iShares XHY US High Yield CDN\$		iShares XHY US High Yield CDN \$	
Common Stocks	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
<i>Financials</i>	Royal Bank RY Bank of Montreal BMO Intact Financial IFC TD TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Morgan Stanley MS US T. Rowe Price TROW US PNC Fin'l PNC US	3.95 4.16 2.56 3.93 3.90 2.93 2.18 2.74 2.81 2.88 2.86	Royal Bank RY Bank of Montreal BMO Intact Financial IFC TD TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Morgan Stanley MS US T. Rowe Price TROW US PNC Fin'l PNC US	3.95 4.16 2.56 3.93 3.90 2.93 2.18 2.74 2.81 2.88 2.86
<i>Energy</i>	Suncor SU Canadian Natural Resources CNQ Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP	4.15 4.23 7.79 7.18 4.96 6.26 4.50	Suncor SU Canadian Natural Resources CNQ Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP Parex Resources PXT	4.15 4.23 7.69 7.18 4.96 6.26 4.50 0.00
<i>Materials</i>	Agnico Eagle AEM Franco Nevada FNV	1.10 1.31	Agnico Eagle AEM Franco Nevada FNV Osisko Metals OM.V iShares Global Gold ETF XGD	1.10 1.31 0.00 0.20
<i>Industrials</i>	Toromont TIH NFI Group NFI Air Products APD US WSP Global WSP Canadian Pacific CP CNR Raytheon RTN US Aecon Group ARE Guggenheim Eq WT IND RGI US Honeywell HON US TFI Int'l TFI	1.81 4.30 2.08 2.11 1.07 1.77 2.03 3.23 1.36 1.90 2.36	Toromont TIH NFI Group NFI Air Products APD US WSP Global WSP Canadian Pacific CP CNR Raytheon RTN US Aecon Group ARE Guggenheim Eq WT IND RGI US Honeywell HON US TFI Int'l TFI	1.81 4.30 2.08 2.11 1.07 1.77 2.03 3.23 1.36 1.90 2.36
<i>Consumer Discretionary</i>	Home Depot HD US Canadian Tire CTC.A Lowe's LOW US	2.76 3.06 2.27	Home Depot HD US Amazon AMZN US Canadian Tire CTC.A Lowe's LOW US	2.76 0.00 3.06 2.27
<i>Communication Services</i>	Rogers B RCI.B	2.82	Rogers B RCI.B Facebook FB US Alphabet GOOGL US	2.82 0.00 0.00
<i>Consumer Staples</i>	Alimentation Couche- Tard ATD.B Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.59 1.78 1.47 2.83	Alimentation Couche Tard ATD.b Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.59 1.78 1.47 2.83
<i>Technology</i>	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Cisco CSCO US	1.62 1.40 1.73 2.83 2.50	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Cisco CSCO US Kinaxis KXS ETFMG Prime Cyber Sec. HACK US Visa V US	1.62 1.40 1.73 2.83 2.50 0.00 0.16 0.59
<i>Utilities</i>	Algonquin Power AQN Northland Power NPI Fortis FTS	4.67 4.78 3.47	Algonquin Power AQN Northland Power NPI Fortis FTS	4.67 4.78 3.47
<i>Healthcare</i>	Abbott Labs ABT US Becton Dickinson BDx US Merck MRK US US Healthcare iShares ETF IYH US United Healthcare UNH US	1.59 1.29 2.67 1.86 1.75	Abbott Labs ABT US Becton Dickinson BDx US Merck MRK US US Healthcare iShares ETF IYH US United Healthcare UNH US Danaher DHR US Thermo Fisher Scientific TMO US Straumann ADR SAUHY US * iBB Biotech ETF IBB US	1.59 1.29 2.67 1.86 1.75 0.49 0.27 0.61 0.30
<i>Real Estate</i>	Cdn Apt. REIT CAR.un US Real Estate SPDR XLRE US InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.79 3.20 2.02 5.93 4.12	Cdn. Apt. REIT CAR.un US Real Estate SPDR XLRE US InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.79 3.20 2.02 5.93 4.12
<i>European Equity</i>	iShares MSCI Europe XEU	2.98	iShares MSCI Europe XEU	2.98



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* Be careful purchasing and selling Straumann ADR's as they are very illiquid. Always use a limit order.

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McMurtry Investment Report - Sector Weights (June 2019)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	21.62	31.90	13.20	21.62
Energy	10.75	17.90	4.90	10.75
Materials	5.10	10.00	2.60	5.93
Industrials	10.45	11.40	9.30	10.25
Consumer Disc.	7.10	4.00	10.20	7.41
Comm. Services	8.38	5.90	10.40	8.38
Consumer Staples	6.10	4.10	7.40	5.92
Technology	14.10	5.00	21.10	13.86
Utilities	4.00	4.40	3.40	3.85
Real Estate	3.70	3.50	3.20	3.34
Healthcare	8.71	2.00	14.20	8.71
Totals	100.00	100.10	99.90	99.99

McMurtry Investment Report Asset Mix (June 2019)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	35.00	30.00
Bonds - Regular	20.00	10.00
Bonds - High Yield	5.00	5.00
Preferreds	0.00	0.00
Equities	40.00	55.00
CDN	15.75	22.50
US	19.25	27.50
Europe	5.00	5.00
Emerging Markets	0.00	0.00