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Commentary: NCM Global Income Growth Class

On February 26, 2024, Portfolio Manager Jason Isaac, CAIA, CFA, shared a market update and some insight into the sectors that he is over- and under-weighting in the portfolio.

TRANSCRIPT:

Hi, everybody. This is Jason Isaac here, it is February 26th, 2024. This is the NCM Global Income Growth update. I think the last time I came at you was January, beginning of January. We've had a few things change since then. Just looking at my notes here. We were capped out at between 4500 and 4600 on the S&P 500. And I think I said at that time that this is probably going to be the top if something doesn't change.

What were we looking at? We were looking at, well, the world index was kind of weak, micro caps were weak, small traders were chasing returns, and the 20 day highs were not breaking through. Well, since then, obviously we've blown right through that. The world is breaking out. Small traders are still chasing returns. Micro caps have broken out, and 20 day highs have actually been very, very constructive. So the market's been on a little bit of a tear.

Some of the news items today - I'm just looking at my Bloomberg here - hedge funds have actually been selling down tech. First time it's really happened in a significant a long time. I know I was looking at Cathie Wood's portfolios and she sold some Taiwan Semiconductor and some Nvidia. Probably a good thing to do. Both those. Nvidia for sure went parabolic on AI.

Speaking of AI, we've got a issue in the market with Google. There's a lot of people a little bit underwhelmed by Google's AI features and suggesting that there's some structural search behaviors that are going to change, and it's causing some consternation for Alphabet.

And then Warren Buffett did it again, Berkshire Hathaway, and he's got $168 billion of cash. It's crazy. He's sitting there complaining that there's not enough opportunities to invest.

Circling back to what the market's done since the last talk, year to date, we've got the S&P 500 up about 9%, the euro regions up about 8%. Japan, it's hard to say, but Japan's actually been the best performing sector or market. It's up about 12%, all in Canadian dollar terms. Meanwhile the Canadian market is a distant fourth there, up at about 2%.

Turning to the portfolio, back in November, about 4% cash beginning of January, 4% cash. Right now, cash has been fully invested. We got about half a percent to 1% in cash. Some of that's gone to bonds. Bonds were at 12%, they're now down to about 11.7%, just under 12%, but that's more a function of the markets running. The portfolio's had a really good run and equities have actually done pretty well. And in that stocks were about 83.5% in November at the beginning of November, just after, when the market started taking off, and we're at 88% as it sits now.

Hasn't been too many changes in the regional exposure. We're at about 67% in the US, 9% in Canada, 14% in Europe. And we've increased from a 5% in Japan to 8% in Japan. I don't know if you recall, but when I started this a long, long time ago, Japan was about, you know, 25% of the market cap. It's only about 10% now. So, we're still underweight Japan. It looks like there's some opportunities there.

Not a lot of changes in the top ten. Where you see the biggest overweight and underweight to the portfolio from a GICS or a sector positioning is we're overweight financials, we're overweight industrials, we're overweight consumer discretionary. We're underweight tech. Still got a significant weighting in tech at about 16 and 17%, but the world is coming in at about 23%. So there's been you know just shying away a little bit from valuations.

Where you can expect us to look for new opportunities going into 2024, health care and consumer staples. Both of those are a little bit underweight. Health care is coming in at about 14% and I think the world's at about 15%, so marginal. Probably be taking that up. It looks like health care starting to finally get the legs that we were expecting it to last year. And then consumer staples as people start to pull back a little bit and we, you know, that dreaded word recession gets thrown around, and eventually it's going to hit, staples will start to get a little bit more of a firmer footing once they have a little bit better handle on inflation.

So the only other thing I probably wanted to highlight is when, when I go through when I do the revenue component of the equity component of the portfolio, I do map out all the individual names and it gives me an aggregate exposure, of what we're doing. And when we look five years out, what are the metrics on the equity component of the portfolio? Revenues are coming in at about 8.5%. That means, expecting revenues for the component companies in the portfolio in aggregate, to grow at about 8.5% per year for the next five years. That compares to the MSCI World coming in at about 4%. So we're about double the revenue projections over the next five years. Earnings are coming in at 17% versus 8%. Free cash flows coming in at 16% versus 14%. And dividend growth on the portfolio is coming in at about 14% per year. Now remember I just want to be clear on that it's the dividend growth in the portfolio not the dividend yield. So the dividend growth in the portfolio is coming in about 14% versus about 8%.

So pretty happy with the construction of the portfolio, happy with the names. They've been trading fairly well, and we'll look to lean in a little bit, but we'll lean in on the less risky side. So as I said, the health care and consumer staples is probably the areas that we'll be looking at.

With that all sign out. Hope everybody has a good rest of the winter. Hopefully spring's around the corner. With that, I'll signout. Bye everybody.

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