MURRAY WEALTH GROUP

Equity Market Commentary

June Thoughts: Time in the market

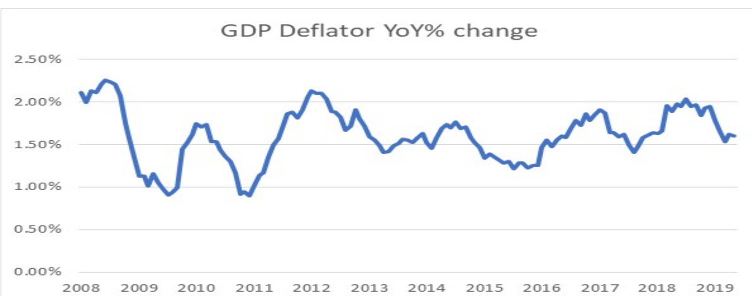
The investment adage "***Time in the market"*** is more important than ***timing the market,***" proved prescient in June as another shopworn statement, "Sell in May and go away," would have resulted in missing out on a strong rebound in equity markets. It was an impressive performance following a dismal May that included an unsuccessful Uber IPO, technology antitrust concerns, heightened trade concerns and a breakdown in technical indicators.

June 2019

MWG Scoreboard

	Close	YTD	1 year
TSX Comp.	16382	14.4%	0.6%
S&P 500	2942	17.4%	8.2%
NASDAQ	8006	20.7%	6.6%
MSCI World	2178	15.6%	4.3%
Volatility	15.1	-40.6%	-6.2%
CAD/USD	$0.763	4.1%	0.3%
WTI	$58	28.8%	-21.1%
Gold	$1,409	12.6%	10.3%
Interest Rates (absolute levels)			
	Jun19	**Dec18**	**Jun18**
Canada 2 yr	1.47	1.86	1.91
Canada 10 yr	1.47	1.97	2.17
U.S. 2 yr	1.74	2.50	2.53
U.S. 10 yr	2.00	2.69	2.85
MWG Portfolio Returns		**YTD**	**1 year**
Global Grwth		14.6%	7.8%
Income Grwth		17.0%	11.9%

The rally was spurred by hopes that the Federal Reserve will reverse course on its interest rate hikes in the back half of 2019. The GDP Deflator (the Fed's preferred measurement tool for inflation) has rolled over recently, at a time when employment growth, capital spending and manufacturing activity are slowing. Clearly, there are some concerns about GDP growth that are reflected in the Fed decision to slow the shrinking of its balance sheet and are supportive of a dovish Fed. We also believe there was a bit of relief in the market when the technology antitrust cases were reported as this concern had been weighing on shares for the past year (see our June 2019 Research).



The S&P500 rebounded 6.9% and the NASDAQ Composite rose 7.4% in June, largely reversing the May losses. The S&P 500, the most broad-based U.S. large cap index, is approaching our 2019 target of 3,000 (which was based on a multiple of 17x times next year's earnings estimate of $178). However, as bond yields fall, multiple expansion should be supportive of additional market gains.

The TSX rose 2.2% in the month, nearly reversing the 3.3% decline experienced in May. The resource sector continues to languish due to a lack of investor interest, which means that capital inflows are still weak. However, as larger International players exit the space, Canadian firms like Suncor and Canadian Natural Resources continue to consolidate the oil sands market, which should lead to better unit economics. While sentiment remains poor, several positive developments have recently arisen, including the election of the United Conservative Party, final approval of the Trans Mountain Pipeline and an $800M private equity round by Arc Financial for investment in the Canadian oil patch.

The Canadian Dollar rose sharply against the U.S. Dollar in June, finishing US$0.023 higher at US$0.763. The move was mainly due to widespread $USD weakness versus major currencies given the anticipation of lower interest rates in the U.S. (changes in interest rate expectations are a primary driver of exchange rates). The appreciating Canadian Dollar is a headwind for both of our portfolios as both hold $USD assets (particularly the Global Equity Growth Fund, which is 77% $USD denominated).

Global Equity Growth Fund

Target Weighting Changes

↑ **MSFT**

↓ **STZ**

Additions/Deletions

+

−

The Global Equity Growth Fund increased 3.1% in the month, underperforming U.S. equity markets mainly due to a higher Canadian Dollar and underperformance by our large cap technology stocks, which make up a large part of our portfolio. While all the underperformance due to antitrust concerns occurred on the first trading day of June and all of the stocks involved subsequently rebounded, essentially erasing any losses, they failed to contribute positively to performance. Year-to-date, the fund is up 14.6%.

During the month, we increased our target weighting in Microsoft as the shares appreciated. We continue to see a long runway for growth in its cloud services/Azure division. At the same time, we reduced our target weight in Constellation Brands as the company continues to focus on its Mexican beverage portfolio and investment in cannabis products through its equity investment in Canopy Growth Corp. We would prefer to see how this strategy plays out before committing additional capital at current prices.

Income Growth Fund

Target Weighting Changes

↑ **BP.N, TPR.N**

↓

Additions/Deletions

+ **KSS.N**

− **BX.N**

The Income Growth Fund rose 3.1% in the month, mirroring the performance of the Global Growth Fund. Year-to-date, the fund has returned 17.0%.

During the quarter, we made one new purchase, buying Kohls Corp, a leading department store operator in the U.S. The company's shares are down close to 50% from their high and are attractively valued at a mid-teens free cash flow yield and 5.7% dividend yield. Kohls has a strong brand in smaller B and C mall locations and should benefit from a rebound in the retail sector through the holiday season. The company is also expanding its partnership with Amazon as a distribution point for sales and returns, creating additional foot traffic.

We sold our position in Blackstone as the company rallied into its conversion to a corporate structure from a partnership. Due it's partnership structure, many funds (including some passive exchange traded funds) were limited in owning the shares. In anticipation of its conversion to a corporate structure, which would broaden the investor base, the shares rose, providing us with an exit point.