May Thoughts: May-Day

The bull market was put on hold as the anticipated trade deal between the U.S. and China failed to materialize, renewing pressure on the technology sector and introducing more uncertainty into the market. More surprisingly, Trump took aim at Mexico again on illegal immigration, with a plan of escalating tariffs, at a time when North American governments are working to ratify the USMCA (the "New NAFTA") Agreement. More unsettling is that the tariff will start to take effect just two weeks from the date of the announcement, leaving little time for negotiation.

May brought the worst market performance of the year, with the S&P500 falling 6.5% and the NASDAQ Composite declining 7.9%. We continue to see an S&P of approximately 3,000 based on a multiple of 17 times next year's earnings. Even with this month's poor market action, our one-year performance is a 6.9% in the Global Equity Growth Fund and 8.1% in the Income Growth Fund. We also believe our three-year performance numbers compare favourably at an annualized 13.0% (Global Equity) and 10.8% (Income Growth).

Bond yields collapsed in May to their lowest level in two years. We have maintained that the absence of inflation and technology-driven productivity gains will keep long-term interest rates low. This should support additional investment in housing as well as higher equity valuations.

The TSX fell a comparatively better 3.3%, bringing its year-to-date performance more in line with the U.S markets. The Canadian banking sector delivered earnings that were mostly in line with forecasts, with Royal Bank and TD, the sector's largest banks, outperforming. REIT's were also standouts in the quarter as the decline in interest rates is supportive of lower cap rates used to value real estate assets (lower cap rates = higher share prices). Lower oil prices contributed to broad weakness in energy-related equities.

On the first trading day of June, the rumblings of a large anti-trust investigation into the world's largest internet technology companies reduced market valuations by more than $100 billion combined. We will touch on our thoughts regarding anti-trust suits and technology, a topic frequently raised, in more detail in our June research report, but our preliminary viewpoint is predicated on the following: anti-trust will continue to overhang the technology companies in the short term; valuations reflected the risk of potential anti-trust investigations; any fines will be easily digested by the large cash reserves of these companies, and while the looming potential of a breakup creates uncertainty, it could unlock higher valuations for parts of each business.

May 2019

MWG Scoreboard

	Close	YTD	1 year
TSX Comp.	16037	12.0%	-0.1%
S&P 500	2752	9.8%	1.7%
NASDAQ	7453	12.3%	0.1%
MSCI World	492	8.0%	-3.3%
Volatility	18.71	-26.4%	21.3%
CAD/USD	$0.740	0.9%	-4.1%
WTI	53.5	17.8%	-15.6%
Gold	1305.8	2.2%	0.4%

Interest Rates (absolute levels)

	Apr19	Dec18	Apr18
Canada 2 yr	1.43%	1.86%	1.92%
Canada 10 y	1.49%	1.97%	2.25%
U.S. 2 yr	1.94%	2.50%	2.41%
U.S. 10 yr	2.14%	2.69%	2.82%

MWG Portfolio Returns	YTD	1 year
Global Grwth	10.9%	6.9%
Income Grwth	13.4%	8.1%

Global Equity Growth Fund

Target Weighting Changes	Additions/Deletions
↑ **BSX, UNH, LLY**	+
↓	− **CELG, AC.TO**

The Global Equity Growth Fund fell 6.1% in the month, a slight outperformance over U.S. equity markets thanks to a small boost from Canadian dollar depreciation and has now returned 10.9% year to date. As mentioned, hardware technology shares were under pressure from Chinese trade talks with both Apple and Broadcom falling ~20%. Retail stocks were also hammered as poor spring weather negatively affected mall traffic. Note we are seeing increased bifurcation in both retail performance and share price performance between the retail haves (such as fund holdings Nike, Aritzia, Home Depot) and have-nots (department stores, overstored mall retailers like L Brands and the Gap). We remain overweight the technology, healthcare and consumer discretionary sectors with an underweight in consumer staples, real estate, utilities and natural resources.

We purchased no new positions in the quarter but added to Boston Scientific, Ely Lilly and UnitedHealth. To fund the changes, we sold the remaining portion of our Celgene position as it finalizes its acquisition by Bristol-Myers Squibb.

As well, we exited our position in Air Canada as the shares rallied on the announced going-private transaction of WestJet by Onex corporation. Air Canada shares have re-rated to trade inline with U.S. peers and with markets selling off on economic concerns, it made sense to us to redeploy the capital into more attractive equities.

Income Growth Fund

Target Weighting Changes	Additions/Deletions
↑ **CJR.B**	+ **CHP.UN**
↓	− **ERE.UN**

The Income Growth Fund fell 3.1% in the month, outperforming North American indices aided by its 80% weighting to the Canadian market. Year-to-date, the fund has returned 13.4%.

During the quarter, we made one new purchase, buying Choice Properties REIT. The company was spun out of Loblaw Companies and holds many properties anchored by a Loblaw operating company. This provides a stable base of rental revenue and although it may be perceived as concentration risk, there are over 530 properties with a Loblaw relationship, many in grocery anchored properties with 3rd party tenants. Choice is also developing several large-scale mixed-use projects as its broad property portfolio should provide opportune projects over time.

To fund the purchase, we exited our position in European Commercial REIT upon completion of its reverse takeover of European Residential assets of CREIT. In conjunction with the shift from commercial to residential properties, the company is lowering its distribution level as apartment properties do not spin off cash at as high of a rate although there is typically more opportunity for revenue growth as tenants turn over.

We also increased our position in Corus Entertainment after Shaw sold its large stake in the company. While the sale will pressure shares in the short term (we were able to purchase the shares at over a 20% discount), longer term the removal of the Shaw overhang should benefit the company. The TV ad market has had a strong turnaround in 2019 and Corus is firing on all cylinders.