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NCM

Canadian Dividends Stand Tall

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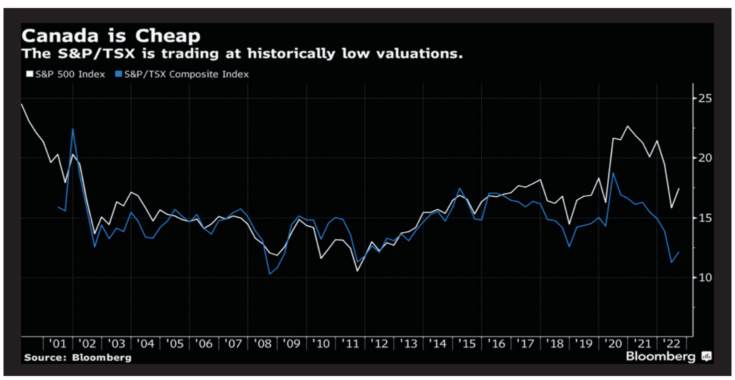
It has been quite an unusual year in the markets. Geopolitical events came front and center in February when Russia invaded Ukraine. The War has lasted for more than 6 months, and our thoughts go out to the Ukrainian people for a peaceful resolution to the conflict.

Year-to-date to August 31st, the S&P TSX Composite was down -7.1%, and the S&P 500 has declined by -16.1%. The Canadian economy often gets criticized for its lack of growth and technology companies, but 2022 is turning out to be a good year for the Canadian market, as our food and energy remains in high demand. It has been the revenge of the old economy, with many tried-and-true businesses taking the lead. This is a great environment for NCM Dividend Champions.

As **Chart #1** shows, the Canadian market is cheap compared to the US. Many of the Canadian dividend-paying companies that I track look attractive relative to their counterparts south of the border.

CHART 1



Source: Bloomberg

Also worth noting is that many of the goods and commodities that Canada sells are priced in US dollars. **Chart #2** shows a recent decline in the US Dollar Index, which will make commodities such as oil and wheat cheaper for other nations to buy and help North American economic growth.

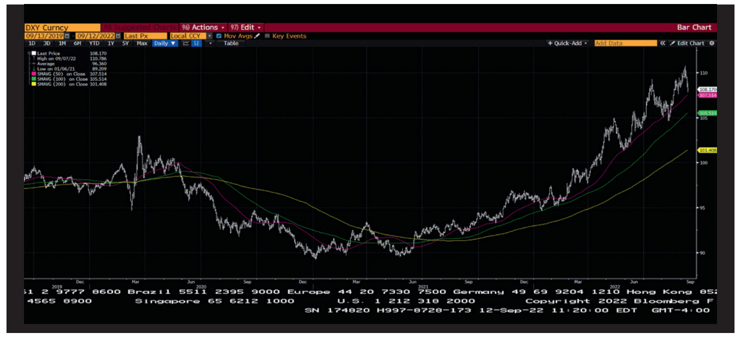
Portfolio update: Big buildings and busy trucks

Granite REIT is a Canadian-based company that owns industrial warehouses strategically located near city centres and used for things like ecommerce, distribution and transportation. Although the share price has come down, Granite has a conservative balance sheet with a Debt to Gross Asset value at 28%.

Granite trades at 17x Price to FFO, compared to US-based competitor, Prologis, which trades at 24x Price to FFO. We are sticking with Granite because real estate is an excellent Inflation hedge and Granite REIT has strong growth prospects and is attractively valued.

A new US-based holding is **Amerco**, the parent of U- Haul, which has 186,000 trucks and 128,000 trailers. Amerco is also the third-largest self-storage company in the US. It trades at 10x earnings, 6x cash flow and recently declared a special dividend. Amerco is committed to shareholder total returns, and we believe they will continue to raise their dividend. U-Haul trucks and trailers are busy across North America.

CHART 2



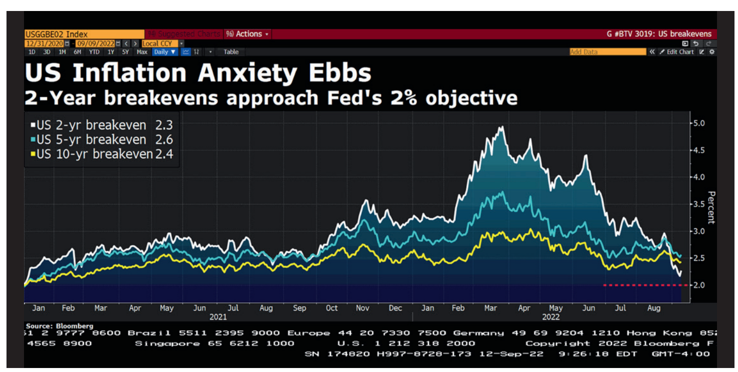
Source: Bloomberg

Thoughts on Inflation

There are several components to Inflation, and even more predictions on its future direction. In the US, the largest component of the Consumer Price Index is shelter, which is made up of rents and other housing-related costs and accounts for almost a third of the index according to the Bureau of Labour Statistics (BLS). In Canada, the main components of the Consumer Price Index are shelter at 29%, food at 15.9% and transportation at 16%.

As of July 31st, annual inflation in the U.S. was 8.5% according to the BLS and Canada was slightly lower at 7.6% according to Statistics Canada. What is also important for markets is the expectation of forward inflation among consumers, investors, business owners and others. As commodities such as corn, oil and nickel have declined, so have inflation expectations as seen in **Chart #3**.

CHART 3



Source: Bloomberg

While Inflation is much higher than the US target rate of 2.3%, it is my view that inflation will moderate and that high-quality companies with good cash flow profiles will be able to succeed in a moderate inflation environment. It will take time for inflation to come down, but the companies with the most levered balance sheets - which we avoid - will suffer the most.

As always, I believe in maintaining a diversified portfolio with healthy companies that can raise their dividends, and using volatility as a tool to buy quality companies at a reduced price. It is wise to stay invested, avoid trying to time the markets, and stick with the Dividend Champions.

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