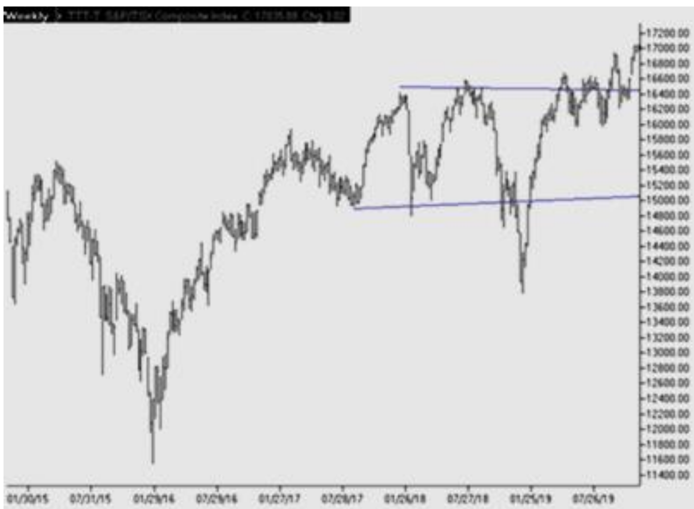
Portfolio Management
Monthly update

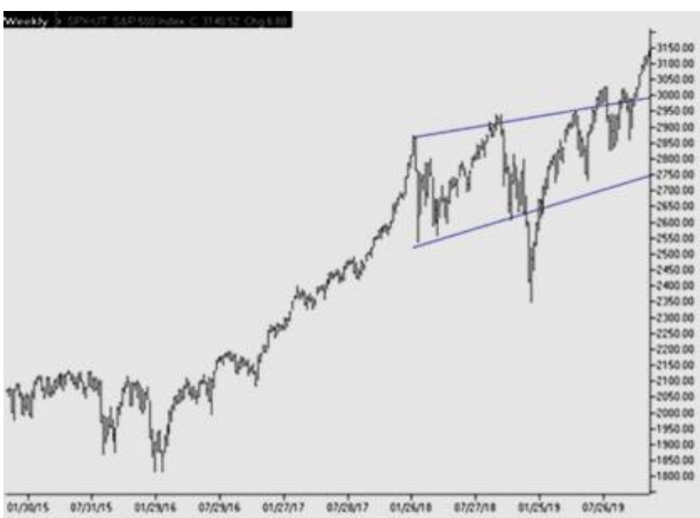
November 2019

Both the TSX & S&P 500 have broken out of choppy 2 ½ year ranges lately.

TSX (Source: Thomson One, Nov 29, 2019)



S&P 500 (Source: Thomson One, Nov 29, 2019)



Highlights

- Chief Equity Strategist Brian Belski still bullish. He thinks we are in the Middle of 20 secular bull market like 1995 period.
- Belski advises focusing on fundamental and avoid selling due to politics & headlines.
- Favourite sectors Financial, Communications, Consumer Discretionary & Technology.
- Consumer Staples & Utilities worst sectors.
- US consumers very strong, Canadian consumer spending looking tired.

Belski 2020 Outlook- Our chief strategist Brian Belski is still bullish on stocks. He feels we are a little over halfway into a 20 year secular bull market which started in 2009. This period is similar to the 1995 bull market with low interest rates, a robust consumer & steady growth. His 2020 year-end target is 3,400 for the S&P 500 or 8%+ from current levels. His TSX target is 18,200 or 7% growth.

Investors should avoid "short termism" & an over reliance on quantitative & macro strategies and focus on bottom up fundamental analysis to buy quality companies on pullbacks. He would not be surprised at market pullbacks over the next few years, even as much as 20%, but not likely more than that.

The impact of ***Politics is usually an over estimated factor*** on company earnings, especially these days. The S&P was up 27% in 1998 during the last impeachment crisis. Selling into negative headlines has hurt returns. Presidential election years are usually positive for stocks, especially following an up year. It is likely the US Fed will not raise rates into the election.

2020 Earnings? Brian realizes that analysts tend to overestimate earnings early in the year. (one of the main reasons for seasonal strength into the New Year). He is looking for somewhat lower earnings than consensus. However, earnings estimates have come down significantly and the difficult comparisons vs the tax cut driven earnings jump of 2018 are over. Q4 2019 could be the earnings trough.

Sectors & Themes

If the trade war recedes somewhat and the world wide stimulus works even somewhat, the better global economy will allow the yield curve to steepen. Somewhat higher long term rates should help financials and reduce the popularity of utilities. We continue to like companies with rising dividends vs those with very high flat yields.

Value vs Growth – The earnings of value stocks are more likely to improve in a better economy, than growth stocks.

Canadian stocks should do well next year, up from reasonable valuations after a the first year of foreign net outflows since 2008. Energy & Financial stocks should lead the TSX. Minority Liberal governments are historically stimulative.

Canadian consumer spending has contributed to over 80% of GDP growth since 2006, well above its weight in the economy. But it is on course to just grow in line with overall GDP this year at around 1½% and perhaps even a bit below that modest pace in 2020. (BMONB Economics Nov 25) We continue to like Canadian stocks that have exposure the bigger & stronger US economy, such as QSR & Open Text.

Canadian Sector preferences

Over Weight Communications, Financials & Energy.
Under Weight on Health (pot stocks) & Utilities .
Market Weight on Real Estate, Consumer & Industrials. Canadian Real Estate firms with US exposure.

US Sector preferences- US still the best market, attracting capital with positive interest rates & growth. Unlike the Canadian consumer, those in the US are strong with repayment of household debt declining. Total debt has dropped from a peak of 18% of income in 2008 to under 15% today, an all time low.

(Source: Belski Investment strategy, Nov 21, 2019)

Overweight: Communications-excellent combination of growth & value Consumer Discretionary – consumer remains strong, growth attractive, selectivity key Financials- ultimate contrary sector, hated by consensus despite improving fundamentals Information Technology – focus on steady growers with cash flow & good balance sheets.

Marketweight: Energy - fundamentals still not great, more expensive than Canadian companies Health Care-valuations reasonable, but quality not as good, be very selective. Industrials – tend to lag longer term, recent rally reduces further upside Materials – trade tensions the key, focus on cash flow heavy firms Real Estate – growth better but dividend growth slowing, lower rates help.

Underweight: Consumer Staples no longer defensive, over capacity hurting earnings stability
Utilities- Expensive & cash flow growth decelerating, tough to keep up with dividends.

Regards,

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V.P. and Portfolio Manager	V.P. and Portfolio Manager