

## Good equity and bond rallies in Q3 despite mixed economic data

### WATCHING

#### Growth

- Slowing global economic growth with the increasing risk of a recession
- In Canada, the outlook for GDP growth is expected to slow to 1.5% in 2019 from 1.9% in 2018
- Momentum in the U.S. also expected to moderate, with GDP growth for 2019 projected at 2.3% from 2.9% in 2018

#### Inflation

- North American inflation remains within policy target, with Canadian CPI expected to come in at 2.0% in 2019 and U.S. CPI forecast to be 1.7% for 2019

#### Interest Rates

- Ten-year rates in Canada and the U.S. declined significantly due to increased concerns of an economic slowdown
- The U.S. yield curve remains inverted, making the yield on the 3-month treasury bill higher than the yield on a 10-year government bond. This is unusual and draws more attention to the risk of a recession in the U.S.

#### Markets

- Total return for the S&P/TSX Composite Index in Q3 was 2.5%. The S&P 500 Index returned 1.7% in US\$ and 3.0% in CDN\$
- Declining bond yields in Canada produced a quarterly return of 1.2% for the Bloomberg Barclays Canada Aggregate Index

#### Sectors

##### Canada

##### Best Performing

- Utilities ..... +10.1%
- Real Estate ..... +8.5%

##### Worst Performing

- Health Care ..... -30.0%
- Industrials ..... -1.5%

##### U.S.

##### Best Performing

- Utilities ..... +9.3%
- Real Estate ..... +7.7%

##### Worst Performing

- Energy ..... -6.3%
- Health Care ..... -2.3%

source: Bloomberg, as at September 30, 2019

### THINKING

#### Growth

- The manufacturing sector in the U.S. is very weak while the consumer and housing segments remain strong
- Easier monetary policy and possible fiscal stimulus are actions central banks can use to stimulate economic growth

#### Inflation

- The inflation rate remains stable and on target, which allows central banks to remain flexible on monetary policy

#### Interest Rates

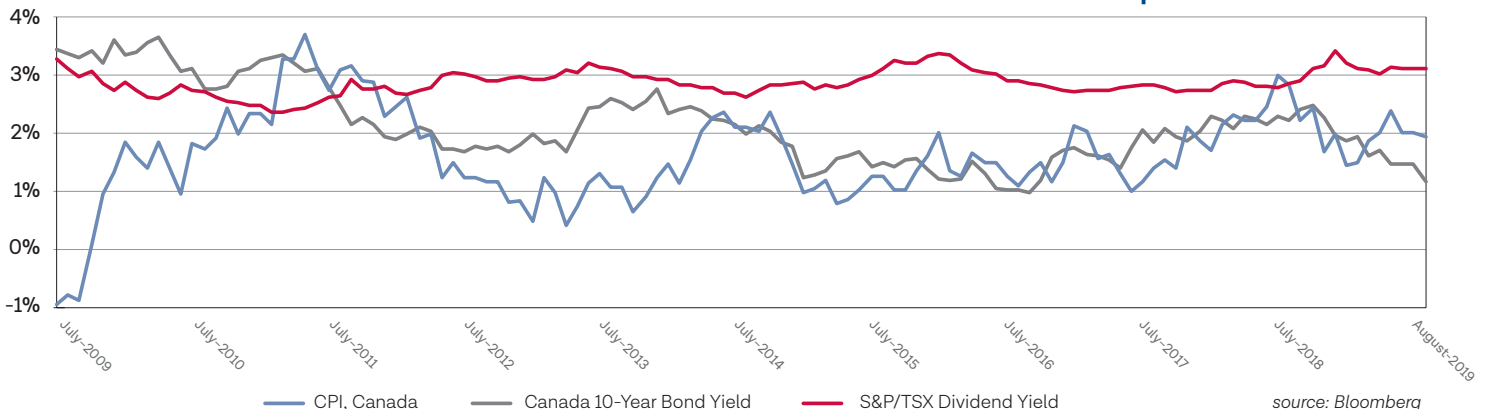
- The U.S. Federal Reserve cut interest rates twice during the quarter and indications are that it will cut at least once more before year end

#### Markets

- Bond markets are very worried about a recessionary scenario while equity markets are more sanguine because of the belief that easier monetary policy from central banks will revive economic growth

- Resolution to the China-U.S. trade war will help confidence and give a boost to global economic growth
- Defensive sectors such as Utilities, Real Estate and Consumer Staples continue their performance leadership as investors avoid the economically sensitive stocks

Canadian Inflation vs Government of Canada 10-Year Bond vs S&P/TSX Composite



# Strong dividend growth continues – over 67% of the companies increased dividends by a weighted average of 6%

## DOING

### Strategy

- We continue to make small but important adjustments to our Canadian equity portfolios
- Risk management as measured by individual security weights is a key component to the portfolio strategy

### Fixed Income

#### JOV Leon Frazer Bond Fund

- Emphasis remains on governments and quality rated corporates
- To reduce volatility, the duration (interest rate sensitivity) remains shorter than that of the benchmark

#### JOV Leon Frazer Preferred Fund

- Continue to have a balance of rate resets and fixed rate perpetuals to mitigate volatility in interest rates

### Equities

- Methanex and C.I.B.C. have been added to the portfolio. Both have steady and growing dividend track records
- We expect to add a couple of new names to the Canadian Dividend and Income Stability portfolios by year end

## 2019 Dividend Performance Summary

### Canadian Dividend Portfolio

Number of companies in the equity portfolio	28
Number of companies that declared an increased dividend	19
% of companies that declared an increased dividend	67.9%
Weighted average of dividend increases	6.0%
Consumer Price Index Increase (YoY*)	1.9%
Equity portfolio dividend yield**	4.1%
S&P/TSX dividend yield	3.1%

### Income Stability Portfolio

Number of companies in the equity portfolio	25
Number of companies that declared an increased dividend	19
% of companies that declared an increased dividend	76.0%
Weighted average of dividend increases	6.0%
Consumer Price Index Increase (YoY*)	1.9%
Equity portfolio dividend yield***	3.7%
S&P/TSX dividend yield	3.1%

### Top 5 Dividend Growers

Gildan Activewear	19.1%
Canadian National Railway	18.1%
Suncor Energy	16.7%
Canadian National Resources	11.9%
Toronto Dominion Bank	10.4%

### Top 5 Dividend Yielders

Vermilion Energy	12.5%
Freehold Royalties	8.4%
Russel Metals	7.2%
Enbridge	6.4%
Canadian Imperial Bank of Commerce	5.3%

\* As at August 31, 2019

\*\* The dividend yield is based on the Leon Frazer Canadian Dividend Fund using the target weight for cash

\*\*\* The dividend yield is based on the Leon Frazer Income Stability Fund using the target weight for cash

source: Leon Frazer & Associates, September 30, 2019

## Staying Connected

Our Offices: Toronto

Calgary

Vancouver

Call us toll-free at 1-800-418-7518

E-mail us at [info@leonfrazer.com](mailto:info@leonfrazer.com)

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