

McMurtry Investment Report Portfolios March 2024

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Investment Commentary March 2024

US Yield Curve

The 2-10 year US Treasury yield curve inversion increased slightly to a minus 41 basis points.

US Corporate Debt Spreads

Investment grade US corporate debt spreads remained stable at 1.57% indicating that a recession is not imminent.

China

While the Chinese economy remains weak, the Communist party seems uninterested in reducing the Central Bank's reserve requirements.

Equity Market Valuations

The forward PE of the S&P 500 rose to about 23 times. This compares to the 5- year average of 18.9 times.

US Corporate Earnings

US corporate earnings are coming in on average higher than the consensus estimates with the 2024 full year EPS still projected to grow by over 11%. The earnings growth is expected to be stronger during the latter half of this year.

Central Bank Monetary Policy

The Federal Reserve remains ultra cautious about lowering interest rates too quickly. They expect to start reducing them in the 2nd half of this year with two rate cuts projected.

Asset Mix

I am not making any changes to the overall equity weight for either portfolio. However, I am increasing the average fixed income term modestly by increasing the 5-10 year Investment Grade bonds for both portfolios. Central Banks in both the US and Canada anticipate interest rate decreases sometime in 2024, but the timing and magnitude remain uncertain. I am keeping cash weights relatively low as bond returns are expected to materially outperform cash returns once interest rates start falling.

There is some froth in equity markets especially in the large cap technology and communication stocks. The broadening out of the market into other sectors is happening more gradually than anticipated, but is nonetheless still happening.

Equity market valuations remain more attractive in the cyclical sectors and this is why I am keeping my North American weight still favouring Canada over the US.

McMurtry Invest. Report Asset Mix (March 2024)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	5.00	5.00
GICs - CDA 1 year	0.00	0.00
1-5yr Inv Grade Corp	30.00	20.00
5-10 yr Inv Grade Corp	15.00	15.00
1-5 year Cda. Ladder	0.00	0.00
5-10 year Cda. Gov't	0.00	0.00
Bonds - High Yield	0.00	0.00
Bonds - Tips	0.00	0.00
Bonds Floating Rate	0.00	0.00
Preferreds	0.00	0.00
Equities	50.00	60.00
CDN	22.83	27.39
US	18.67	22.41
Europe	5.00	6.70
Emerging Markets	3.50	3.50

Asset Mix- ETF Portfolios

Similarly to the individual portfolios' asset mix above, I am not making any changes to the equity weight for either portfolio. However, I am increasing the fixed income average term by adding to the Vanguard Corporate Bond ETF, VCB.

McMurtry Invest. Report ETF Portfolios (March 2024)

ETF	Income % Wt	Growth % Wt
EQ Bank High Interest Savings Account	0.00	0.00
BMO Ultra Short Bond ETF- ZST	5.00	5.00
GIC - 1 year	0.00	0.00
1-5 year Canadian Corporate Bond - CBO	28.00	18.00
1-5 year Govt of Canada Bond - CLF	0.00	0.00
Vanguard Cdn Corp Bond VCB	17.00	17.00
Vanguard Gov't of CDA mid term VGV	0.00	0.00
BMO Aggregate CDN Bond Universe - ZAG	0.00	0.00
BMO S& P / TSX capped CDN Equity - ZCN	22.83	27.39
BMO S&P 500 in CDN \$ -ZSP unhedged	16.67	20.41
Avantis US Small Cap Value AVUV US	2.00	2.00
BMO MSCI EAFE CDN \$ ZEA unhedged	6.50	7.80
iShares MSCI Emer. Mkts ex China-EMXC-US	2.00	2.40

Equity Sector Recommendations

I am not making any material changes to my equity sector weights. I remain overweight Materials, Industrials, Consumer Discretionary and Real Estate. I remain market weight Technology, Communications, Financials and Energy. Lastly, I remain underweight Healthcare, Utilities and Consumer Staples.

McMurtry Investment Report - Sector Weights (March 2024)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	45%US /55 CDN Benchmark
Financials	22.95	31.10	13.00	22.96
Energy	11.35	17.60	3.70	11.35
Materials	7.10	9.90	2.30	6.48
Industrials	12.50	14.50	8.70	11.89
Consumer Disc.	7.22	3.70	10.60	6.81
Comm. Services	5.63	3.60	8.90	5.63
Consumer Staples	4.50	4.40	6.00	5.12
Technology	18.31	8.90	29.80	18.31
Utilities	2.65	3.80	2.10	3.04
Real Estate	2.80	2.30	2.30	2.30
Healthcare	5.00	0.30	12.50	5.79
Totals	100.00	100.10	99.90	99.66

Individual Stock Changes

In a blog dated February 22, I added the US semiconductor company, Nvidia, NVDA to the Growth Portfolio in the Technology sector. I am recommending the Canadian fractional shares, NVDA.NEO as they have a much lower share price and there is no dividend to worry about in any case. Despite the company's rapid rise in share price last year, the shares still represent reasonable value when one takes into account the projected growth rate of earnings and revenues. Most of Nvidia's chips are high end ones that are used mainly in Artificial Intelligence.

In a blog dated February 15th, I deleted Google from the Growth Portfolio in the Communications sector. The company is losing market share in its online advertising platform to Meta. Secondly Google Search is now facing a new competitor, ChatGPT AI that is being used regularly for all types of data searches.

I am adding Linamar to both portfolios in the Consumer Discretionary Sector. Linamar is Canada's second largest auto parts company, but it is much more diversified than either Magna or Martinrea. Its three main divisions are auto parts, industrial and agricultural. Its most recent quarter saw revenues climb 19.1% y/y with operating earnings up 36.2% over the same period. Projected growth in 2024's EBITDA is over 13%. The company has a very healthy balance sheet with financial debt only 1.25 times trailing twelve -month EBITDA. The shares are currently trading at a forward PE of 7.358, cheaper than Magna's 8.947, but more expensive than Martinrea's 5.289 times. EBITDA margins at 13.5% are higher than its peers. The company offers a dividend yield of 1.43%.

I am adding CI Financial to both portfolios in the Financials sector. Currently this company pays a dividend yield of 4.76% that is well covered by operating cash flow with a payout ratio of 31.59%. CI used to be solely a domestic mutual fund company. After the industry started facing very stiff competition from cheaper priced ETF issuers, CI decided to start offering ETFs as well in order to maintain their market share. In addition, the company decided to start acquiring large investment counsellors whose fees are a percentage of assets managed. These money managers were located in both Canada and the US. The company used its free cash flow to make many of these acquisitions. Like many of its peers, CI focused on sharply increasing its assets under management with scalability helping to maintain operating margins. The entire industry was facing lower management fees, so size really began to matter. Companies like Blackrock and the banks have been aggressive in lowering their fees in their wealth platform to increase their market share.

Despite all these industry problems, CI remains a large generator of free cash flow. The cash has been used to make more acquisitions as well as for stock buybacks.

However, large stock buybacks and many acquisitions took up more of the cash flow than they expected. Consequently, CI still was forced to fund many of their acquisitions. All of this has led to a sharp increase in financial debt as a percentage of trailing twelve- month EBITDA to the current level of 3.627 times.

The company got into some financial difficulty with its acquisition spree and decided to monetize a 20% portion of their US business. At the time they could not issue an IPO, but opted instead to sell the 20% of their US assets to a consortium that included Bain and company and the Abu Dhabi Investment Authority and the State of Wisconsin. The consortium paid \$1 billion US in cash and were issued convertible preferred stock that was only convertible into the CI US company. No dividends were payable on the preferred. However, the consortium was able to wrangle a guaranteed return known as a PIK, payment in kind that amounts to 14.5% annually of the original purchase price owed back to them. In addition, the consortium has the option to buy the remaining 80% of the US unit commencing in 2029.

It is my opinion that CI thinks that the sum of the parts of their businesses are worth \$4 billion more than the accounting for the annual PIK payment. If 20% of the US operations is worth \$1 billion US, then it means that the remaining 80% is worth \$4 billion US. Even accounting for the annual PIK payment, the shares still seem materially undervalued.

The company continues buying back their own stock with the former CEO, William Holland, buying almost \$52 million worth of stock. It really looks like CI is getting positioned to sell the remaining 80% of their US business and to use the proceeds to pay down their long-term debt of \$3.3 billion. After this transaction the company will only have its Canadian operations left. The company will either continue buying their own stock back and then go private or sell their remaining Canadian assets to a domestic bank.

In either case, the shares are very cheap relative to its peers. The shares are currently trading at a forward PE of 4.645 times compared to Fiera Capital's 9 times. Currently Fiera Capital's financial debt represents only 3.63 times trailing twelve -month EBITDA, compared to CI's 7.2 times. However, once CI's US operations are sold, its debt levels will be substantially lower than Fiera's.

McMurtry Investment Report - Portfolios (March 2024)

	Income		Growth	
Cash	BMO Ultra Short Term ETF ZST	YTM 4.92%	BMO Ultra Short Term ETF ZST	YTM 4.92%
	Saven Financial High Interest Savings	4.20%	Saven Financial High Interest Savings	4.20%
GIC'S	EQ Bank 1 year GIC 5.50%		EQ Bank 1 year GIC 5.50%	
Bonds -Regular	Investment Grade Cdn 1-5 yrs Corporate bonds		Investment Grade Cdn 1-5 year corporate bonds	
	Investment Grade Cdn 5-10 yrs Corporate bonds		Investment Grade Cdn, 5-10 year Corporate bonds	
	iShares CLF 1-5 Ladder Gov't		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	4.12	Royal Bank RY	4.12
	CI Financial CIX	4.76	CI Financial CIX	4.76
	Sun Life Financial SLF	4.20	Sun Life Financial SLF	4.20
	Bank of Montreal BMO	4.76	Bank of Montreal BMO	4.76
	Intact Financial IFC	2.14	Intact Financial IFC	2.14
	CIBC	5.38	CIBC	5.38
	Brookfield Corp BN	0.77	Brookfield Corp BN	0.77
	Brookfield Asset MGT. BAM	3.64	Brookfield Asset Mgt. BAM	3.64
	TD TD	5.01	TD TD	5.01
	JP Morgan JPM US	2.23	JP Morgan JPM US	2.23
	Morgan Stanley MS US	3.91	Morgan Stanley MS US	3.91
	Visa V US	0.74	Visa V US	0.74
	Chubb CB US	1.38	Chubb CB US	1.38
Energy	Enbridge ENB	7.57	Enbridge ENB	7.57
	Whitecap Resources WCP	6.70	Whitecap Resources WCP	6.70
	Pembina Pipe PPL	5.58	Pembina Pipe PPL	5.58
	Arc Resources ARX	2.90	Arc Resources ARX	2.90
	Baytex BTE	2.09	Baytex BTE	2.09
	Parkland Corp PKI	3.20	Parkland Corp PKI	3.20
	Surge Energy SGY	7.45	Surge Energy SGY	7.45
Materials	Agnico Eagle AEM	2.93	Agnico Eagle AEM	2.93
	Alamos Gold AGI	0.75	Alamos Gold AGI	0.75
	B2Gold BTO	6.08	B2Gold BTO	6.08
	Ivanhoe Mines IVN	0.00	Ivanhoe Mines IVN	0.00
	Hudbay Minerals HBM	0.24	Hudbay Minerals HBM	0.24
	Silvercrest Metals SIL **	0.00	Silvercrest Metals SIL	0.00
	Wheaton Precious Metals WPM	1.35	Wheaton Precious Metals WPM	1.35
	Pan American Silver PAAS	2.91	Pan American Silver PAAS	2.91
	Linde PLC LIN US	1.20	Linde PLC LIN US	1.20
	Lundin Mining LUN	3.11	Lundin Mining LUN	3.11
	Capstone Mining CS	0.00	Capstone Mining CS	0.00
Industrials	Toromont TIH	1.55	Toromont TIH	1.55
	J.B. Hunt JBHT US	0.86	J.B. Hunt JBHT US	0.86
	Parker Hannifin PH US	1.10	Parker Hannifin PH US	1.10
	Honeywell HON US	2.15	Honeywell HON US	2.15
	Ag Growth AFN	0.97	Ag Growth AFN	0.97
	Element Fleet EFN	2.15	Element Fleet EFN	2.15
	CAE	0.00	CAE	0.00
	Finning Int'l FTT	2.78	Finning Int'l FTT	2.78
	WSP Global WSP	0.67	WSP Global WSP	0.67
	Canadian National CNR	1.95	Canadian National CNR	1.95
	General Dynamics GD US	2.09	General Dynamics GD US	2.09
	Stantec STN	0.73	Stantec STN	0.73
	Canadian Pacific Kansas City -CP	0.63	Canadian Pacific Kansas City - CP	0.63
Consumer Discretionary	Martinrea MRE	1.70	Martinrea MRE	1.70
	Linamar LNR	1.43	Linamar LNR	1.43
	Lululemon LULU US	0.00	Lululemon LULU US	0.00
	Ultra Beauty ULTA US	0.00	Ultra Beauty ULTA US	0.00
	Dollarama DOL	0.28	Dollarama DOL	0.28
	General Motors GM US	1.22	General Motors GM US	1.22
	Restaurant Brands QSR	2.90	Restaurant Brands QSR	2.90
Communication Services	Meta US	0.40	Meta US	0.40
	Rogers B RCLB	3.35	Rogers B RCLB	3.35
	Quebecor B QBR.B	4.15	Quebecor B QBR.B	4.15
	T-Mobile TMUS US	0.00	T-Mobile TMUS US	0.00
	Disney DIS US	0.00	Disney DIS US	0.00
Consumer Staples	Premium Brands PBH	3.54	Premium Brands PBH	3.54
	Jamieson Wellness JWEL	2.54	Jamieson Wellness JWEL	2.54
	Loblaws L	1.20	Loblaws L	1.20
	Monster Beverage MNST US	0.00	Monster Beverage MNST US	0.00
	Primo Water PRMW	2.18	Primo Water PRMW	2.18
	Alimentation Couche-Tard ATD	0.72	Alimentation Couche-Tard ATD	0.72
Technology	Open Text OTEX	2.62	Open Text OTEX	2.62
	Microsoft MSFT US	0.74	Microsoft MSFT US	0.74
	Taiwan Semiconductor TSM US	1.40	Taiwan Semiconductor TSM US	1.40
	Apple AAPL US	0.56	Apple AAPL US	0.56
	Nvidia NVDA.NEO CDNS	0.00	Nvidia NVDA.NEO CDNS	0.00
	First Solar FSLR US	0.00	First Solar FSLR US	0.00
	Adobe ADBE US	0.00	Adobe ADBE US	0.00
	AMBER Cyber Sec. HACK US	0.00	AMBER Cyber Sec. HACK US	0.00
	Uber Technologies UBER US	0.32	Uber Technologies UBER US	0.32
Utilities	Capital Power CPX	6.29	Capital Power CPX	6.29
	AltaGas ALA	4.11	AltaGas ALA	4.11
	Brookfield Renewable BEP.un	5.96	Brookfield Renewable BEP.un	5.96
	Brookfield Infra. BIP.un	5.36	Brookfield Infra. BIP.un	5.36
	NextEra Energy NEE US	3.56	NextEra Energy NEE US	3.56
	Fortis FTS	4.37	Fortis FTS	4.37
Healthcare	Eli Lilly LLY US	0.68	Eli Lilly LLY US	0.68
	Astra Zeneca AZN US	2.18	Astra Zeneca AZN US	2.18
	Elevance Health ELV US	1.30	Elevance Health ELV US	1.30
	Merck MRK US	2.49	Merck MRK US	2.49
	Novo Nordisk NVO US	1.03	Novo Nordisk NVO US	1.03
	Stryker SYK US	0.89	Stryker SYK US	0.89
Real Estate	Prologis PLD US	2.84	Prologis PLD US	2.84
	Chartwell Retirement CSH.un	5.02	Chartwell Retirement CSH.un	5.02
	Welltower WELL US	2.65	Welltower WELL US	2.65
	Boardwalk Reit BEI.un	1.87	Boardwalk Reit BEI.un	1.87
	InterRent REIT IIP.un	2.66	InterRent REIT IIP.un	2.66
	Granite REIT GRT.un	4.38	Granite REIT GRT.un	4.38
	Equinix EQIX US	1.87	Equinix EQIX US	1.87
Emerging Markets	iShares EM ex China EMXC US	1.77	iShares EM ex China EMXC US	1.77
Emerging Markets	iShares MSCI China MCHI US	3.65	iShares MSCI China MCHI US	3.65
Europe	iShares Europe XEH Cdn \$ hedge	2.84	iShares Europe XEH Cdn \$ hedge	2.84
Bitcoin	CI Galaxy Bitcoin ETF BTCX.U US\$	0	CI Galaxy Bitcoin ETF BTCX.U US\$	0
Avantis	Avantis US Sm. Cap Val. AVUV - US	1.65	Avantis US Sm. Cap Val. AVUV - US	1.65

PLEASE ENSURE THAT NO ONE SINGLE INVESTMENT GRADE CORPORATE BOND ISSUE OR ISSUER REPRESENTS MORE THAN 10% OF ALL FIXED INCOME HOLDINGS.

** No more than 1-1.5% of total equity weight

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