



# MCMURTRY INVESTMENT REPORT

## **Investment Commentary March 2020**

### **Fund Flows into Capital Markets**

The combination of Covid-19 virus issues combined with the recent crude oil price collapse has resulted in a massive selling of equities with a corresponding purchase of US Treasuries.

### **US Yield Curve**

The US Treasury yield curve has flattened considerably from last month with the ten year yields materially below 1%.

### **US Corporate Debt Spreads**

Corporate debt spreads have begun to widen sharply from last month and this is a bad signal for economic growth. At least 11-15% of the US high yield market consists of highly leveraged shale oil producers that are now in serious trouble with crude prices collapsing.

### **US / China Trade Issues**

No change since last month

### **China's Coronavirus Implications**

While the growth in new cases in China has eased off somewhat, the growth in the rest of the world is increasing at an alarming rate. The World Health Organization has just declared the Covid-19 virus as a global pandemic.

New test kits are just becoming available in the US and this implies that the incidence of new cases will rise substantially. Italy and Iran are in a state of emergency and Germany is not far behind.

On a global basis, all this quarantining to prevent the spread of the virus is resulting in global economic growth turning sharply negative. The probability of a global economic recession has increased sharply from last month and many strategists believe it is inevitable given what has transpired.

### **Equity Market Valuations**

Market valuations have come down from 19 times to 17 times in the US with the recent equity market decline. However, the earnings are also declining at the same time making it very difficult to come up with an appropriate market valuation.



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### **US Corporate Profit Growth**

New estimates for US earnings growth have come down sharply from last month and are expected to be at best flat this year over last year.

### **Probability of a Global Economic Recession**

The probability has increased sharply from last month and is now generally an expected outcome. However, strategists are still divided on the recession being a quick V- shaped one or one where the growth takes longer to resume.

### **Central Bank Monetary Policy**

Global central banks are all cutting rates to try to mitigate the economic damages from both the Covid-19 virus and the economic uncertainty created by the recent oil price decline.

### **Global Fiscal Policy Measures**

Fiscal policies globally are all now in a stimulative mode and this may help to reduce the negative effects from the current economic problems.

### **Lower Crude Oil Prices good for the Consumer**

We must not forget that lower energy prices are good for the consumer, while not great for the US shale producers and their financial backers.

### **Asset Mix**

I am increasing my cash levels by 10% for both portfolios to 40%. I am recommending both a 5% reduction in equities and the removal of my 5% position in US High Yield ETF, XHY.

### **Equity Sector Weights**

Resulting from the current economic malaise, I am recommending the continuation of a defensive posture in regards to equity sector weights. I am increasing my weights in both the defensive Reit and Utility sectors.

I am materially increasing my underweight in Energy. However, I expect that OPEC and Russia will settle their differences over the next few months, so it is important to maintain some exposure.

I remain underweight Financials, Energy and Consumer Staples.

I remain overweight Technology, Industrials, Utilities, Reits and Consumer Discretionary.



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I remain market weight Materials, Communications and Healthcare.

### Individual Positions

I am eliminating my entire holding in the US High Yield Income ETF, XHY. Yield spreads are beginning to rise in this economic slowdown and the recent crude price decline will hurt the US shale producers that normally use the high yield market to finance their growth.

In a blog on March 2, I recommended switching out of Cisco into Qualcomm, in the US high tech sector.

I am deleting PNC Financial from both portfolios in the Financial Sector as regional banks like PNC have much smaller wealth management operations and make most of their profits from net interest margins. Taking into account the recent decline in rates with more to come on the downside, US Regional banks' profitability will be negatively affected by falling rates.

I am adding Allstate, the large US property and casualty insurance company to both portfolios in the Financial Sector. The shares are cheap trading under ten times projected earnings and offer an attractive well covered dividend yield of 2.18%. Similar to Intact Financial, Allstate is not nearly as negatively affected from falling interest rates as life companies are.

In the Energy sector I am deleting both Baytex and Pembina for different reasons. Baytex is a small cap higher cost producer of crude that will have difficulty in the current crude oil price environment. Differing from Enbridge and TC Energy, Pembina has some commodity exposure and is more vulnerable to weak financially strapped producers sharply reducing overall volumes.

Lastly in the Consumer Products area, I am deleting Constellation Brands from both portfolios. The company's massive investment in the Canadian cannabis company, Canopy Growth, is not paying off as planned.

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## McMurtry Investment Report - Portfolios (March 2020)

	Income		Growth	
<b>Cash</b>	Alterna Bank - High Interest Savings (2.00% current ) EQ Bank - High Interest Savings ( 2.00% current)		Alterna Bank - High Interest Savings (2.00% current) EQ Bank - High Interest Savings ( 2.00% current)	
<b>Bonds -Regular</b>	\$Shares XSB Short Term \$Shares CBO 1-5 Ladder Corp \$Shares CLF 1-5 Ladder Gov't		\$Shares XSB Short Term \$Shares CBO 1-5 Ladder Corp \$Shares CLF 1-5 Ladder Gov't	
<b>Common Stocks</b>	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
<b>Financials</b>	Royal Bank RY Intact Financial IFC TD TD Sun Life SLF JP Morgan JPM US Manulife Fin'l MFC Bank of America BAC US Morgan Stanley MS US T. Rowe Price TROW US Allstate ALL US	4.68 2.40 5.25 4.11 3.57 5.46 3.05 3.54 3.19 2.18	Royal Bank RY Intact Financial IFC TD TD Sun Life SLF JP Morgan JPM US Manulife Fin'l MFC Bank of America BAC US Morgan Stanley MS US T. Rowe Price TROW US Allstate ALL US	4.68 2.40 5.25 4.11 3.57 5.46 3.05 3.54 3.19 2.18
<b>Energy</b>	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Whitecap Resources WCP	6.71 7.71 14.58 7.29 4.97 16.21	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Parex Resources PXT	6.71 7.71 14.58 7.29 4.97 0.00
<b>Materials</b>	Agnico Eagle AEM Franco Nevada FNV VanEck Vectors Gold ETF GDX US BMO Global Base Metals ETF ZMT	1.57 0.90 0.72 3.67	Agnico Eagle AEM Franco Nevada FNV VanEck Vectors Gold ETF GDX US BMO Global Base Metals ETF ZMT Osisko Metals OM.V \$Shares Global Gold ETF XGD	1.57 0.90 0.72 3.67 0.00 0.55
<b>Industrials</b>	Toromont TIH NFI Group NFI Air Products APD US WSP Global WSP CNR United Technologies UTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.93 5.98 2.50 1.87 2.10 2.46 1.59 3.84 2.23 2.82	Toromont TIH NFI Group NFI Air Products APD US WSP Global WSP CNR United Technologies UTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.93 5.98 2.50 1.87 2.10 2.46 1.59 3.84 2.23 2.82
<b>Consumer Discretionary</b>	Home Depot HD US Target TGT US Restaurant Brands Int'l QSR Lowe's LOW US	2.66 2.44 3.84 2.11	Home Depot HD US Target TGT US Restaurant Brands Int'l QSR Amazon AMZN US Lowe's LOW US	2.66 2.44 3.84 0.00 2.11
<b>Communication Services</b>	Rogers B RCI.B Comcast CMCSA US Telus T	3.28 2.35 4.78	Rogers B RCI.B Comcast CMCSA US Telus T VanEck Video Gaming ESPO US Alphabet GOOGL US	3.28 2.35 4.78 0.22 0.00
<b>Consumer Staples</b>	Alimentation Couche- Tard ATD.B Loblaws L Sysco SY Y US Unilever PLC UL US	0.60 1.85 2.88 3.28	Alimentation Couche Tard ATD.b Loblaws L Sysco SY Y US Unilever PLC UL US	0.60 1.85 2.88 3.28
<b>Technology</b>	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Logitech Int'l LOGI US ADR Qualcomm QCOM US	1.08 1.27 1.73 3.23 1.89 3.14	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Logitech Int'l LOGI US ADR Qualcomm QCOM US ETFMG Prime Cyber Sec. HACK US Visa V US	1.08 1.27 1.73 3.23 1.89 3.14 0.55 0.66
<b>Utilities</b>	Algonquin Power AQN Northland Power NPI Fortis FTS	3.77 4.02 3.43	Algonquin Power AQN Northland Power NPI Fortis FTS	3.77 4.02 3.43
<b>Healthcare</b>	Becton Dickinson BDX US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BM Y US	1.33 2.97 1.54 3.19 3.11	Becton Dickinson BDX US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BM Y US Danaher DHR US Thermo Fisher Scientific TMO US Straumann ADR SAUHY US *	1.33 2.97 1.54 3.19 3.11 0.50 0.29 0.55
<b>Real Estate</b>	Cdn Apt. REIT CAR.un CT Reit CRT.un US Real Estate SPDR XLRE US InterRent REIT IIP.un Dream Industrial DIR.un WPT Ind. WIR.un Summit REIT SMU.un	2.41 5.19 3.02 1.71 5.78 5.61 4.34	Cdn. Apt. REIT CAR.un CT Reit CRT.un US Real Estate SPDR XLRE US InterRent REIT IIP.un Dream Industrial DIR.un WPT Ind. WIR.un Summit REIT SMU.un	2.41 5.19 3.02 1.71 5.78 5.61 4.34
<b>European Equity</b>	\$Shares MSCI Europe XEU	4.19	\$Shares MSCI Europe XEU	4.19

## McMurtry Investment Report - Sector Weights (March 2020)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	21.06	32.30	12.20	21.25
Energy	7.00	15.90	3.60	9.14
Materials	6.24	10.80	2.50	6.24
Industrials	10.20	11.30	8.90	9.98
Consumer Disc.	7.30	3.90	9.90	7.20
Comm. Services	8.36	5.50	10.70	8.36
Consumer Staples	5.00	4.00	7.20	5.76
Technology	17.25	6.30	24.40	16.26
Utilities	5.03	5.20	3.50	4.27
Real Estate	4.38	3.70	3.10	3.37
Healthcare	8.20	1.10	14.00	8.20
<b>Totals</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## McMurtry Investment Report Asset Mix March 2020)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	40.00	40.00
Bonds - Regular	20.00	10.00
Bonds - High Yield	0.00	0.00
Preferreds	0.00	0.00
Equities	40.00	50.00
CDN	16.65	21.15
US	20.35	25.85
Europe	3.00	3.00
Emerging Markets	0.00	0.00

\* Be careful purchasing and selling Straumann ADR's as it is very illiquid. Always use a limit order.