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NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

JUNE 30, 2023

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OWNER OPERATED COMPANIES

GO TO PORTLAND 15 OF 15 ALTERNATIVE FUND[1]

PORTLAND 15 OF 15 ALTERNATIVE FUND[1] COMPANY NEWS

Amazon.com, Inc. (Amazon) is reportedly planning to partner with small businesses, such as bodegas and IT shops, so that they can become delivery partners, and the company will pay a small fee to these small retailers for each package they deliver. This program is designed to expand Amazon's last-mile delivery network and find new partners who can deliver packages for the e-commerce company. These small partner shops receive packages for customers who live in the area every day, and then those shop owners or employees will deliver those packages to Amazon customers. This would effectively turn these small businesses into Amazon storage spaces and is a potential way for Amazon to expand its external workforce with business owners who may be seeking supplemental income. The company has apparently been considering this idea for a while and is accepting applications from potential partner stores on its website. Amazon could be pursuing this strategy as it reduces the company's dependency on other delivery companies and gives them more control over costs and differentiation versus peers.

Alphabet Inc. (Google) is cutting jobs at its Waze mapping service as it merges the unit with its own map products. Consumer News and Business Channel reports that in an email to employees, Chris Phillips, who oversees Google's maps division called Geo, said the company is shifting its Waze strategy to include Google ads rather than using a separate ads system, which will result in layoffs. "We have decided to transition Waze's ads monetization to be managed by the Global Business Organization, similar to Google Maps. Unfortunately, this will result in a reduction of Waze Ads monetization-focused roles in sales, marketing, operations and analytics," Mr. Phillips noted. The company will wind down the current Waze ads product and instead focus on building new Waze Ads powered by Google ads. Mr. Phillips reportedly said the company would be notifying advertisers and partners of the change on Wednesday and told employees that his team will answer questions and share its plan for next steps at "our next Waze Town Hall" on July 11th.

Meta Platforms Inc. (Meta) announced that WhatsApp Business, its app designed for small businesses, has reached US$200 million monthly active users, up from 50 million in 2020. The app also launched new features such as easier ad creation and a personalized message service for users. Starting today, WhatsApp Business users will be able to create "click-to-WhatsApp" ads without a Facebook account, and sellers can create, purchase, and publish ads for Facebook and Instagram directly from within the app. Meta is also adding another paid feature that allows merchants to automate the process of sending personalized messages to their customers, and while the company did not share pricing details, WhatsApp said it will begin testing the feature soon. Over the last few months, Meta has made efforts to monetize paid messaging, and in February, it announced changes in pricing structure and messaging categories on WhatsApp.

DIVIDEND PAYERS

GO TO PORTLAND GLOBAL ALTERNATIVE FUND[1]

GO TO PORTLAND GLOBAL ARISTOCRATS PLUS FUND[1]

GO TO PORTLAND GLOBAL BALANCED FUND[1]

McCormick & Company Inc. (McCormick) posted in line organic sales growth and modestly better earnings before interest and taxes (EBIT) and earnings per share (EPS), and essentially flowed through fiscal the second quarter of 2023 EPS upside to the full year. Notably, McCormick does look for brand marketing to increase significantly in fiscal the third quarter of 2023 versus the year ago period. McCormick reported fiscal the second quarter of 2023 adjusted EPS of US$0.60, +$0.03 above Consensus ($0.57), At the corporate level, year over year sales rose +8% year over year, while organic sales increased +10% year over year. In the Consumer segment, organic sales rose +8% year over year while EBIT grew +23% year over year. Meanwhile, in the Flavor Solutions segment, organic sales rose +13% year over year, while EBIT increased +66% year over year. Gross margin expanded a much better than forecast +310 basis points year over year, while relative selling, general and administrative expenses increased +20 basis points. All-in, EBIT was up +35% year over year. McCormick raised its fiscal year 2023 EPS guidance from $2.56-$2.61 to $2.60-$2.65, or a +3-5% year over year increase versus fiscal year 2022 (versus current Consensus of $2.65). This is still predicated on +5-7% year over year organic sales growth (versus +7.2% year over year), though operating income is now expected to grow at a +10-12% year over year (versus +9-11% year over year previously Consensus at +12.5% year over year). Additionally, for fiscal year 2023, McCormick now expects gross margin expansion of +50-100 basis points year over year (versus +25-75 basis points year over year previously and Consensus of +83 basis points year over year) even in the face of +low to mid-teens year over year inflation. Below the line, McCormick still looks for $200-$210mm in interest (an -8% year over year headwind to EPS) and a tax rate of 22%.

ECONOMIC CONDITIONS

Canada's real Gross Domestic Product (GDP) remained unchanged in April, undershooting consensus expectations and the Statistics Canada's preliminary estimate of a 0.2% advance. Production in goods-producing industries progressed 0.1% during the month, which was too little to offset a stagnation on the services side. On the goods side, healthy gains in mining/quarrying/oil & gas extraction (+1.2%) and construction (+0.4%) more than offset declines in agriculture (-0.8%) and manufacturing (-0.6%). The utilities sector, for its part, stalled in the month. On the services side, gains in arts/entertainment/recreation (+2.0%), accommodation/food services (+0.6%) and transportation (+0.4%) were fully offset by declines in management (-2.2%), wholesale trade (-1.4%) and public administration (-1.0%). Overall, the industrial diffusion was tepid, with only 11 of the 20 sectors followed recording an increase in the month. Industrial production was up 0.1% month over month. Finally, Statistics Canada's preliminary estimate showed that GDP grew 0.4% in May. Given this early estimate, and assuming a flat print in June, this would imply a 1.4% annualized increase in the second quarter GDP, above the Bank of Canada's most recent forecast of a 1.0% increase. While this could give the Bank some comfort in its decision to resume its tightening cycle earlier this month, softer employment and inflation data released since then indicates that the Bank's tightening cycle is having its effects on the economy.

The Canada Consumer Price Index (CPI) increased 0.4% in May, in line with consensus expectations (not seasonally adjusted). In seasonally adjusted terms, headline prices were up 0.1% after a 0.5% increase the prior month. This translated into a 3.4% annual inflation, down a full percentage point from the month before and the lowest level since July 2021. Prices increased in 5 of the 8 categories surveyed, namely recreation/education/reading (+0.6%), food (+0.5%), health/personal care (+0.5%), shelter (+0.4%) and alcohol/tobacco (+0.4%). Meanwhile, prices decreased in the transportation (-1.1%), clothing and footwear (-0.3%) and household operations (-0.2%) categories. Annual inflation was below the national average in Alberta (+3.1%) and Ontario (+3.1%) while it was in line with that mark in British Columbia (+3.4%). Meanwhile, inflation in Québec (+4.0%) stood above the national average.

The U.S. economy grew 2.0% annualized in the first quarter, faster than the previously thought from the prior tally of 1.3%. Though marking a slowdown from fourth quarter's 2.6% pace, it's still quite strong given the rate hikes in the past year, thanks to Consumer spending which increased 4.2%, versus the prior estimate of 3.4% and a soft 1.0% advance in the fourth quarter. Leading the charge were a 45% surge in autos and a solid 3.2% advance in services. Export growth was also raised to a brisk 7.8%. On the flip side, non-residential business investment was revised down to a thin 0.6% increase, though this masks a second straight quarter of near 16% growth in non-residential structures, which is getting support from the infrastructure and semiconductor bills. Government spending, though revised down to a 4.4% pace, also continues to fan the economy (and inflation).

U.S. nominal personal income increased 0.3% in May, a bit more than the median economist forecast calling for a 0.2% gain. Amid a labour market that remains healthy, the wage/salary component of income progressed 0.3%, while income derived from government transfers advanced 0.3%. Personal current taxes, for their part, rose 0.2%. All this translated into a 0.4% gain for disposable income. Nominal personal spending, for its part, grew 0.1% in the month, a tick less than consensus expectations. Adding to the disappointment, the prior month's result was revised downward, from 0.8% to 0.6%. Outlays on services rose 0.4% but this gain was almost completely offset by a 0.5% drop in the goods segment. As disposable income advanced at a faster pace than spending, the savings rate rose from 4.3% to 4.6%. This remains significantly below the levels observed before the pandemic (between 8.5% and 9.0%). Adjusted for inflation, disposable income expanded 0.3%, whereas spending stayed unchanged. Once again, an increase in services spending (0.2%) was offset by lower spending in the goods category (-0.4%). Within services, the largest contributors to the increase were "other" services (led by international travel) and transportation (led by public transportation). Good outlays, meanwhile, suffered from a contraction in the motor vehicles/parts category. Still in May, the headline Personal Consumption Expenditures (PCE) deflator came in at a 25-month low of 3.8% year over year, down from 4.3% the prior month and in line with consensus expectations. The core PCE measure, for its part, eased from 4.7% to 4.6%, one tick lower than the median economist forecast. On a monthly basis, the headline index crept up 0.1%, while the index excluding food and energy progressed 0.3%. With one month of data still to come, real consumption is thus on pace to expand just 0.8% annualized in the second quarter, the least since the early days of the pandemic. This is likely to translate into a below-potential GDP growth print in the second quarter in our view.

U.S. durable goods orders unexpectedly rising in May by 1.7%, the third gain in a row. This report can be volatile, particularly as aircraft orders (+17.8%) can skew the headline considerably. But the orders increase was fairly widespread, from primary metals to machinery, electrical equipment, and motor vehicles. Computers took a step back, while communications equipment fell for the third straight month. Core orders (nondefense capital goods ex aircraft), a proxy for future capital spending, rose 0.7%. April's +1.3% was adjusted down to now +0.6%, but the fact that May climbed firmly is surprising in our view. Core shipments (nondefense capital goods), a proxy for actual spending, jumped 3.4%, the biggest advance in over two years. That's 5.7% so far in the quarter (annualized).

U.S. New home sales (also highly volatile) unexpectedly rose in May, by 12.2%, the third increase in a row and the biggest since last August. The current level of 763,000 units, annualized, is the highest since February 2022. Across the country, well, the contracts were signed in all regions (Northeastern, Midwestern, South and the West), which pulled inventories and the months' supply lower. More demand means higher prices, with the median sales price up 3.5% in May, reversing the prior month's decline. And, other price measures have turned the corner. The S&P CoreLogic Case-Shiller home price index for the top 20 metro areas jumped 0.9% in April, the second increase in a row and doubling expectations. The Federal Housing Finance Agency house price index has been up for four straight months, with April's 0.7% increase the largest so far.

Australia inflation data came in lower than expected. Headline moderated much faster-than-expected to 5.6% year over year (consensus: 6.1%, April: 6.8%) and the trimmed mean (core measure) retreated to 6.1% year over year (Apr: 6.7%). However, the CPI ex volatile items were still quite sticky at 6.4% (April: 6.5%) which suggest, in our view, that underlying price pressures still remain.

FINANCIAL CONDITIONS

The U.S. 2 year/10 year treasury spread is now -1.05% and the UK's 2 year/10 year treasury spread is -0.88%. A narrowing gap between yields on the 2 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.

The U.S. 30 year mortgage market rate has increased to 6.70%. Existing U.S. housing inventory is at 2.6 months' supply of existing houses - well off its peak during the Great Recession of 9.4 months and we consider a more normal range of 4-7 months.

The volatility index (VIX) is 13.00 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

We want to take the opportunity to wish you and your loved ones a happy Canada Day and a great summer. We will continue to provide our newsletter updates as we normally do.

And Finally: *"Youth is easily deceived because it is quick to hope." ~ Aristotle*

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Glossary of Terms: 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'GDP' gross domestic product, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity, 'conjugate" a substance formed by the reversible combination of two or more others.

1.Not all of the funds shown are necessarily invested in the companies listed

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