



MCMURTRY INVESTMENT REPORT

Investment Commentary October 2020

US Yield Curve

The ten year minus 2-year US Treasury yield curve remains under 60 basis points, approximately the same as last month. This level is low historically.

US Corporate Debt Spreads

As of the end of September the spread has widened somewhat to 274 basis points from 239 in August. This level is still significantly below the recent high of 440 basis points.

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

The colder weather combined with a return to school is causing the global daily number of cases to spike once again, especially in Europe and Canada. The US stats have continued to remain high.

Equity Market Valuations

The PE multiple of the S&P 500 remains historically high at 21 times.

US Domestic Economic Growth

Economic growth is plateauing after showing a strong rebound over the last several months.

US Federal Election

The recent debate was not a good one for Trump, although his recent quick recovery from Covid-19 may give him some sympathy votes. At the moment Biden and the Democrats are leading by a significant amount, but the real test will be in the Senate on election night.

Central Bank Monetary Policy

Global central bank policies continue to be very accommodating.



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Asset Mix

Taking into account the continuing low interest rates of US treasuries and the expectation that the economy is gradually coming out of the recession, I am reducing the cash weight by 5% with the money directed into the US High Yield ETF, XHY denominated in Canadian dollars. The distribution yield is 5.55% and the yield to maturity is 5.64%, considerably more than government bonds.

I am leaving the equity exposure the same as last month at 50% and 60% for the Income and Growth portfolios respectively.

Equity Sector Weights

I am making two major changes from last month. Based on the current low valuation, I am increasing the REIT exposure to market weight from underweight previously. Secondly, I am reducing the energy weight from market weight to underweight. The uncertain global demand outlook will continue to make this sector very volatile. While a typical cyclical pickup in global economic growth will help energy demand over the short term, the long-term trend is clearly not favourable. However, even with my reduction in sector weight, my exposure remains at 90% the benchmark North American weight. As I have mentioned previously, this is to prevent you from getting whipsawed by making too many large equity sector bets.

Individual Equity Changes

In a recent blog I added General Mills to both portfolios in the Consumer Staples sector. The company offers an attractive dividend of 3.25% that is well covered. During its last quarter, the company reported strong organic growth and a continued increase in market share.

I am adding Canadian Pacific to both portfolios in the Industrials sector. The company remains focused on lowering operating costs and improving margins. Both CN and CP remain the two best rails in North America and both are expected to benefit from a pickup in economic growth next year.

In the Reit sector, I am switching out of InterRent into Minto Apartment Reit. Minto trades at a much larger discount to net asset value and its AFFO distribution payout is only 61% compared to InterRent's 74%. In addition, Minto has been able to only see a very modest reduction in occupancy rates over the last six months ending June 30th, while InterRent's occupancy rates have sharply declined over the same period.

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McMurtry Investment Report - Portfolios (October 2020)

	Income		Growth	
Cash	Alterna Bank - High Interest Savings (1.20% current) EQ Bank - Savings Plus (1.50% current)		Alterna Bank - High Interest Savings (1.20% current) EQ Bank - Savings Plus (1.50% 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	
Bonds -High Yield	iShares XHY.TO US High Yield Cdn. \$		iShares XHY.To US High Yield Cdn \$	
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. BAMA 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	4.52 2.30 1.42 4.98 3.96 3.63 5.70 2.92 2.88 2.70 2.31	Royal Bank RY Intact Financial IFC Brookfield Asset MGT. BAMA 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	4.52 2.30 1.42 4.98 3.96 3.63 5.70 2.92 2.88 2.70 2.31
Energy	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Whitecap Resources WCP	5.24 7.94 4.97 8.26 5.80 7.13	Suncor SU Canadian Natural Resources CNQ Freehold FRU Enbridge ENB TC Energy TRP Parex Resources PXT	5.24 7.94 4.97 8.26 5.80 0.00
Materials	Agnico Eagle AEM Barrick Gold ABX Franco Nevada FNV VanEck Vectors Gold ETF GDX US BMO Global Base Metals ETF ZMT	0.99 1.12 0.74 0.50 2.86	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	0.99 1.12 0.74 0.50 0.00 2.86 0.00 0.17
Industrials	Toromont TIH Air Products APD US WSP Global WSP CNR Canadian Pacific CP Raytheon Technologies RTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.55 1.78 1.73 1.60 0.94 3.19 1.55 4.60 2.20 1.73	Toromont TIH Air Products APD US WSP Global WSP CNR Canadian Pacific CP Raytheon Technologies RTX US Stantec STN Aecon Group ARE Honeywell HON US TFI Int'l TFI	1.55 1.78 1.73 1.60 0.94 3.19 1.55 4.60 2.20 1.73
Consumer Discretionary	Home Depot HD US Target TGT US Dollarama DOL Lowes LOW US	2.13 1.68 0.34 1.42	Home Depot HD US Target TGT US Dollarama DOL Amazon AMZN US Lowes LOW US	2.13 1.68 0.34 0.00 1.42
Communication Services	Rogers B RCI.B Comcast CMCSA US Telus T Shaw Commcations SJR.B	3.74 2.01 4.88 4.82	Rogers B RCI.B Comcast CMCSA US Telus T Shaw Communications SJR.B Facebook FB US Alphabet GOOGL US	3.74 2.01 4.88 4.82 0.00 0.00
Consumer Staples	Alimentation Couche- Tard ATD.B Loblaws L Sysco SYY US General Mills GIS US Unilever PLC UL US	0.61 1.80 2.83 3.25 2.98	Alimentation Couche Tard ATD.b Loblaws L Sysco SYY US General Mills GIS US Unilever PLC UL US	0.61 1.80 2.83 3.25 2.98
Technology	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Qualcomm QCOM US SPDR S&P Semi. ETF XSD US	0.70 1.06 1.66 3.04 2.16 0.38	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	0.70 1.06 1.66 3.04 2.16 0.38 0.00 1.35 0.59 0.00
Utilities	Algonquin Power AQN Capital Power CPX Northland Power NPI NextEra Energy NEE US Fortis FTS	4.07 6.86 2.91 1.95 3.66	Algonquin Power AQN Capital Power CPX Northland Power NPI NextEra Energy NEE US Fortis FTS	4.07 6.86 2.91 1.95 3.66
Healthcare	AbbVie ABBV US Merck MRK US United Healthcare UNH US CVS Healthcare CVS US Bristol Myers BMY US	5.37 3.00 1.57 3.39 3.04	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	5.37 3.00 1.57 3.39 3.04 0.33 0.20 0.22
Real Estate	Cdn Apt. REIT CAR.un CT Reit CRT.un Minto Apartment Reit MI.un Dream Industrial DIR.un Granite REIT GRT.un Summit Industrial REIT SMU.un	2.98 5.70 2.47 6.16 3.75 4.15	Cdn. Apt. REIT CAR.un CT Reit CRT.un Minto Apartment Reit MI.un Dream Industrial DIR.un Granite REIT GRT.un Summit Industrial REIT SMU.un	2.98 5.70 2.47 6.16 3.75 4.15
European Equity	iShares MSCI Europe XEU	2.45	iShares MSCI Europe XEU	2.45
Emerging Markets	BMO Emerging Markets ZEM	2.34	BMO Emerging Markets ZEM	2.34

McMurtry Investment Report - Sector Weights (October 2020)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	18.15	28.40	9.70	18.15
Energy	5.41	10.80	2.10	6.02
Materials	8.41	15.50	2.60	8.41
Industrials	10.29	12.50	8.30	10.19
Consumer Disc.	8.10	3.50	11.60	7.96
Comm. Services	8.28	5.20	10.80	8.28
Consumer Staples	5.83	4.40	7.00	5.83
Technology	20.15	10.30	28.20	20.15
Utilities	4.30	5.30	3.00	4.04
Real Estate	2.87	3.20	2.60	2.87
Healthcare	8.22	0.90	14.20	8.22
Totals	100.00	100.00	100.10	100.09

McMurtry Invest. Report Asset Mix October 2020)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	25.00	25.00
Bonds - Reg. Bonds	20.00	10.00
Bonds - High Yield	5.00	5.00
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