

Quarterly Market Update



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Ready for reopening

It was just over a year ago that we stared into the abyss after the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic (March 11, 2020), with the global economy heading into full lock down mode shortly after. But now, the combination of ongoing global policy support and the accelerating pace of vaccine distribution has helped to create a high level of optimism as we look forward to the economic reopening.

- US and Canadian economic growth is expected to rebound sharply above-trend in 2021. In Canada, we expect the slow progress on vaccinations and renewed lockdowns following a third wave of COVID-19 to likely hold back the economic recovery in the first half of 2021. However, we expect robust fiscal support provided to date, highly accommodative monetary policy, and strong gains in commodity prices, to bode well for the outlook in H2/2021. The consensus expectation for real GDP growth in Canada is 5.0% in 2021 (versus the 30-year average of 2.0%).
- Companies are benefiting from a strong recovery in spending and employment trends, coupled with elevated fiscal and monetary support from policymakers. Valuations are modestly higher relative to historical levels for the S&P 500 index but below historical averages for the S&P/TSX index. The Federal Reserve (Fed) and Bank of Canada (BoC) show little inclination to push back on rising yields.

Bottom Line: We expect the global economy to experience an extended period of above-trend global growth in 2021/2022 thanks to extremely stimulative and accommodative monetary and fiscal policies with consumers across most of the developed world economies well positioned to boost their consumption following a period of elevated savings.

****Please note that the commentary within this newsletter is related to the Langill & McHenry Private Investment Management Group (PIMG) discretionary portfolios.**

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Key Takeaways:

Stocks

- The stock market rose again in Q1 2021 by +8.1% and +6.2% in Canada and the U.S, respectively. However, the strong Canadian Loonie (+1.3% in Q1 2021) somewhat muted U.S. stock returns on a currency-adjusted basis to +4.8%.
- Stocks have rebounded from March 2020, Coronavirus lows, with both Canadian and US equities posting positive strong returns over a one year period. Over the last 12 months, US stocks performed better than Canadian stocks rising 56.4%, while Canadian stocks posted an increase of 44.2%, in local currency.
- Stimulus measures have created a strong base for a robust recovery and, given the depth of the contraction, these measures will remain in place well into the future. Don't fight the Fed!

Bonds & Preferred Shares

- Bonds finally took a breather in Q1 2021 and fell -5.0% in Q1 2021. Central banks continue to provide accommodation to financial markets to combat liquidity and credit concerns surrounding COVID-19 economic shutdowns. These stimulus actions have stoked fears of stronger inflation and resulted in rising interest rates, which is negative for bond prices.
- Canadian preferred shares started the first three months of 2021 up +8.8%, rising along with the expectation of improved economic conditions and the introduction of limited recourse capital notes (LRCNs), which has inspired a supply imbalance in the preferred share market in favour of preferred share prices.

<u>Market Returns:</u>	Q1 2021	Last 12 months	Last 2 years
Canadian Stocks	8.1%	44.2%	11.2%
US Stocks (in CAD\$)	4.8%	39.7%	17.0%
Bonds	-5.0%	1.6%	3.0%
Preferred Shares	8.8%	49.7%	8.7%

**Source: Raymond James PCS*

**Note: Valuation date 31MARCH2021*

****For information on model returns please email Adam McHenry at adam.mchenry@raymondjames.ca****

Our Models

- In the last six months, we have seen our longer-term investment thesis start to register with stock markets as economies and sentiment recover from the lows of the Coronavirus lock downs, in spring 2020. This recent outperformance of our two main stock portfolios (Dividend Growth (DG) and Yield & Growth (Y&G)), over the last six months, +16.8% and +21.7% relative to +14.4% for the benchmark, reinforces this view.
- Our stock portfolios ("All Equity"), DG and Y&G, advanced +8.9% & +10.8% for Q1 2021 and +32.8% & +31.6% over the last twelve months, relative to our benchmark at +6.2% and +40.6%, respectively.
- Our bond portfolios ("Capital Preservation"), DG and Y&G versions, returned -0.9% & -0.7% for Q1 2021 and +7.7% & +8.8% over the last twelve months, relative to our benchmark at -5.0% and +1.8%, respectively.
- Top performers in our stock portfolios for Q1 2021 were **Manulife Financial (MFC)** up **+20.7%** in our Dividend Growth portfolio, while **Canadian Natural Resources (CNQ)** rose **+28.6%** to lead performance in our Yield & Growth portfolio. Laggards in our portfolios for Q1 2021 were **Algonquin Power & Utilities (AQN)** falling **-4.0%** in our Dividend Growth portfolio, while **Merck & Co (MRK)** fell **-4.9%** in our Yield & Growth portfolio.
- We made some changes in our models, in regard to both asset allocation and specific securities in Q1 2021:
 - With respect to asset allocation, we increased our allocation to equities by +2% in sourced money from cash and fixed income by -1% each.
 - On the stock side of the portfolios, in the DG models, we added three new positions in **Air Products (APD)**, **Imperial Oil (IMO)** and **Tractor Supply Co (TSCO)**. In the Y&G models, we sold our position in **Sysco (SYY)** and replaced it with **Kimberly-Clark (KMB)** and also added two new positions in **CT REIT (CT.UN)** and **Rio Tinto (RIO)**. We also swapped two positions between models, by swapping **Enbridge (ENB)** from DG to Y&G, and replacing it with **Magna Intl (MG)** from Y&G to DG.
 - On the bond side of the portfolio, we made a number of changes. We took advantage of the sell off in the longer dated bond market and enhanced the duration of our bond model by selling shorter maturity bonds and replacing them with longer dated bonds. Lastly, we increased our credit exposure in our bond model by selling government bond issues and purchasing investment-grade corporate issuers and preferred shares. Our expectation is that a strong economic recovery and preferred share market dynamics will increase our rate of return.

"Dividend Growth (DG)" Stocks We Own:

Dividend Growth (DG) All Equity Portfolio (2021-03-31)

Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
Equity					
Air Products and Chemicals Ord Shs	4.3%	2.1	9.6%	29.2	0.4
Medtronic Ord Shs	4.6%	1.8	12.1%	22.0	1.5
Bank of New York Mellon Ord Shs	3.6%	2.6	12.8%	11.5	
Morgan Stanley Ord Shs	5.6%	1.7	20.5%	13.0	
Northrop Grumman Ord Shs	4.1%	1.7	12.8%	14.2	2.1
Tractor Supply Ord Shs	4.4%	1.2	14.6%	25.6	
Tyson Foods Ord Shs Class A	2.3%	2.3	33.2%	12.7	2.0
Union Pacific Ord Shs	4.6%	1.7	7.5%	22.5	2.1
UnitedHealth Group Ord Shs	5.8%	1.3	20.8%	20.3	1.0
Algonquin Power Utilities Ord Shs	4.6%	3.8	14.3%	21.9	3.8
Empire Ord Shs Class A	6.6%	1.3	5.9%	14.2	2.8
Imperial Oil Ord Shs	4.8%	2.7	10.7%	14.8	1.0
Manulife Financial Ord Shs	6.8%	4.2	10.0%	8.2	
Magna International Ord Shs	4.7%	1.8	12.7%		0.2
Quebecor Ord Shs Class B	4.1%	3.1	65.2%	13.5	3.0
Toronto Dominion Ord Shs	4.8%	3.8	9.2%	12.0	
TC Energy Ord Shs	4.7%	5.8	14.4%	14.3	4.9
Comcast Ord Shs Class A	6.3%	1.8	13.0%	17.4	2.8
Intact Financial Ord Shs	5.1%	2.0	9.4%	16.2	
Broadcom Ord Shs	6.2%	3.0	53.0%	17.2	2.0
Cash & Equivalents					
Cash (CAD\$)	1.9%	0.0	0.0	0.0	0.0
Langill & McHenry All Equity DG Portfolio	100.0%	2.40	17.6%	15.20	2.10

Note: For illustration purposes only.

*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: Refinitiv Eikon R&A

"Dividend Growth (DG)" Bonds & Preferred Shares We Own:

Capital Preservation Portfolio Dividend Growth (DG) (2021-03-31)				
Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
Bonds				
ALBTA 2.200 06/01/26 Bond ReOpened	7.9%	105.21	2026-06-01	1.3
PPLX 2.990 01/22/24 '23 MTN ReOpened	8.0%	105.59	2024-01-22	1.1
CMHT 2.350 06/15/27 ReOpened	8.0%	106.75	2027-06-15	1.3
MFC 3.317 05/09/28 '23 FRN Sub Deb	8.0%	106.48	2028-05-09	0.8
CMHT 2.100 09/15/29 Bond ReOpened	7.8%	104.05	2029-09-15	1.6
CHP 2.848 05/21/27 '27 Sr Deb	7.9%	104.77	2027-05-21	2.2
FFH 3.950 03/03/31 '30 Sr Note	7.7%	101.66	2031-03-03	3.8
BMO 1.600 03/19/29 Cpn step 2.750 on 03/19/28	7.4%	97.96	2029-03-19	2.4
Preferred Shares				
Brookfield Renewable Partners Series 7 Pref Shs Class A	7.4%	26.34	2026-01-31	5.2
Capital Power Cumulative Rate Reset Pref Shs Series 11	7.4%	25.91	2024-07-01	5.5
TC Energy Cumulative redeemable min rate first Pref Shs Series 15	7.3%	25.40	2022-05-31	4.8
Enbridge Cumulative Redeemable Minimum Rate Reset Pref Shs Series 17	7.4%	25.46	2022-03-01	5.1
Cash & Equivalents				
Cash (CAD\$)	7.8%	0.00	-	0.00
Langill & McHenry Capital Preservation DG Portfolio	100.00%	-	5.4 years	3.30

Note: For illustration purposes only.

*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: Refinitiv Eikon R&A

"Yield & Growth (Y&G)" Stocks We Own:

Yield & Growth (Y&G) All Equity Portfolio (2021-03-31)

Issue Name	Portfolio Weight	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
Equity					
Cisco Systems Ord Shs	5.7%	2.9	12.6%	15.3	
Emerson Electric Ord Shs	7.1%	2.2	1.2%	22.9	1.3
Gilead Sciences Ord Shs	4.1%	4.3	16.1%	9.3	1.8
International Business Machines Ord Shs	4.5%	4.9	5.4%	11.7	2.6
Johnson & Johnson Ord Shs	5.8%	2.5	6.2%	16.4	0.3
Kimberly Clark Ord Shs	4.3%	3.3	4.0%	17.6	1.8
3M Ord Shs	5.1%	3.0	7.5%	20.0	1.5
Pfizer Ord Shs	4.8%	4.1	6.3%	11.7	1.2
Rio Tinto ADR Reptg One Ord Shs	4.3%	7.4	11.8%	7.8	
Telus Ord Shs	2.6%	4.8	7.3%	21.6	3.1
BCE Ord Shs	4.5%	6.0	5.1%	18.1	2.6
Bank of Nova Scotia Ord Shs	3.5%	4.6	5.8%	10.5	
Canadian Natural Resources Ord Shs	7.6%	4.8	13.1%	12.3	1.9
Enbridge Ord Shs	4.6%	7.1	11.7%	17.0	4.6
Fortis Ord Shs	4.8%	3.7	6.8%	19.3	5.6
Power Corporation of Canada Ord Shs	6.2%	5.2	7.4%	9.6	1.8
Royal Bank of Canada Ord Shs	5.8%	3.7	7.1%	11.8	
Merck & Co Ord Shs	4.1%	3.4	6.6%	11.2	1.0
CT REIT Units	4.7%	4.9	3.6%	15.4	6.9
Restaurants Brands International Ord Shs	4.0%	3.2	36.4%	23.8	5.1
Cash & Equivalents					
Cash (CAD\$)	1.9%	0.0	0.0	0.0	0.0
Langill & McHenry Y&G All Equity Portfolio	100.00%	4.10	8.90%	13.70	2.60

Note: For illustration purposes only.

*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

Source: Refinitiv Eikon R&A

"Yield & Growth (Y&G)" Bonds & Preferred Shares We Own:

Capital Preservation Portfolio yield & Growth (Y&G) (2021-03-31)

Issue Name	Portfolio Weight	Price - Close	Maturity/Reset Date	Yield
Bonds				
CAGV 1.000 06/01/27 Bond ReOpened	10.9%	100.08	2027-06-01	1.1
PEELR 2.300 11/02/26 Debenture	11.5%	105.93	2026-11-02	1.4
TZ 2.750 07/08/26 '26 Sr Note	11.4%	105.28	2026-07-08	1.8
LX 2.284 05/07/30 '30 Sr Note	10.6%	98.04	2030-05-07	2.7
CWB 1.570 09/14/23 Sr Note	11.0%	101.59	2023-09-14	1.0
BMO 1.400 03/15/28 Cpn step 2.250 on 03/15/27	10.6%	97.26	2028-03-15	2.2
Preferred Shares				
TC Energy Cumulative redeemable min rate first Pref Shs Series 13	5.1%	25.29	2021-05-31	5.4
Enbridge Cumulative Redeemable Minimum Rate Reset Pref Shs Series 17	6.0%	25.46	2022-03-01	5.1
Pembina Pipeline Cumulative Redeemable Minimum Rate Reset Class A Pref Shs Series 21	7.7%	24.68	2023-03-01	5.0
Fairfax Financial Holdings Cumulative 5 Year Rate Reset Pref Shs Series M	7.5%	24.58	2020-03-31	5.1
Cash & Equivalents				
Cash (CAD\$)	7.5%	0.00	-	0.00
Langill & McHenry Capital Preservation Y&G Portfolio	100.00%	-	5.4 years	3.10

Note: For illustration purposes only.

*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

Source: Refinitiv Eikon R&A

Completion Models:

If you have an account within your portfolio with < \$100,000, you may also be invested in a portfolio of investments that are outside the Dividend Growth and Yield & Growth models. We call these investments either “completion models” or “satellite holdings.” The completion and satellite portfolios help to customize all of your accounts for your unique risk tolerance, tax circumstances and liquidity needs. For a sense of the securities we own in the completion and satellite portfolios, we have listed our two completion models below.

PIMG Completion Models as of 2021-03-31, CAD

Completion & Small Completion Model Holdings:

Issue Name	Ticker	Currency \$
iShares Canadian Corporate Bond Index ETF	XCB	CAD \$
iShares MSCI World Index ETF	XWD	CAD \$
Vanguard Canadian Short-Term Corporate Bd Idx ETF	VSC	CAD \$
PIMCO Monthly Income (CAN) ETF Series	PMIF	CAD \$
Horizons Active Preferred Share ETF	HPR	CAD \$
Berkshire Hathaway Ord Shs Class B	BRK.B	USD \$
Fairfax Financial Holdings Sub Voting Ord Shs	FFH	CAD \$
Cymbria Corporation Class A	CYB	CAD \$
Graham Holdings Company	GHC	USD \$
Horizons Active Global Dividend ETF Class E	HAZ	CAD \$
Bristol Gate Concentrated Canadian Equity ETF	BGC	CAD \$
Bristol Gate Concentrated US Equity ETF	BGU	CAD \$

Source: Refinitiv Eikon R&A

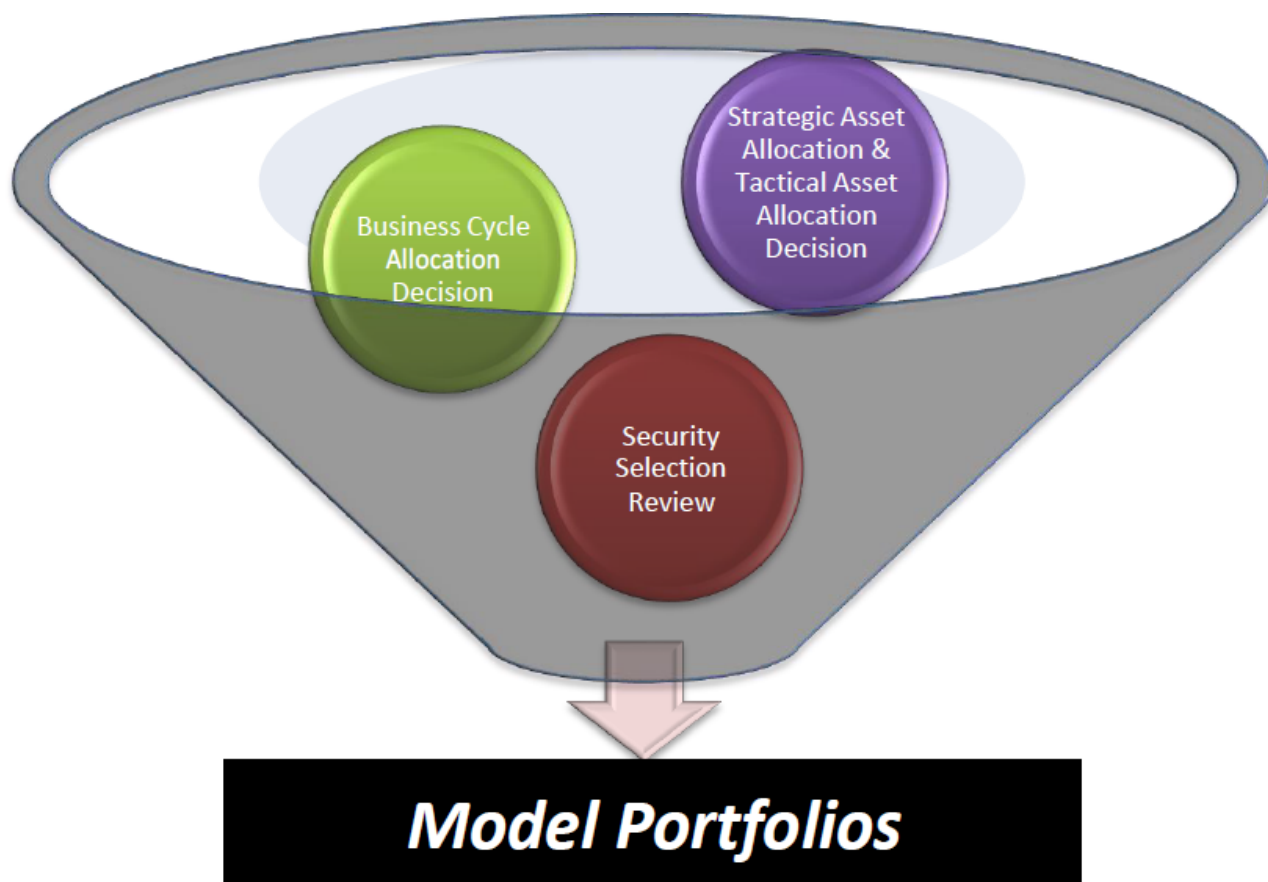
Note: For illustration purposes only.

Model Portfolio Process

When we select investment securities for our model portfolios, we follow a disciplined three step process:

1. Examine our asset mix vs. our expectations for long-term returns. This review helps guide our model portfolios allocation to cash & equivalents, fixed income (bonds & preferred shares), and equity (stocks).
2. Review our business cycle allocation vs. our expectations for broad market. We then allocate to sectors of the market and security factors that are expected to perform well.
3. Assess securities for inclusion in the portfolio based on: (i) Dividend growth, (ii) Leverage, (iii) Valuation and (iv) Market structure. Securities reflecting these features are typically of higher quality than average.

After the third step is complete, we include a portfolio of investment securities in our model portfolios reflecting our expectations for the market going forward.



Our Investor Profiles & Asset Allocations:

LANGILL & MCHENRY MODEL ASSET ALLOCATION

Asset Allocation	Cash %	Fixed Income %	Equity %
Capital Preservation	8.50%	91.50%	0.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>75-100%</i>	<i>0-25%</i>
Benchmark Capital Preservation*	0.00%	100.00%	0.00%
Income	2.00%	68.00%	30.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>55-100%</i>	<i>0-25%</i>
Benchmark Income*	0.00%	80.00%	20.00%
Balanced Income	2.00%	52.00%	46.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>35-85%</i>	<i>15-65%</i>
Benchmark Balanced Income**	0.00%	60.00%	40.00%
Balanced	2.00%	42.00%	56.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>25-75%</i>	<i>25-75%</i>
Benchmark Balanced**	0.00%	50.00%	50.00%
Balanced Growth	2.00%	33.00%	65.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>10-60%</i>	<i>40-90%</i>
Benchmark Balanced Growth***	0.00%	35.00%	65.00%
Growth	2.00%	16.00%	82.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-45%</i>	<i>55-100%</i>
Benchmark Growth*	0.00%	20.00%	80.00%
All Equity	2.00%	0.00%	98.00%
<i>MODEL RANGES</i>	<i>0-25%</i>	<i>0-25%</i>	<i>75-100%</i>
Benchmark All Equity*	0.00%	0.00%	100.00%

*Note: Active weights % are determined based on their deviation from the neutral weight % indicated

**Note: model ranges legend = TAA low% to TAA high %

*Benchmark comprised of proportions of XBB, XIC and IVV.

Model Portfolio Management Philosophy

Model Portfolio Objectives for Dividend Growth and Yield & Growth:

- We designed both of the model portfolios with a conservative investment approach. The portfolios may not participate as much in gains when markets are rising. However, they are expected to be more resilient in falling markets to protect capital. As a result, the portfolios will tend to be less volatile and capital will be given more opportunity to compound over a long-period of time.

Dividend Growth (DG):

- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +6%/yr, dividend yield target +0%

Yield & Growth (Y&G):

- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +0%/yr, dividend yield target +2.5%

Other Portfolio Parameters (both DG and Y&G):

- 14 models with different asset allocation based on risk and return objectives including Capital Preservation, Income, Balanced Income, Balanced Growth, Growth and All Equity
- Negligible embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-3 preferred shares, investment grade credit, short and laddered duration (<10 years)
- Diversify by geography, sector and style
- Large capitalization (“blue chip”)



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