MURRAY WEALTH GROUP

Equity Market Commentary

April Thoughts: Party like it's 2017

Equity markets climbed for the fourth straight month as another earnings season proved constructive for investors. Earnings reports often prove constructive for stocks in periods of strong economic growth as corporate guidance and street analyst estimates are often conservative and fail to fully capture the inherent operating leverage from growing revenue and margins. The S&P 500 and Nasdaq rose 3.9% and 4.7%, respectively, their best gains since January as they continued one of the strongest annual starts in history. The "straight line" march upwards and accompanying low volatility is reminiscent of the markets in 2017 when the S&P and Nasdaq returned 19% and 28%. Also, like 2017, the Volatility Index (VIX) and 10-year U.S. Government bond yield have trended downward towards their lows, with the current VIX at 12.9 and the ten-year yield at 2.53%

In our February review, we surmised equity markets had 5-10% upside left in the year. Since that writing, the S&P 500 is up 5.7%. Analyst estimates for 2020 for the S&P 500 are relatively unchanged and thus unless we are willing to place a higher multiple on current estimates, we must maintain that market upside may be limited to 5%, unless we see an adjustment in earnings estimates. There is some optimism that estimates will move higher; China's economy appears to be rebounding, which should boost the technology sector, oil prices are firmly higher, helping the energy sector, and U.S. employment and GDP remain resiliently strong. As we wrote in our quarterly letter to our Investors, we are sceptical of our ability to time the market, preferring instead to hold high quality, growing companies over alternatives like cash and government bonds with interest rates below 3%.

The TSX rose 3.0%, continuing its strong start to 2019, but continues to underperform the U.S. market. In addition to our favourable outlook for U.S. equities, changes in the C$/US$ exchange rate can benefit the portfolio. In late April, the Bank of Canada confirmed that rate hikes are likely off the table given anemic inflation and the weakening housing markets.

We continue to find opportunities in high growth companies trading at attractive multiples. Most of the time, these companies are hiding in plain sight, which is why there are many recognizable company names in our Global Growth Portfolio. Take Alphabet (Google's parent company), our largest holding in the fund. The shares fell 8% on the last day of April after reporting weak Q1 results (note the shares were at a 52-week high prior to release of the results). The company only grew revenue at 19% versus investor expectations of 20%. While its rare for Google to miss revenue estimates (the company attributed the miss to changes in ad algorithms), we are happy to own Google whether revenue grows 19% or 20% (or 18% or 22%). Morgan Stanley put it best: "*GOOGL (Alphabet) remains an inexpensive stock, now trading at 12X '20 GAAP EBITDA for ~25% EBITDA growth…a ~25% discount to consumer staples despite growing ~5X faster.*" We will continue to search for and invest in companies we think will outperform in the long run.

MWG Scoreboard

	Close	YTD	1 year
TSX Comp.	16581	15.8%	6.2%
S&P 500	2946	17.5%	11.2%
NASDAQ	8095	22.0%	14.6%
MSCI World	525	15.2%	3.0%
Volatility	13.12	-48.4%	-17.6%
CAD/USD	$0.747	1.9%	-4.0%
WTI	63.91	40.7%	-7.4%
Gold	1282.8	0.4%	-2.5%

Interest Rates (absolute levels)

	Apr19	Dec18	Apr18
Canada 2 yr	1.56%	1.86%	1.89%
Canada 10 yr	1.71%	1.97%	2.31%
U.S. 2 yr	2.27%	2.50%	2.49%
U.S. 10 yr	2.51%	2.69%	2.93%

MWG Portfolio Returns	YTD	1 year
Global Grwth	18.3%	16.2%
Income Grwth	17.0%	13.5%

Global Equity Growth Fund

Target Weighting Changes

↑ FB.O

↓ CELG.O

Additions/Deletions

+ UNH.N

−

The Global Equity Growth Fund returned 5.1% in the month, handily outperforming equity markets, and has now returned 18.3% year to date. Many of our larger positions had strong months, including FB (+16%), MSFT (+10%) and STZ (+20.1%). We continue to remain overweight the technology and consumer discretionary sectors with an underweight in consumer staples, real estate, utilities and natural resources.

We made one new purchase in the quarter, buying share in United Health (UNH). UNH is the largest health insurer in the U.S. and has sold off on political uncertainty surrounding the 2020 American election. The concern stems from far-left Democratic candidates promising lower cost Medicare options, which could impact profitability of U.S. health insurers. However, the company should grow EPS at a mid-teens rate and trades at a slightly below market multiple. We would expect a significant relief rally if a politically-centric Democrat emerges as a front runner.

We made a couple of changes to our target weightings, increasing our weight in Facebook to 5.0% strictly due to share price appreciation. The company is generating significant revenue momentum (we wrote about Facebook's return to growth mode in February) and we believe it will trade higher into its next earnings report in July. Additionally, we sold over half of our position in Celgene after Bristol Myers Squibb shareholders approved its acquisition and its share price closed in on the acquisition price. The funds were redeployed into United Health.

Income Growth Fund

Target Weighting Changes

↑ ITP.TO, BP.N

↓ EIF.TO, CJR.TO

Additions/Deletions

+ IBM.N, FCRir.TO, TPR.N

− QCOM.O, GRT-UN.TO, AZN.N

The Income Growth Fund returned 3.8% in April, outperforming the TSX Composite (its closest comparable) due to its 80% weighting in Canadian equities. Year-to-date, the Fund is up 17.0%. During the month, Qualcomm (up 25% on Apple resolution) and Blackstone (up 17% on C-Corp conversion announcement) performed particularly well.

We made several changes in the portfolio in April. New positions were initiated in IBM, First Capital (via instalment receipts) and Tapestry. IBM was swapped in for Qualcomm after Qualcomm appreciated considerably on the resolution of its ongoing patent dispute with Apple and its dividend yield approached our 3% threshold. IBM has been left behind in the technology world, but there are several promising signs that it may be generating some momentum in certain divisions. We also speculate that the CEO of recently acquired Red Hat Inc. may be tapped to succeed incumbent CEO Ginny Rometty, which would be viewed positively.

First Capital, a real estate operating company, was purchased via an instalment receipt offering. The instalment receipts paid a nice dividend upon closing and have appreciated considerably since they started trading. To fund the instalment receipt purchase, we sold our position in Granite REIT as the shares approached our target price.

Finally, Tapestry was purchased with proceeds from Astra-Zeneca. We hold both companies in our Global Growth fund but believe Tapestry has more upside and pays a slightly higher dividend. Tapestry is the parent company of Coach, Michael Kors and Stuart Weitzman.