MURRAY WEALTH GROUP

Equity Market Commentary

February 2019

February Thoughts: Normalcy returns but will the growth?

February brought another month of gains to stock markets globally. The S&P 500 is now up 20% from its December 24th low and returned a healthy 3% during the month. The market is at a crossroads, with equity valuations returning to levels seen in a healthy macro environment. As the title of this commentary implies, we see more indicators of stabilization, leading us to conclude that the violent sell-off that took place in the fourth quarter of 2018 is now in the past. Of course, there will always be another sell-off at some point in time, but we believe it is best to remain on the offensive when market indicators are within historical norms. Markets peak when it feels like they will go up forever and, in our view, that euphoria is not in the markets.

We remain positive on the market but acknowledge that the remaining upside for 2019 may be closer to 5%-10%, with the market experiencing the typical ebbs and flows rather than trending upward in a straight line. In arriving at this forecast, we have applied a 17x - 18x multiple on 2020 estimated earnings of $172 for the S&P 500, which would put the market at 2925 - 3075. The stimulus provided by U.S. tax reform has been fully priced into the market. Expectations for the U.S. Federal Reserve to pause interest rate hikes are well understood and trade concerns have faded with the expectation of an immanent China-U.S. deal. Chinese stimulus is igniting expectations for an acceleration of growth in China and Europe

The TSX continued its ride higher, with an 11.7% gain year to date after a dismal 2018 (-13.9%), driven mainly by rebounds in the natural resource and real estate sectors. Many companies in the Canadian natural resource sector are attractively valued versus historical levels, with free cash flow yields (the level of annual cash generated after all outflows divided by the equity value) in the mid-teens. These companies will have to prove they are able to maintain production levels and will need commodity prices to cooperate. Time will tell if current valuations offer compelling entry points or are late-cycle value traps. For now, we have small exposure to the natural resource sector through a holding of Enbridge, which is part of the 20% of the Global Equity Growth fund invested in Canada.

As always, our value to our clients is in our performance. So where do we see opportunities? The U.S. consumer is strong and thus we have exposure to stocks like Home Depot, Apple, Royal Caribbean Cruise Lines, Nike, Aritzia, Alliance Data System, Newell Brands and Air Canada. New needs in health care are being by met by ongoing innovation in the medical field, including companies like Eli Lilly, Boston Scientific, Teleflex and Astra Zeneca. In addition, internet technology firms Google, Netflix, Amazon and Facebook still have a tsunami of cash coming their way as commerce shifts online (still early stages) where over $0.50 of every incremental dollar flows through to the bottom line.

In our Income Growth Fund, we maintain a 6.2% yield and believe many of our holdings will be able to increase dividends over time. While capital appreciation opportunities are more limited in this Fund, share prices should increase with dividends as long as they are viewed as sustainable.

MWG Scoreboard

	Close	YTD	1 year
TSX Comp.	15999	11.7%	3.6%
S&P 500	2784	11.1%	2.6%
NASDAQ	7533	13.5%	3.6%
MSCI World	503	10.5%	-2.8%
Volatility	14.78	-41.9%	-25.5%
CAD/USD	$0.76	3.6%	-2.6%
WTI	57.22	26.0%	-7.6%
Gold	1312.8	2.7%	-0.2%

Interest Rates (absolute levels)

	Feb19	Dec18	Feb18
Canada 2 yr	1.78%	1.86%	1.79%
Canada 10 yr	1.94%	1.97%	2.23%
U.S. 2 yr	2.46%	2.50%	2.26%
U.S. 10 yr	2.51%	2.69%	2.86%

MWG Portfolio Returns	YTD	1 year
Global Grwth	9.67%	6.68%
Income Grwth	10.72%	5.39%

Global Equity Growth Fund

Target Weighting Changes | Additions/Deletions

↑ TPR, BNS

↓ ORCL, NWL

The Global Equity Growth Fund returned 0.9% in the month, leading to slight underperformance year to date versus North American indices, due to weakness in a few of our larger positions, notably Newell (-22%), Celgene (-4%, although still our best performer year to date) and Facebook (-4% after a strong January). On the positive side, Astra-Zeneca, Air Canada, Airbus, and Stelco all returned more than 10%. Adding back our strong performance in December, our return of 3.26% on a 3-month basis handily outpaced the S&P 500 return of 0.8%.

We made very few changes to the portfolio in the quarter as noted above. We added to our positions in Bank of Nova Scotia and Tapestry on weak results as we believe both companies are set up for a stronger second half of 2019.

To fund the purchases, we reduced our target weighting in Newell and Oracle. Newell shares fell on disappointing results, putting into question a recovery in sales growth that started in earnest in the second half of 2018. Oracle shares are near their 52-week high. The company remains in our portfolio with a 2% weighting as Oracle's large share buyback program should continue to support the stock.

Income Growth Fund

Target Weighting Changes | Additions/Deletions

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The Income Growth Fund returned 2.2% in February, nearly matching the TSX Composite, reflecting its 80% Canadian weighting. Year-to-date the Fund is up 10.7%.

We initiated a position in Manulife in the quarter. Manulife is the leading Canadian life insurer with a very strong Asian franchise. The insurance sector's underperformance over the past three years is the result of several factors. Firstly, companies sold products with guaranteed returns at times when interest rates were higher. In today's low interest rate environment, it's harder to make these return targets. Secondly, following the financial crisis, companies were required to hold higher levels of capital. While, the companies are inherently safer and better equipped to handle a negative financial event, this reduces the return profile. Despite these headwinds, Manulife's earnings should grow about 10% a year and we think its 5% dividend yield is attractive.

To fund our purchase of Manulife, we used the proceeds from the redemption of our Hydro One instalment receipts. The Instalment receipts yielded 12% from our purchase in August 2017 and were redeemed at par after the company failed to receive approval by Washington state regulators to purchase Washington-based Avista.