

### March Thoughts: What's in an Inversion?

Equity markets continued their ascent in March, with the S&P 500 building on its strong start to the year to rise 1.8% during the month. Year-to-date, the index is up 13.1%, recording its best performance to start a year since 1998. While numerous financial news articles have been published about the roaring start to 2019, we remain cognizant that the preceding three months were among the worst since 1998 and that the return for the six-month period at month-end is -3%. On balance, we remain positive on the market but acknowledge that the remaining upside for 2018 may be closer to 3-8% unless we see a re-acceleration of earnings growth.

On March 22, the U.S. yield curve inverted as the yield on the 10-year U.S. Treasury Bond briefly traded lower than the 3-month U.S. T-Bill. Inversions are often viewed as a recession indicator but fail to provide any insight into the timing, duration and severity of a potential recession, leaving the indicator somewhat wanting. As we alluded to in our December commentary, equity markets are like a baseball game; a yield curve inversion may indicate we are at the seventh inning stretch but cannot predict the length of time to play out the rest of the game or consider the potential for extra innings.

We remain heavily weighted to the U.S. with ~70% of our Global Equity Growth Fund invested in this market. The U.S. remains well positioned, with strong employment levels (near full employment at 3.8%), an affordable housing market, strong bank liquidity and a growing influence of technology on U.S. GDP. Inflation remains subdued, with only wage inflation starting to creep higher, allowing the Federal Reserve freedom to use all the monetary policy tools at its disposal.

The U.S. economy has not been immune to slowdowns in China and emerging markets (as well as a sluggish Eurozone). However, recent data suggests Chinese stimulus may be starting to kickstart the economy, providing a boost to the industrial and technology sectors. Just this week, China's Purchasing Managers' Index rose above 50 for the first time since September, indicating expansion after a four-month lull.

The TSX crawled higher in March (up 0.4%) with weakness in energy and bank stocks offsetting strong performance by the more economically sensitive sectors. Canada continues to suffer from a lack of investor interest and a shrinking institutional mutual fund base, both of which are being driven by a crowded-out energy sector and a softening housing market. We believe there are some strong companies that have had share prices overcorrect to the downside, including Linamar, Aritzia and Spin Master. We maintain 20% of our Global Equity Growth Fund in Canada and continue to be underweight the natural resources sector. As well, we prefer to hold \$USD-denominated investments vis-à-vis \$CAD positions.

## March 2019

### MWG Scoreboard

	Close	YTD	1 year
TSX Comp.	16102	12.4%	4.8%
S&P 500	2834	13.1%	7.3%
NASDAQ	7729	16.5%	9.4%
MSCI World	509	11.6%	0.6%
Volatility	13.71	-46.1%	-31.3%
CAD/USD	\$0.75	2.5%	-3.2%
WTI	61.59	35.6%	-7.4%
Gold	1288.4	0.8%	-2.6%

#### Interest Rates (absolute levels)

	Mar19	Dec18	Mar18
Canada 2 yr	1.55%	1.86%	1.78%
Canada 10 yr	1.62%	1.97%	2.09%
U.S. 2 yr	2.27%	2.50%	2.27%
U.S. 10 yr	2.41%	2.69%	2.74%

MWG Portfolio Returns	YTD	1 year
Global Grwth	12.56%	11.21%
Income Grwth	12.60%	9.49%

**Global Equity Growth Fund**

Target Weighting Changes



Additions/Deletions



The Global Equity Growth Fund returned 2.5% in the month, and 12.6% in the 3 months ended March 31, approaching the S&P 500 year-to-date return. Our best performers were in the technology and consumer space with the exception of top performer Celgene, which returned 13.1% on positive opinions from two proxy advisory firms in relation to its acquisition by Bristol Myers Squibb. Broadcom (+10%, strong financial results), Aritzia (+10%, stock issuance overhang removed) and Apple (+10%, expanded services launch) were other notable contributors to the portfolio. Our holdings in Tapestry (- 6%, weak Chinese sales, Newell (-5%, although a new CEO will be hired) and Stelco (-4%, weak steel prices)

During the quarter we made a new addition, buying shares of defense stock Raytheon. Raytheon is a leading provider of missile defense and defense-related technologies. The defense sector has been weak with most companies trading >20% off their 52-week highs due to expectations that growth in the U.S. defense budget will be less than historical levels but Raytheon is somewhat insulated from this through a strong international sales mix. Missile defense is a high growth area of the defense sector and does not have the same ‘program’ risk that companies in the aerospace defense sector are exposed to. US allies around North Korea will be major customers

To fund the purchase, we sold our position in Oracle. Oracle’s transition to cloud-based services has been slow, and while a massive share buyback program will support the stock and earnings growth over the medium term, we have concerns regarding its longer-term growth potential. Revenue growth is chugging along at just 2%, and with a management team that is not focused on innovation, we believe it was prudent to sell the shares as they reach a new high.

**Income Growth Fund**

Target Weighting Changes



Additions/Deletions



The Income Growth Fund returned 1.6% in February and has matched the Global Growth Fund year-to-date performance at 12.6%. The yield of the fund was a healthy 6.1% at March 31.

We made no changes to the Income Growth Fund in the quarter. Of note, European Commercial REIT closed its transaction with CAPREIT whereby CAPREIT effectively capitalized European Commercial and substantially altered its business model, now with a focus on multi-residential properties versus commercial properties previously. The transaction will result in a special dividend to holders of ERE.UN units (now controlled by CAPREIT) in April. As multi-residential properties often have lower cash flow yields, we will evaluate the suitability of the new company when additional details are released.