

Why this money manager sees ‘compelling’ valuations for Canadian banks and energy

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Catherine Laurin of BMO Nesbitt Burns.

THE GLOBE AND MAIL

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Money manager Catherine Laurin is optimistic this year will be better for investors than the chaos that came with 2022. However, she warns there may still be some pain ahead in the short term.

“We see light at the end of the tunnel,” says Ms. Laurin, senior portfolio manager at BMO Nesbitt Burns Inc. in Montreal, whose team, Anderson Laurin Investment Management, oversees about \$1.5-billion in assets.

Inflation remains stubbornly high, and interest rates are expected to rise a bit more in the coming months, which could continue to roil markets. Still, Ms. Laurin says relief may be in sight as pressure on global supply chains ease, which could help lower inflation, and the reopening of China’s massive economy from pandemic restrictions spurs global spending.

“Not everything is negative and, in this context, we like equities and believe they have a better chance of outperforming other asset classes,” says Ms. Laurin, whose focus is buying and holding large-cap, dividend-paying North American equities.

“We look for high-quality stocks at rational prices that can withstand economic and political uncertainty.”

Anderson Laurin’s balanced portfolio – which includes roughly 60 per cent equities and 40 per cent fixed income – was down 1.7 per cent in 2022. By comparison, iShares Core Balanced ETF Portfolio

[XBAL-T \(/investing/markets/stocks/XBAL-T/\)](/investing/markets/stocks/XBAL-T/) unch — , which includes a mix of roughly 60 per cent equities and 40 per cent fixed income, was down about 11 per cent in 2022, according to Morningstar Inc. Anderson Laurin’s portfolio has seen a compound annualized return of 6.5 per cent over the past three years, and a compound annualized return of 8.6 per cent over the past 10 years. All data are based on total returns. Anderson Laurin’s performance is gross of fees.

“Our strength has been to limit market drawdowns by selecting companies at reasonable prices that can navigate through uncertainty, whether it be recessions or slower economic growth,” she says.

The Globe spoke to Ms. Laurin recently about her investment style and what she’s been buying and selling:

Describe your investing style.

We run a balanced portfolio, typically around 60-per-cent North American equities and 40-per-cent fixed income. We can move it between 50-50 if we're more bearish on equities, and 70-30, if we're more bullish on equities. We're currently at about 62 per cent equities and 38 per cent fixed income.

Our equity portfolios are currently 60 per cent Canadian holdings and 40 per cent U.S. We were higher in U.S. stocks about a decade ago, when they were trading at lower valuations, and started to take profits as those valuations increased. We've found more opportunities in Canada in recent years when valuations were lower. The U.S. names we own are often where we have fewer choices in Canada, such as large pharmaceuticals and technology.

As for fixed income, our portfolios today include guaranteed investment certificates and high-quality credit and low-duration corporate bonds. Our fixed-income holdings will vary depending on the market outlook. We view fixed income as an anchor in our portfolios to get as much yield as possible without taking duration or credit risk.

What have you been buying?

We can't name specific companies publicly, but two core sectors we like in Canada are financials and energy. Canadian banks lagged behind the broader market in 2022 due to rising interest rates and a slower housing market. While they may still lag in the coming months, if we look at the longer-term outlook, historically, Canadian banks have outperformed the broader index more than 70 per cent of the time over the past 50 years.

Canadian banks are well-capitalized, have the ability to navigate economic slowdowns and have attractive dividend yields that are currently well-covered. And they trade at compelling valuations.

We're more careful with energy. We're not adding because we have a good weighting in the sector, but we're not ready to retract. While slowing demand for energy is a

concern as people move to electric cars, non-OECD [Organization for Economic Cooperation and Development] demand is still growing. Also, limited investment in the sector over the past few years has restricted supply, which means the oil price could be sustained.

Canadian oil and gas company valuations are also very compelling. They've paid down debt significantly in the past year, and we're expecting many of them now to return a significant amount of cash to shareholders. That's one of the core reasons why we like them right now.

What have you been selling?

We haven't sold anything yet this year. We're not huge traders. Instead, we like to invest in good companies that we can hold for the longer term. Our last big trim was in April last year when we got closer to 70 per cent equities in our portfolio and decided it was prudent to scale back and take some profits. So we sold stocks in the technology and consumer staples sectors. These companies had a good run, but their valuations looked expensive.

Name a stock or sector you wish you didn't sell.

Railways. We do own them, but maybe not enough. It's a great business model with good pricing power and very high barriers to entry. It's something we continue to follow.

What investment advice do you give family and friends when they ask?

Good investing starts with strong financial literacy. I think it's important that we teach our kids and young adults financial literacy, so they understand the concepts of budgeting and planning – and the concept that money compounds over time.

Also, don't compare your financial plan to anyone else's. Maybe your neighbour can afford to speculate on crypto for fun, but most of us work hard for our capital and need to protect it.

This interview has been edited and condensed.

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Ishares Core Balanced ETF Portfolio

XBAL-T --

PE

Yield

Analysts

N/A

2.03%

Buy

