



# MCMURTRY INVESTMENT REPORT

## Investment Commentary June 2020

### Fund Flows into Capital Markets

The movement of cash back into equities was quite remarkable after the recent market meltdown. The fear of being left behind appears to be one of the driving forces propelling investors back into the market.

### US Yield Curve

The 10 minus 2 year US Treasury yield curve has risen from zero recently to 69 basis points. This level is low historically but still above zero. In January of this year it was 0.35% and in September, 2019 it was close to zero. The recent rise is a bullish sign for the economy.

### US Corporate Debt Spreads

The current US investment grade spread over US Treasuries is the same as last month at 2.2%. This compares to the 4.5% spread during the last recession of 2007-2008. Once again, this recent narrowing of the spread is bullish for the economy but may be the result of the recent Federal Reserve buying of high yield debt.

### US / China Trade Issues

While these issues are ongoing, Trump has a lot more to worry about than the trade war.

### Covid – 19 Health and Economic Implications

The number of daily new cases globally and in the US remains at high levels and this is a real concern. On the other hand, the number of daily deaths globally and in the US is easing off. Taking into consideration the relaxation of lockdown restrictions, this may well lead to a second wave of the pandemic this fall when the colder weather arrives and the population goes indoors once again.

### Equity Market Valuations

The forward PE of the S&P 500 index is at 22 times this year's earnings, a historically high level. This is not a good development as the equity market is no longer cheap.



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### **US Corporate Profit Growth**

US corporate profit growth remains weak but the recent unexpected improvement in employment numbers is a positive sign.

### **Global Economic Recession**

Globally all countries remain in a recession. However, the stock market is expecting a V-shaped economic recovery which may be unrealistic.

### **Central Bank Monetary Policy**

The recent strength in the US equity market combined with better than anticipated monthly employment numbers may lead the Federal Reserve to be a little less accommodative. This is a potential headwind for both the equity and fixed income markets.

### **Global Fiscal Policy Measures**

All countries remain fully committed to stimulating their domestic economies through both fiscal and monetary measures.

### **Asset Mix**

My current high cash position in both portfolios of 35% is to provide a safety cushion in case of a market selloff. This applies to the fixed income component as well as the equity one. Interest rates are so low today that they are likely to gradually go up over time. This is not a good development for the bond market. I am maintaining the same cash levels and asset mixes as last month. The high valuations for both equities and fixed income and the real possibility of a second wave of the virus in the fall make me cautious at this time. In addition, the domestic civil unrest and the dictator like reaction by Trump make me quite uneasy given how far equity prices have rebounded. I doubt the equity market will retest their recent lows. However, having some cash available gives investors an opportunity to add to their equity positions on market dips.

### **Equity Sector Weights**

On June 2<sup>nd</sup> I posted a portfolio blog recommending an increase in the Financial Services equity weight to my benchmark 55% US 45% Canada market weight of 18.59% from my underweight position last month. This call is a way to participate in the cyclical pickup in the economy with the banks' loan loss provisions most likely peaking and then gradually going down in 2021.



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I am maintaining my overweight in Technology, Healthcare, Industrials and Utilities.

I am maintaining my market weight in Energy, Materials, Consumer Discretionary, Consumer Staples and Communications. Lastly, I am maintaining my underweight in Reits.

### Individual Positions

On May 19<sup>th</sup> I posted a portfolio blog where I added Fiera Capital to both portfolios. The Montreal based money manager has \$167 billion under management and pays an attractive dividend of 8.49%.

Recently I added Bank of Nova Scotia to both portfolios. The bank offers a nice 5.95% dividend yield that is well covered. Its recent quarter saw a sharp rise in loan loss provisions that will gradually decrease as the economy recovers.

I recently added Intel, the US semiconductor company to both portfolios in the Technology sector. Through its recent acquisition of Mobileye, the company has an opportunity to participate in the artificial intelligence end of the automobile industry. Intel also owns datacenters that are seeing strong growth. Its basic microchip business is expected to pick up with a stronger economy.

Lastly, I want to reiterate my current buy recommendation on Osisko Metals for the Growth portfolio. The combination of very strong insider buying by the CEO with the fact that the company's Pine Point Mines remains one of the world's largest close to surface lead / zinc deposits, are important factors to consider. Its ore grade is also solid and its concentrate has very few impurities, something that Chinese buyers require. Currently the company is conducting an exploration program underground hoping to increase the size of the ore body. At current zinc prices the mine is not economic on a cash flow basis. The Chinese are the largest global buyers of zinc and consequently the demand for zinc is expected to rebound with a pickup in the Chinese economy. As this is a speculative play that may take several years to work out, I recommend an equity position of no more than 1% of the total equity weight.

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## McMurtry Investment Report - Portfolios (June 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>	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	
<b>Common Stocks</b>	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
<i>Financials</i>	Royal Bank RY Bank of Nova Scotia BNS Fiera Capital FSZ 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	4.46 5.95 8.49 2.48 4.86 4.17 3.24 5.74 2.56 2.83 2.81 2.05	Royal Bank RY Bank of Nova Scotia BNS Fiera Capital FSZ 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	4.46 5.95 8.49 2.48 4.86 4.17 3.24 5.74 2.56 2.83 2.81 2.05
<i>Energy</i>	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Whitecap Resources WCP	2.94 5.89 4.29 7.23 5.13 6.36	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Whitecap Resources WXP Parex Resources PXT	2.94 5.89 4.29 7.23 5.13 6.36 0.00
<i>Materials</i>	Agnico Eagle AEM Franco Nevada FNV VanEck Vectors Gold ETF GDX US  BMO Global Base Metals ETF ZMT	1.36 0.82 0.59  2.91	Agnico Eagle AEM Franco Nevada FNV VanEck Vectors Gold ETF GDX US SPDR Gold Bullion GLD US BMO Global Base Metals ETF ZMT Osisko Metals OM.V iShares Global Gold ETF XGD	1.36 0.82 0.59 0.00 2.91 0.00 0.32
<i>Industrials</i>	Toromont TIH Air Products APD US WSP Global WSP CNR Raytheon Technologies RTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.69 2.16 1.70 1.88 2.64 1.47 4.15 2.23 2.33	Toromont TIH Air Products APD US WSP Global WSP CNR Raytheon Technologies RTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.69 2.16 1.70 1.88 2.64 1.47 4.15 2.23 2.33
<i>Consumer Discretionary</i>	Home Depot HD US Target TGT US Restaurant Brands Int'l QSR  Lowe's LOW US	2.35 2.17 3.63  1.68	Home Depot HD US Target TGT US Restaurant Brands Int'l QSR Amazon AMZN US Lowe's LOW US	2.35 2.17 3.63 0.00 1.68
<i>Communication Services</i>	Rogers B RCI.B Comcast CMCSA US Telus T Shaw Communications SJR.B	3.40 2.19 4.67 4.91	Rogers B RCI.B Comcast CMCSA US Telus T Shaw Communications SJR.B Facebook FB US VanEck Video Gaming ESPO US Alphabet GOOGL US	3.40 2.19 4.67 4.91 0.00 0.17 0.00
<i>Consumer Staples</i>	Alimentation Couche- Tard ATD.B Loblaws L Sysco SYY US Unilever PLC UL US	0.65 1.87 2.92 3.16	Alimentation Couche Tard ATD.b Loblaws L Sysco SYY US Unilever PLC UL US	0.65 1.87 2.92 3.16
<i>Technology</i>	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Logitech Int'l LOGI US ADR Qualcomm QCOM US Intel INTC	0.99 1.09 1.66 3.10 1.28 2.94 2.05	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Logitech Int'l LOGI US ADR Qualcomm QCOM US Intel INTC CGI Inc. GIB.A ETFMG Prime Cyber Sec. HACK US Visa V US	0.99 1.09 1.66 3.10 1.28 2.94 2.05 0.00 1.43 0.60
<i>Utilities</i>	Algonquin Power AQN Northland Power NPI NextEra Energy NEE US Fortis FTS	4.53 3.60 2.20 3.55	Algonquin Power AQN Northland Power NPI NextEra Energy NEE US Fortis FTS	4.53 3.60 2.20 3.55
<i>Healthcare</i>	Becton Dickinson BDx US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BMJ US	1.31 2.97 1.60 2.93 2.93	Becton Dickinson BDx US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BMJ US Danaher DHR US Thermo Fisher Scientific TMO US	1.31 2.97 1.60 2.93 2.93 0.42 0.25
<i>Real Estate</i>	Cdn Apt. REIT CAR.un CT Reit CRT.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.84 5.62 2.12 6.35 4.73	Cdn. Apt. REIT CAR.un CT Reit CRT.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.84 5.62 2.12 6.35 4.73
<i>European Equity</i>	iShares MSCI Europe XEU	3.79	iShares MSCI Europe XEU	3.79

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

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	18.59	28.60	10.40	18.59
Energy	7.67	13.50	2.90	7.67
Materials	7.72	14.10	2.50	7.72
Industrials	9.77	11.70	8.00	9.67
Consumer Disc.	7.35	3.50	10.50	7.35
Comm. Services	8.66	5.80	11.00	8.66
Consumer Staples	5.89	4.40	7.10	5.89
Technology	19.26	9.30	26.20	18.60
Utilities	4.55	5.20	3.20	4.10
Real Estate	1.40	3.00	2.80	2.89
Healthcare	9.15	1.00	15.20	8.81
<b>Totals</b>	<b>100.00</b>	<b>100.10</b>	<b>99.80</b>	<b>99.94</b>

### McMurtry Investment Report Asset Mix June 2020)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	35.00	35.00
Bonds - Regular	20.00	10.00
Bonds - High Yield	0.00	0.00
Bonds - Tips	0.00	0.00
Preferreds	0.00	0.00
Equities	45.00	55.00
CDN	18.90	23.40
US	23.10	28.60
Europe	3.00	3.00
Emerging Markets	0.00	0.00