

News Highlights

Owners. Operators. And Insightful Investors.

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Web: www.portlandic.com
Email: info@portlandic.com



PORTLAND
INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments.

April 1, 2019

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Owner Operated Companies

Nothing significant to report.

Energy Sector

U.S. oil rig count fell by 8 week/week, bringing the total count down to 816. Oil rig count has now dropped for eight weeks straight and is lowest since second week of April. In Q1 the rig count has fallen 69 – the most since Q1 2016 when it declined 164. Oil rigs also fell in Canada which is now operating only 35 rigs. Within a span of two months the count dropped by 124.

Financial Sector

Barclays PLC – The head of Barclays' investment bank was ousted after barely two years in the job last week, just weeks before an activist investor, Edward Bramson, will attempt to force his way on to the company's board. Barclays said Tim Throsby, who joined from JPMorgan Chase & Co. in January 2017, would leave the group immediately as part of a "delaying" of management that hands Jes Staley, chief executive, closer day-to-day control over the investment bank. Mr. Bramson has argued that Barclays' trading operations are a "black box with too much leverage" that need to be scaled back, putting him on a collision course with Mr. Staley, who has pledged to protect the U.K.'s last global investment bank from further cuts. (Source: Financial Times)

Apple Inc. said last week it will launch a credit card with The Goldman Sachs Group, Inc. this summer that will be synched with iPhone users' Apple Wallet and can be used to buy Apple products at a discount. Speaking at an event at the iPhone maker's headquarters in Cupertino, California, Vice President for Apple Pay Jennifer Bailey said the new Apple Card service will work through the company's wallet app Apple Pay. Users of the card, which will be issued by Goldman Sachs, will earn 2% cash back on all purchases made through the digital wallet or 3% cash back on Apple products. There will also be a physical card, which will give users 1% cash back on purchases. The credit service will come with new features in the Apple Wallet aimed at helping consumers track their spending with a breakdown of monthly purchasing trends. Cash back rewards will be credited to Apple Pay users' accounts on a daily basis, Bailey said, and the card will not charge any international fees. (Source: Reuters)

Wells Fargo & Co. announced that Tim Sloan would step down as CEO, President, and a Board member effective immediately and would retire from the company effective June 30th. The decision reflects our view

that the bank's ability to move forward would benefit from a new CEO and fresh perspectives. The Board has formed a committee to pursue an external CEO search; General Counsel Allen Parker will step in as interim CEO. It is absolutely critical in our view that the new CEO can lead Wells Fargo forward and out of the Fed's Consent Order, sooner rather than later.

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

Brookfield Property Partners LP (BPY.UN, BPY) announced offer to buy back stock has resulted in BPY purchasing 14.2 million units at US\$21 (top end of range) for a total cost of US\$298 million, resulting in a 100% fill rate for tendering BPY unitholders and U.S. version BPR is acquiring 4.7 million shares at US\$20.30 for a total cost of US\$95 million – a total of 8.3 million BPR shares were tendered, resulting in a 56.2% fill rate. We understand the U.S. version BPR appears to have a significantly higher index-fund investor base (relative to BPY). On a combined basis, a total of 18.9 million units of BPY/BPR will be repurchased at an average price of US\$20.83 (\$393 million) – the 18.9 million units repurchased is approximately 2% of combined units outstanding. We suspect BPY may continue to repurchase units as part of its Non Course Issuer Bid expiring in August 2019 (i.e. "top up" repurchases to the original \$500 million).

Economic Conditions

China's official manufacturing Purchasing Manufacturers' Index (PMI) rose 1.3 points to 50.5, the first reading above 50 in four months. And, it was matched by the private sector's Caixin manufacturing PMI, which rose 0.9 points to an 8-month high of 50.8 in March, the first reading in the expansionary zone in months. **Non-manufacturing activity** also picked up: the PMI rose 0.5 points to 54.8. The stimulus that the government applied looks like it is having some effect. Let's see if it lasts. But so far, the news ignited a broad rally in global stocks on this 1st day in April.

Canada's real GDP jumped 0.3% in January, topping consensus which was expecting just a 0.1% increase. The goods sector saw output surge 0.6%, as declines in oil & gas (-2.6%) and mining (-4%), were dwarfed by gains in construction (+1.9%), manufacturing

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(+1.5%), utilities (+0.8%) and agriculture (+0.2%). As a result, industrial production increased 0.1%. Output in services-producing industries was up 0.2% thanks to gains in all broad sectors with the exception of accommodation/food.

U.S. Real GDP grew an annualized 2.2% in Q4 2018, a shade below consensus. Consumer spending growth was shaved to 2.5% from 2.8%, though that's still respectable in our view after the tax-cut-burst of spending in prior quarters. Non-residential business investment growth was lowered to a still-strong 5.4% from 6.2%, with still considerable strength in machinery spending and intellectual products. Residential construction was chopped further, sliding 4.7%, though more recent data suggest the housing market is responding nicely to lower mortgage rates. Government spending fell 0.4%, reversing a similar-sized initial increase, reflecting the shutdown. Export growth was actually marked up a bit to 1.8%, and picked up further in January 2019. Growth in final sales to private domestic purchasers was lowered to 2.6% from 3.1%, though this is just a small step back from Q3 2018's 3.0% pace. For **2018** as a whole, **GDP growth came in at 2.9%**, unchanged from the advance report. On a Q4/Q4 basis, growth was lowered a notch to 3.0%, though that still marked the best annual performance since 2005. **Core PCE inflation** was lifted a notch to 1.8% year/year, though the rate remains below the Fed's target. The somewhat disappointing Q4 2018 GDP report was tempered by a drop in initial jobless claims to 211,000 from a downwardly-revised 216,000, which takes some of the sting out of the worrisome decline in job prospects reported in the Conference Board's March consumer sentiment survey in our view.

U.S. housing starts fell 8.7% to a 2-month low of 1.162 million units in February 2019. Easing some of that sting were the upward revisions to the prior two months, and the fact that February was a terrible month for weather. All of the setback was in the important single-family homes category (down 17.0%), while multis rose for the first time in three months, up 17.8%. On a regional basis, the headline decline was more broadly based than expected...all regions except for the Midwest were down. Meantime, **building permits** also came in worse than consensus, though the 1.6% drop (2nd in a row) was less shocking. But, at 1.296 million units, that is a four-month low. On a regional basis, it was the opposite of what we saw in starts... all regions except for the West were up. Still, it is important to remember that the level of permits remains above that of starts, which bodes well for future starts.

Britain's parliament, on Monday, kicked off the country's last roll of the Brexit dice, capping a weekend of frantic negotiation and horse-trading by holding a second round of votes on a short-list of options for leaving the European Union, after no alternative won a majority last week. But the votes may converge on one or more options that Prime Minister Theresa May can't stomach: a softer Brexit – probably keeping the EU in a customs union, ruling out a comprehensive free-trade agreement with Australia – or a second referendum. And another round of voting may well be needed on Wednesday, as many MPs are still too

entrenched to compromise. But some lawmakers are holding out hope a consensus can be hammered out.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now 0.16% and the U.K.'s 2 year/10 year treasury spread is 37% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital. Also, the narrowing gap between yields on the two-year and 10-year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.06% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 3.9 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 13.92 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

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- [Portland Advantage Fund](#)
- [Portland Canadian Balanced Fund](#)
- [Portland Canadian Focused Fund](#)
- [Portland Global Income Fund](#)
- [Portland Global Banks Fund](#)
- [Portland Global Dividend Fund](#)
- [Portland Value Fund](#)
- [Portland 15 of 15 Fund](#)

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- [Bay & Scollard Development Trust](#)
- [ITM AG Investment Trust](#)
- [Portland Advantage Plus - Everest and McKinley Funds](#)
- [Portland Focused Plus Fund LP](#)
- [Portland Focused Plus Fund](#)
- [Portland Global Aristocrats Plus Fund](#)
- [Portland Global Energy Efficiency and Renewable Energy Fund LP](#)
- [Portland Global Sustainable Evergreen Fund](#)
- [Portland Global Sustainable Evergreen LP](#)
- [Portland Private Growth Fund](#)
- [Portland Private Income Fund](#)
- [Portland Special Opportunities Fund](#)
- [Portland Value Plus Fund](#)

Individual Discretionary Managed Account Models - [SMA](#)

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at www.portlandic.com/prices

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Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

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Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.: 1-888-710-4242 • www.portlandic.com • info@portlandic.com

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