



Commentary: NCM Dividend Champions

On February 20, 2024, Portfolio Manager Michael Simpson, CFA provided an update on the economy, his interest rate outlook, world events, and some portfolio holdings.

TRANSCRIPT:

Good day. It is February 20, 2024 and I'm Michael Simpson, portfolio manager of the NCM Dividend Champions fund. We are well into the new year, and investors are wrestling with key topics that we will try to discuss in this podcast.

Today we have received good news on the inflation front from the Bank of Canada. In Canada, in January, the CPI index dropped to 2.9% on a one year basis. That is within the 1 to 3% range of the Bank of Canada, and it also has a two handle on it, so that's positive for the bank and also consumers and also borrowers.

More details from the report include gasoline prices on a year over year basis declined 4%. Grocery prices continue to decline as well as airfares. Inflation, excluding food, rose 2.7%. The crux of the report was mortgage interest costs on a year over year basis rose 27% from a year ago. That's correct, 27%. But that reflects the dramatic rise in short term interest rates by the Bank of Canada. And rental costs rose 7.9%. Although the Bank of Canada cannot build houses and apartments to increase supply and lower new home prices, they do directly control and set the bank rate, which is used to price loans and mortgages.

In the US, inflation picture is more mixed. The University of Michigan inflation expectations for one year forward was measured at 2.9%. CPI in the US grew at 3.1%, while CPI ex-Food and Energy in the January time frame grew at 3.9%. The Producer Price Index, which measures the inputs are raw materials of manufactured goods, rose 0.3% on a month over basis in January. This was higher than what analysts had expected.

We as managers are bombarded by economic stats and releases. The monthly economic figures can be volatile, especially when they have a seasonal adjustment factors embedded in them. It is important to look at trends and the medium and long term trend. It is our view, given the relative sluggishness of the Canadian economy, that the Bank of Canada will start to cut rates around the start of summer. The Bank of Canada will look at many factors, but also notice that Europe is on the verge of recession, and China's slow growth has led to concerns over the real estate industry, and China has recorded negative CPI inflation for several quarters.

Turning to the macro, at NCM, we are fundamental investors, but we do not ignore the macro. The Ukraine and Russia war is approaching its two year anniversary and there's no end in sight. The war is a stalemate as Ukrainian forces are valiantly fighting for their homeland. The Israeli-Hamas war is five months old, and recently there has been greater international efforts to end the destruction and restore peace. Our thoughts and prayers are with the suffering civilians, and it is our hope that both wars end soon.

Turning to the US, Canada's largest trading partner. The US receives 75% of Canadian exports. They will have a pivotal election on November 5th, 2024. I will not hazard to guess who wins the election, but we will stay focused on the portfolio during the bizarre US election season. Ironically, according to many news organizations, 75% of the world's population will go to the polls in the next 12 months.

Having discussed all this, how are we positioned the portfolio, the NCM Dividend Champions portfolio? We like companies that are steady growers with a long history of dividend growth. We do not forget, ignore or neglect valuation. Intact Financial, a core holding, recently raised their dividend by 10% and Lincoln Electric, a leader in welding products and autonomous welding manufacturing, recently raised their dividend by 11%.

It is important to note that not all companies are Dividend Champions. First Quantum has cut their dividend, as well as Algonquin Power, Slate Office REIT, Dream Office REIT and True North Office REIT. Active management of a portfolio is essential and active management pays dividends.

I would like to thank our existing unitholders of the Dividend Champion fund and welcome new unitholders. We have a three year track record and are committed to providing excellent risk adjusted returns. As a final reminder, spring is around the corner, and to everyone, Happy Saint Patrick's Day.



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