



MCMURTRY INVESTMENT REPORT

Investment Commentary September 2020

US Yield Curve

The 10 minus 2- year US Treasury yield curve widened marginally to 58 basis points from 50 last month. This level is low historically but still above zero. In January of this year it was 35 basis points and in September, 2019 it was close to zero.

US Corporate Debt Spreads

The current US investment grade spread over US Treasuries widened to 2.75% from last month's 1.79%. This still compares favourably to the 4.5% spread during the last recession of 2007-2008 and to its recent 52 week high of 4.9%. This recent widening is not material enough to imply any serious issues with the domestic economy, but may simply indicate that the current rebound will not be a straight line up and subject to periodic periods of levelling out.

US / China Trade Issues

These issues continue to escalate and this trend is expected to continue into the US election this fall.

Covid – 19 Health Stats

Both globally and in the US, daily new cases of the virus continue to remain very high. This is a frightening trend. The gradual ending of lockdowns is resulting in the recent upsurge.

Equity Market Valuations

The forward PE of the S&P 500 index continues to hover around 21-22 times this year's earnings. This is high historically but can be explained by the economic issues caused by the pandemic and the lockdowns.

US Corporate Profit Growth

US corporate earnings reports are coming in better than expected, but it is important to keep in mind that consensus numbers have already been taken down sharply.

US Federal Election

Historically during periods leading up to a US federal election, equity markets have frequently exhibited more price volatility from the increased political uncertainty.



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Central Bank Monetary Policy

The US Federal Reserve Bank and all the global central banks remain committed to a very accommodative monetary policy where interest rates will stay low for an extended period of time. In fact, the Federal Reserve Governor recently stated that he is comfortable seeing domestic inflation rise faster than the projected 2% rate in order to combat the high unemployment rates. This differs from history when the US Central Bank was more concerned with keeping inflation low.

Asset Mix

Taking into consideration my 30% cash weights for both portfolios, I am not proposing any changes at this time. It is quite possible that equity markets are currently in a short-term correction phase that may see markets fall 10-15%. However, I do not expect this correction to be the beginning of a new bear market, but only a correction in the current bull market. Bond yields remain historically so low that there really is no advantage locking in longer term maturities at this time.

Equity Sector Weights

I am making two changes to my equity sector weights for this month. I am reducing both the Healthcare and Technology groups to market weight my North American benchmark from overweight last month. The uncertainty created by an upcoming US election with a possible Democratic sweep of the three levels of government may lead to much more price volatility in the Healthcare sector. Secondly the Technology sector is due for a correction given its high valuation.

Individual Positions

On a blog dated August 18th August, I added Perkin Elmer, the US healthcare company to my Growth portfolio. The company is a strong generator of both operating and free cash flow and is involved in diagnostic testing for infectious diseases including Covid-19. The shares are trading at a reasonable 21 times earnings given its strong projected growth rate.

On a blog dated August 26th, I added Keysight Technologies, the US technology company to the Growth portfolio. The company is involved in both electronic design and testing and is expected to benefit from the 5G rollout. The company is projected to grow its earnings per share at 13% which makes its current valuation at 20 times earnings seem reasonable. The company has a strong balance sheet and is a strong generator of free cash flow.

On a blog dated August 20th, I deleted Bank of Nova Scotia from both portfolios. The bank has not reserved enough provisions for non performing loans like many of the others have.



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Based on the high current valuation and the recent strong investment performance, I am deleting Logitech from both portfolios. The shares are up almost 75% year over year and almost 49% year to date.

I am also deleting the online video gaming US ETF, ESPO from the Growth portfolio based on the same reasons as Logitech. The shares are up over 76% year over year and over 58% year to date.

In the Reit sector, I did review the consequences of the government of Ontario's decision to propose no rent increases for 2021. I hold both Canadian Apartment and InterRent in both my Income and Growth portfolios. Based on their recent share price weakness, I have decided not to remove them from my portfolios. I already have a large underweight position in this sector. However, I am still concerned that the government assistance programs are coming to an end over the next few months. At that time there will be many permanently unemployed people unable to pay their rents. Consequently I would remain underweight this sector until the future prospects are clearer.

Lastly, I am adding Barrick Gold to both portfolios in the Materials sector. The company is a major global producer of both gold and copper and has a solid balance sheet. The company's focus is on high- quality long life assets. The company is a solid generator of both operating and free cash flow and has just recently raised its dividend.

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McMurtry Investment Report - Portfolios (September 2020)

| | Income | | Growth | |
|-------------------------------|---|--|---|--|
| Cash | Alterna Bank - High Interest Savings (1.40% current) EQ Bank - Savings Plus (1.70% current) | | Alterna Bank - High Interest Savings (1.40% current) EQ Bank - Savings Plus (1.70% current) | |
| 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 | |
| Common Stocks | <i>Security</i> | <i>Dividend Yield %</i> | <i>Security</i> | <i>Dividend Yield %</i> |
| Financials | Royal Bank RY Intact Financial IFC Brookfield Asset MGT. BAM.A 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 2.43 1.44 4.98 4.05 3.48 5.85 2.71 2.66 2.72 2.30 | Royal Bank RY Intact Financial IFC Brookfield Asset MGT. BAM.A 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 2.43 1.44 4.98 4.05 3.48 5.85 2.71 2.66 2.72 2.30 |
| Energy | Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Whitecap Resources WCP | 4.15 6.61 4.49 7.86 5.24 6.63 | Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Parex Resources PXT | 4.15 6.61 4.49 7.86 5.24 0.00 |
| Materials | Agnico Eagle AEM Barrick Gold ABX Franco Nevada FNV VanEck Vectors Gold ETF GDX US BMO Global Base Metals ETF ZMT | 1.03 1.10 0.73 0.47 2.63 | Agnico Eagle AEM Barrick Gold ABX 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 | 1.03 1.10 0.73 0.47 0.00 2.63 0.00 0.13 |
| Industrials | 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 1.80 1.70 1.70 3.11 1.44 4.48 2.16 1.82 | 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 1.80 1.70 1.70 3.11 1.44 4.48 2.16 1.82 |
| Consumer Discretionary | Home Depot HD US Target TGT US Dollarama DOL Lowe's LOW US | 2.23 1.85 0.36 1.53 | Home Depot HD US Target TGT US Dollarama DOL Amazon AMZN US Lowe's LOW US | 2.23 1.85 0.36 0.00 1.53 |
| Communication Services | Rogers B RCI.B Comcast CMCSA US Telus T Shaw Communications SJR.B | 3.60 2.07 4.89 4.89 | Rogers B RCI.B Comcast CMCSA US Telus T Shaw Communications SJR.B Facebook FB US Alphabet GOOGL US | 3.60 2.07 4.89 4.89 0.00 0.00 |
| Consumer Staples | Alimentation Couche- Tard ATD.B Loblaws L Sysco SYY US Unilever PLC UL US | 0.63 1.89 2.99 3.17 | Alimentation Couche Tard ATD.b Loblaws L Sysco SYY US Unilever PLC UL US | 0.63 1.89 2.99 3.17 |
| Technology | Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Qualcomm QCOM US SPDR S&P Semi. ETF XSD US | 0.68 0.95 1.60 3.26 2.24 0.44 | Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Qualcomm QCOM US SPDR S&P Semi ETF XSD US CGI Inc. GIB.A ETFMG Prime Cyber Sec. HACK US Visa V US Keysight KEYS US | 0.68 0.95 1.60 3.26 2.24 0.44 0.00 1.36 0.59 0.00 |
| Utilities | Algonquin Power AQN Capital Power CPX Northland Power NPI NextEra Energy NEE US Fortis FTS | 4.59 7.21 3.34 2.02 3.67 | Algonquin Power AQN Capital Power CPX Northland Power NPI NextEra Energy NEE US Fortis FTS | 4.59 7.21 3.34 2.02 3.67 |
| Healthcare | AbbVie ABBV US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BMY US | 5.14 2.86 1.60 3.32 3.00 | AbbVie ABBV US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BMY US Danaher DHR US Thermo Fisher Scientific TMO US Perkin Elmer PKI US | 5.14 2.86 1.60 3.32 3.00 0.37 0.21 0.24 |
| Real Estate | Cdn Apt. REIT CAR.un CT Reit CRT.un InterRent REIT IIP.un Dream Industrial DIR.un Granite REIT GRT.un Summit REIT SMU.un | 3.15 5.76 2.50 6.42 3.83 4.58 | Cdn. Apt. REIT CAR.un CT Reit CRT.un InterRent REIT IIP.un Dream Industrial DIR.un Granite REIT GRT.un Summit REIT SMU.un | 3.15 5.76 2.50 6.42 3.83 4.58 |
| European Equity | iShares MSCI Europe XEU | 2.50 | iShares MSCI Europe XEU | 2.50 |
| Emerging Markets | BMO Emerging Markets ZEM | 2.4 | BMO Emerging Markets ZEM | 2.4 |

McMurtry Investment Report - Sector Weights (September 2020)

| Equity Sector Weights (%) | | | | |
|---------------------------|---------------|---------------|--------------|------------------|
| Sector | My Weight | TSX Comp | S&P 500 | 55 % US /45% CDN |
| Financials | 18.33 | 29.00 | 9.60 | 18.33 |
| Energy | 6.67 | 12.00 | 2.30 | 6.67 |
| Materials | 8.31 | 15.40 | 2.50 | 8.31 |
| Industrials | 10.20 | 11.90 | 8.00 | 9.76 |
| Consumer Disc. | 7.94 | 3.40 | 11.40 | 7.80 |
| Comm. Services | 8.45 | 5.20 | 11.10 | 8.45 |
| Consumer Staples | 5.64 | 4.10 | 6.90 | 5.64 |
| Technology | 20.42 | 10.30 | 28.70 | 20.42 |
| Utilities | 4.10 | 4.90 | 2.80 | 3.75 |
| Real Estate | 1.85 | 3.00 | 2.60 | 2.78 |
| Healthcare | 8.11 | 0.90 | 14.00 | 8.11 |
| Totals | 100.00 | 100.10 | 99.90 | 99.99 |

McMurtry Invest. Report Asset Mix September 2020)

| Asset Mix - Income and Growth Portfolios | | |
|--|--------|--------|
| % | Income | Growth |
| Cash | 30.00 | 30.00 |
| Bonds - Reg. Bonds | 20.00 | 10.00 |
| Bonds - High Yield | 0.00 | 0.00 |
| Bonds - Tips | 0.00 | 0.00 |
| Preferreds | 0.00 | 0.00 |
| Equities | 50.00 | 60.00 |
| CDN | 19.80 | 24.30 |
| US | 24.20 | 29.70 |
| Europe | 3.00 | 3.00 |
| Emerging Markets | 3.00 | 3.00 |