Barrantagh Investment Management 1995 | 2020 25 Years

Q1 2021

TRADING ACTIVITY

BARRANTAGH INVESTMENT MANAGEMENT
Canadian Equities Income

The cyclical rotation that began in November with the U.S. presidential election and promising vaccine news accelerated into 2021 driving global equity markets higher. Energy and financials were among the strongest performing sectors while technology and other pandemic "winners" lagged or sold off. Fiscal stimulus remains largely in place to aid healing economies, and unprecedented government transfers through the crisis have left consumers in outstanding financial condition to act on pent-up demand. These dynamics are driving inflation expectations higher and central banks continue to be highly accommodative, signalling their willingness to let things "run hot" and avoid tapping the breaks too early. This environment has proved highly positive for risk assets, while inflicting deep pain to rates and the bond market.

The largest contributor to first quarter relative outperformance at a sector level was industrials, and strong performance across consumer staples and utilities holdings was also of benefit. An underweight position versus the large Energy weight in the benchmark was the biggest relative drag, and a lack of exposure to Shaw Communications (subject to a friendly takeover bid by Rogers) also impacted relative performance within the Communication Services sector. Versus the benchmark, the largest sector overweight's include industrials and consumer staples, and the largest sector underweight is Energy.

BUYS

Canadian Natural Resources (CNQ)
Tourmaline Oil Corp (TOU)

Canadian Natural Resources and Tourmaline each have track records of dividend increases underpinned by very attractive oil and gas assets with long reserve lives and efficient cost structures. Both companies generate significant free cash flow and have historically been astute acquirers that have captured significant synergies upon consolidating assets into their existing footprints.

CIBC (CM)

We increased our exposure to financials based on attractive valuations and still yet unrecognized growth potential. We see a rerating opportunity in CIBC based on improving relative operating performance versus peers. An already favourable backdrop for banks strengthened during the quarter when forward-looking earnings estimates gapped higher on forecasts of lower credit losses and an improving outlook for margins due to the steepening of the yield curve. The lifting of restrictions related to buybacks and dividend increases imposed at the onset of the pandemic would offer banks additional capital return options should Canadian regulators follow the lead of their U.S. counterparts.

SELLS

Fortis and Stantec were sold as we saw better relative opportunities in names we added to the portfolio.