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NEWS HIGHLIGHTS

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

JANUARY 29, 2024

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OWNER OPERATED COMPANIES



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COMPANY NEWS

Reliance Industries Limited (Reliance) – The Walt Disney Company's (Disney) India unit is being valued at less than half of what it hoped for in a proposed merger with Mukesh Ambani's media business, reflecting the struggle global media giants face in one of the world's fastest-growing entertainment markets. After weeks of negotiations following a non-binding pact with Reliance to merge their entertainment business, Disney's India assets are valued at around US\$4.5 billion, less than the \$10 billion the company has previously pursued, according to people familiar with matter, who asked not to be identified as the discussions are private. The lower-than-expected figure is also due in part to a write-off of revenue originally due to Disney from its sale of cricket TV rights to Zee Entertainment Enterprises, which is now expected to be unable to pay up. No final decision has been made on the deal and its terms, and either party can still call off the transaction, according to the people. The combined entity will be valued at as much as \$11 billion, with Disney taking about a 40% stake. Reliance will have a 51% stake, with the rest held by James Murdoch's Lupa Systems LLC. The two companies aim to sign a binding deal in February, the people said. Disney's pursuit of a merger with Reliance comes as it struggles to retain subscribers amid intensifying competition with local rivals. In 2022, Ambani outbid Disney to get the streaming rights to the Indian Premier League for \$2.7 billion and broadcast the popular domestic cricket tournament for free. That prompted Disney to adopt the same strategy, streaming Cricket World Cup matches in 2023 for free and drawing record viewership.

Samsung Electronics Co., Ltd. (Samsung) - The US is aiming to announce major chip grants by the end of March, people familiar with the plans said, paving the way to send billions of dollars to semiconductor makers in a bid to supercharge domestic production. The awards are a central piece of the 2022 Chips and Science Act, which set aside US\$39 billion in direct grants to revitalize US manufacturing. Overseas chipmakers such as Samsung also are expected to get a portion of the funds, helping them pay for factories in the US. The money has been slow to trickle out so far, with only two small grants announced more than a year after Biden signed the landmark initiative into law. The effort, aimed at rebalancing what's seen in Washington as a dangerous concentration of production in East Asia, is a key pillar of Biden's economic message heading into the November election. It brings promises of thousands of well-paying factory jobs in new manufacturing hubs across the country. Commerce Secretary Gina Raimondo has said her agency plans to make about a dozen awards this year, including several multibillion-dollar grants to support advanced chipmaking facilities. The awards, which could come as a combination of grants, loans and loan guarantees, will cover up to 15% of project costs. The Commerce Department declined to comment. For chipmakers, the disbursements will help cushion the financial impact of building facilities that can cost as much as \$30 billion and yet be obsolete within a decade.

Samsung – OpenAI Chief Executive Officer (CEO) Sam Altman is visiting leaders of South Korea's semiconductor industry this week, as the artificial-intelligence pioneer weighs an ambitious move into chip production. Altman is touring Samsung's chip fabrication plants in Pyeongtaek, according to a person familiar with the matter. He'll meet the top executive of Samsung's semiconductor business, as well as divisional heads of the foundry, memory and system large scale integration (LSI) units, said the person, who asked not to be named as the matter is private. He is also scheduled to meet the CEO of rival SK Hynix Inc. and SK Group Chairman Chey Tae-won to discuss ways to

collaborate, the person said. Since OpenAI released ChatGPT more than a year ago, interest in AI (artificial intelligence) applications has skyrocketed, spurring massive demand for the computing power and processors needed to build and run those AI programs. Altman has repeatedly said there already aren't enough chips for his company's needs. It's not clear what the goals of Altman's Korea trip are. He has been working to raise billions of dollars to set up a network of factories to manufacture semiconductors. Samsung has been expanding its foundry business, which manufactures chips to the designs of its customers. The Korean government this month outlined a blueprint involving investment of 622 trillion won (US\$466 billion) from the private sector in the years leading up to 2047. They will spend the money to build 13 new chip plants and three research facilities, on top of an existing 21 fabs. Spanning Pyeongtaek to Yongin, the area is expected to be the largest in the world, capable of producing 7.7 million wafers monthly by 2030. The world's two biggest memory chipmakers are trying to build their most sophisticated chip plants at home. Samsung is betting big on the foundry expansion as part of a 500 trillion won investment by 2047. SK Hynix Inc. aims to invest 122 trillion won in memory in Yongin over the same period.

Ares Management Corporation (Ares) – announced the launch of Automated Industrial Robotics Inc., a newly formed industrial automation company designed to capitalize on increasing global demand for manufacturing automation solutions. An Ares Private Equity fund has invested substantial equity capital to support Automated Industrial Robotics Inc. (AIR)'s acquisition and organic growth strategy. AIR is focused on acquiring and facilitating the growth of differentiated industrial automation companies serving diverse end markets with strong operational histories and tenured management teams. Ares founded AIR with Brian Klos and Darragh de Stonndún, Executive Chairman and =CEO of AIR, respectively. In connection with the launch of AIR, the company has acquired two foundational companies, Totally Automated Systems (TA Systems) and Modular Automation (Modular). Based in Detroit, Michigan, TA Systems has a more than 45-year history of designing and manufacturing fully integrated and stand-alone assembly machines for automotive, home appliances and other sectors. Based in Shannon, Ireland, Modular has been operating for nearly 40 years and is a leading automation solutions provider in the medical technology industry. Mr. Klos and Mr. de Stonndún said, "We are excited to work with Ares in bringing AIR to global markets. Industrial automation is a high-growth industry benefitting from a number of secular tailwinds, and we are confident that AIR is well-positioned to build a competitive global platform through strategic acquisitions and organic growth. With our initial investments in TA Systems and Modular, we are establishing a relationship-driven team with a blue-chip customer base across diverse industries. Through our integration, we will share our respective strengths as we continue to enhance efficiencies, drive technological innovation and industry-leading automation solutions to customers around the world."

Carnival Corporation & plc (Carnival) – Just six months after recording its largest booking day, Holland America Line surpassed that mark on January 16, 2024, to set a new single-day sales record. The January 16 bookings topped the previous record from July 11, 2023, by 18%, making it the biggest sales day in the 150-year history of Holland America Line. The cruise line also set a record for the week ending January 19, achieving its largest-ever bookings week during a "wave" season, a traditionally high booking period for the cruise industry

between January and March. Over one-third of the week's bookings were for Holland America Line's award-winning Alaska cruises. Guests were also planning ahead, with 22% of the reservations made for cruises in 2025 or later.

Carnival joined the growing list of companies flagging a potential hit to their operations following attacks on ships in the Red Sea by the Iran-backed Houthis. "We believe that the instability in the Red Sea region currently impacting shipping could have an impact on our results of operations," Carnival said. The attacks, which the Houthis say are in support of Palestinians in Gaza, have raised the cost of shipping and insurance by disrupting a key trade route between Asia and Europe. Military strikes by U.S. and British forces on Houthi targets in Yemen this month have failed to stop attacks on shipping by the group, which controls a large chunk of Yemen including the capital Sanaa and much of the country's Red Sea coast by the Bab al-Mandab strait. Carnival's peer Royal Caribbean Group said earlier in January it had canceled two voyages to avoid the Red Sea. Swiss Italian operator MSC Cruises said last week it canceled three trips due in April from South Africa and the United Arab Emirates to Europe.

D.R. Horton, Inc. (D.R. Horton) – America's Builder, reported that net income per common share attributable to D.R. Horton for its first fiscal quarter ended December 31, 2023, increased 2% to \$2.82 per diluted share compared to US \$2.76 per diluted share in the same quarter of fiscal 2023. Net income attributable to D.R. Horton in the first quarter of fiscal 2024 decreased 1% to \$947.4 million compared to \$958.7 million in the same quarter of fiscal 2023. Consolidated revenues in the first quarter of fiscal 2024 increased 6% to \$7.7 billion compared to \$7.3 billion in the same quarter of fiscal 2023. Net cash used in operations was \$153.4 million during the three months ended December 31, 2023. The company's consolidated cash balance at December 31, 2023, was \$3.3 billion and available capacity on its credit facilities was \$3.1 billion, for total liquidity of \$6.4 billion. The company's return on equity (ROE) was 21.8% for the trailing twelve months ended December 31, 2023, and homebuilding return on inventory (ROI) was 29.0% for the same period. Donald R. Horton, Chairman of the Board, said, "The D.R. Horton team delivered solid results in the first fiscal quarter of 2024, highlighted by earnings of \$2.82 per diluted share. [...] Although inflation and mortgage interest rates remain elevated, our net sales orders increased 35% from the prior year quarter, as the supply of both new and existing homes at affordable price points remains limited, and demographics supporting housing demand remain favorable. We are well-positioned to meet changing market conditions with our affordable product offerings and flexible lot supply and are focused on turning our inventory to maximize returns and capital efficiency in each of our communities. Our strong balance sheet, liquidity and low leverage provide us with significant financial flexibility, and we plan to maintain our disciplined approach to investing capital to enhance the long-term value of our company, including returning capital to our shareholders through both dividends and share repurchases on a consistent basis."

LVMH Moët Hennessy Louis Vuitton (LVMH) – the world's leading luxury goods group, recorded revenue of €86.2 billion in 2023, equating to organic growth of 13% with respect to 2022. All business groups reported strong organic revenue growth, with the exception of Wines & Spirits, which was faced with a high basis of comparison and high inventory levels. Europe, Japan and the rest of Asia achieved double-digit organic growth. In the fourth quarter, organic revenue growth came to 10%. Profit from recurring operations stood at €22.8 billion for 2023, up

8%. The current operating margin remained stable with respect to 2022. Group share of net profit amounted to €15.2 billion, up 8%. Bernard Arnault, Chairman and CEO of LVMH, commented: “Our performance in 2023 illustrates the exceptional appeal of our Maisons and their ability to spark desire, despite a year affected by economic and geopolitical challenges. The Group once again recorded significant growth in revenue and profits. Our growth strategy, based on the complementary nature of our businesses, as well as their geographic diversity, encourages innovation, high-quality design and retail excellence, and adds a cultural and historical dimension thanks to the heritage of our Maisons. This was reflected in Louis Vuitton and Christian Dior’s spectacular fashion shows, Tiffany’s reopening of “The Landmark” in New York and the ever-growing popularity of Sephora’s store concept worldwide. 2023 also saw us make progress in several key areas that are essential components of our long-term vision: protecting the environment, developing our talent, and preserving and passing on our expertise. While remaining vigilant in the current context, we enter 2024 with confidence, backed by our highly desirable brands and our agile teams. It promises to be an inspiring, exceptional year for us all, featuring our partnership with the Paris 2024 Olympic and Paralympic Games, whose core values of passion, inclusion and surpassing oneself are shared by our Group. For LVMH, it provides a new opportunity to reinforce our global leadership position in luxury goods and promote France’s reputation for excellence around the world.”

DIVIDEND PAYERS



Colgate-Palmolive Company (CL) reported fourth quarter 2023 (4Q23) Core EPS of US\$0.87, which compares to Consensus \$0.85. CL posted a strong finish to the year with +7% organic sales growth and a 2 cent(c) base erosion and anti-abuse tax (beat) to earnings per share (EPS), even while absorbing 4c of headwind from other expenses which we assume includes some impact from Argentina. Importantly, North America volumes inflected to be up 50 basis points (bps) and Gross margins +400 bps year over year (YoY). Advertising spend was again up in the high-teens and the company referenced plans to increase spend again in 2024. Guidance of mid-to high single digit earnings growth slightly below street expectations though likely includes some additional headwind from currency (Argentina).

Kimberly-Clark Corporation (KC) reported 4Q23 Core EPS of US\$1.51, which compares to Consensus \$1.53. Organic sales were in line (with the Consumer businesses ahead, offset by a miss in KC Professional) and gross margins up +210bps drove small upside to operating profit forecast, but a combination of below-the-line items (most notably hyperinflation through non-operating income) offset this and made for the shortfall versus Consensus estimates. Looking to 2024, foreign exchange (FX)-neutral guidance is strong, with the company looking for

low to mid single digit organic sales growth and high single digit to low double-digit operating profit growth.

Procter & Gamble Company (P&G) reported Fiscal (F) Second Quarter 2024 (2Q24) Core EPS of US\$1.84, which compares to Consensus \$1.70. P&G handily beat expectations on the bottom line and with far more reinvestment in the profit and loss (P&L) than expected. This was driven by very strong gross margin expansion (+520bps) and organic sales growth that while lighter than recent history, was well in the range of lowered Consensus estimates. Specifically, organic sales growth was +3.5% with the Beauty division coming in better than expected (volumes -1%) as strength in US Hair Care went further to offset China weakness and Fabric & Home volumes +1%, lifted by global Home Care. P&G maintained full year organic sales growth range and removed the lower end of its EPS growth range. FY24 Guidance: Raised Core EPS: +8-9% (from +6-9% YoY growth). Current Consensus assumes +9% YoY growth and \$6.41 EPS. Organic growth: +4-5%. Net sales growth: +2-4%. Consensus currently stands at +3.8% revenue growth. Dividends: more than US\$9 billion. Share repurchases: \$5-6 billion.

LIFE SCIENCES



Lantheus Holdings, Inc. (Lantheus) – announced that the company has appointed Brian Markison, current Board Chair and industry veteran, to the position of CEO, effective as of March 1, 2024. He will also continue as a member of Lantheus’ Board of Directors, where he has served for the past 11 years. Mary Anne Heino, who has successfully led and grown the company for the past nine years, will retire as CEO on March 1, 2024, and assume the role of Chair of the Board of Directors as part of a deliberate CEO succession process. As part of this leadership transition, Mr. Markison will assume the role of Executive Chair of the Board immediately until his CEO appointment in March, and Board Member Julie McHugh will become Lead Independent Director effective immediately. Mr. Markison has 40 years of healthcare experience, including executive roles at King Pharmaceuticals, Fougera Pharmaceuticals Inc. and RVL Pharmaceuticals plc, as well as senior level roles at Bristol-Myers Squibb Company. Mr. Markison has maintained a steadfast focus throughout his career on oncology, virology, and diagnostics, leading the successful commercial introduction of numerous therapeutics, ranging from chemotherapy to biologics, across major global markets. He has been a member of the Lantheus Board of Directors since September 2012 and has served as Chairman since January 2013. Mr. Markison most recently served as CEO and Director of RVL Pharmaceuticals plc, formerly Osmotica Holdings, S.C.Sp. He serves on the Board of Directors of Cosette Pharmaceuticals, Inc. and is a Director of the College of New Jersey. “I want to thank the Board of Directors for this tremendous opportunity to lead Lantheus as CEO,” said Brian Markison. “Lantheus has a dynamic team dedicated to delivering life-changing science to patients and providers across the globe, and we are poised to enhance our growth trajectory by unlocking the potential of our

innovative platform to improve patient outcomes and lives. I could not be more pleased to make this transition from Chair to CEO and lead the company as we execute on the many opportunities that lie ahead.”

Lantheus has confirmed that it is facing a lawsuit from Novartis AG (Novartis) entities, Advanced Accelerator Applications USA, Inc., and Advanced Accelerator Applications SA, for patent infringement. The legal action comes in response to Lantheus’ filing of Abbreviated New Drug Application No. 217060 for Lutetium Lu 177 Dotatate, a generic version of Novartis’ Lutathera. Lutathera is used for the treatment of somatostatin receptor-positive gastroenteropancreatic neuroendocrine tumors (GEP-NETs) in adults. Lantheus claims to be the “first applicant” with a substantially complete ANDA for Lutetium Lu 177 Dotatate, making it eligible for 180 days of generic marketing exclusivity in the United States.

RadNet Inc. (RadNet) – has acquired seven outpatient imaging centers in Phoenix Arizona from Evernorth Care Group. The acquisition will expand outpatient imaging services for Evernorth Care Group patients, who will now have access to Arizona Diagnostic Radiology’s nine additional imaging centers in the Phoenix market. Additionally, the newly acquired imaging centers will implement RadNet’s digital health solutions, including radiology information and image management systems and DeepHealth’s artificial intelligence platform. These solutions are focused on optimizing operational workflow, improving the patient experience and driving accuracy and earlier detection. “Since we entered the Arizona marketplace at the end of 2020, we have been committed to growing scale and expanding patient access and services. This acquisition moves us further in the direction of achieving the patient access and breadth of services that we strive for in all of our core markets. We look forward to providing leading-edge technology and additional specialized imaging services in oncology, musculoskeletal, cardiac and vascular and neuroscience to the patients of Evernorth Care Group,” said RadNet President and CEO, Howard Berger, M.D.

NUCLEAR ENERGY

Assystem - announced that it has sold its 5% stake in Framatome to EDF S.A. (EDF) for €205 million. Assystem initially acquired a 5% stake in Framatome’s share capital in December 2017, aligning itself with the French nuclear industry alongside EDF, a leading player in the sector. The acquisition was part of the reconfiguration of France’s nuclear players. The reconfiguration has now been finalized, and Assystem has sold its stake in Framatome. This move is aimed at enhancing the independence of the Assystem Group, which is actively engaged in the development of civil nuclear projects worldwide, utilizing various technologies. Despite the sale, Assystem remains committed to collaborating with its French partners, particularly EDF, in the development of future programs and the operation of existing nuclear power plants in France.

Cameco Corporation (Cameco) – Westinghouse Electric Company LLC (Westinghouse) provided 25 irradiated nuclear fuel rods, including accident-tolerant fuel, to Idaho National Laboratory (INL) for testing and examination, a critical step toward qualification of the new design. Designed by Westinghouse, this new fuel technology with enhanced safety features will enable nuclear power plants to extend the generation of electricity from the current 18 months to 24 months, reducing

refueling outages while delivering significant cost savings for customers and generating less spent nuclear fuel. The fuel will also increase a nuclear power plant’s resilience under potential accident conditions. The development work was supported by U.S. Department of Energy (DOE) funding. A prior shipment of irradiated nuclear fuel rods with this new technology was delivered to Oak Ridge National Laboratory (ORNL) in Tennessee. The advanced testing and the post-irradiation examinations at both laboratories are key milestones to receive final approval from the Nuclear Regulatory Commission (NRC) to deploy this innovative fuel to commercial reactors around the globe. The National Laboratories will provide valuable data to Westinghouse, the NRC, the DOE Office of Nuclear Energy, the National Nuclear Security Administration, as well as regulatory and scientific bodies in Japan, Korea, and Western Europe. Westinghouse is a leading supplier of nuclear fuel, providing a uniquely diversified portfolio in the industry across nuclear reactor types.

Constellation Energy Corporation (Constellation) – CVS Health Corporation (CVS Health) announced two agreements that total 264,000-megawatt hours with Constellation to purchase zero-emission, renewable energy equivalent to the annual electricity use of nearly 1,000 CVS Health locations in California, Washington, D.C., Delaware, Maryland and New Jersey. CVS Health will purchase energy and renewable energy certificates (RECs) through two separate long-term agreements with Constellation. These deals are made possible by Constellation’s long-term agreements with solar projects located in California and Maryland. CVS Health will receive approximately 264,000 megawatt hours of energy per year through its retail agreement with Constellation, with that energy matched by Green-e® Energy Certified RECs sourced from other renewable facilities throughout the U.S. CVS Health has now made five renewable energy investments since 2022. These two new investments with Constellation, the company’s two agreements announced in 2023 and the first investment made in 2022 represent more than 500,000 megawatt-hours (MWh) of clean, renewable energy. This is a significant share of the 2.2 million MWh of energy CVS Health used in 2022. They are important milestones as CVS Health continues to work toward sourcing 50% renewable energy by 2040.

Doosan Enerbility Co., Ltd., (Doosan Enerbility) – is strengthening its position in the Korean domestic gas turbine market by securing new orders for its gas turbines developed with domestic technology. On January 25th, the company announced a supplier agreement worth approximately KRW 280 billion with Korea Southern Power (KOSPO) for the Andong Combined Cycle Power Plant Unit 2. The power plant, with a planned capacity of 569MW (megawatt), is scheduled for completion by December 2026 in Andong City. Doosan Enerbility will supply a 380MW H-class ultra-large gas turbine, developed using homegrown technology, along with a steam turbine and heat recovery steam generator. This reaffirms the company’s leadership in the Korean gas turbine market.

Plug Power Inc. (Plug) – has commenced operations at the largest liquid green hydrogen plant in the U.S. This plant, located in Woodbine, Georgia, is equipped with eight 5-megawatt polymer electrolyte membrane (PEM) electrolyzers, capable of producing 15 tons per day of liquid electrolytic hydrogen. The hydrogen will be delivered to customers’ fueling stations through Plug’s logistics network using cryogenic trailers. This facility enhances Plug’s supply of liquid hydrogen for various applications, including material handling, fuel cell electric vehicles, and

stationary power. The company aims to build a vertically integrated green hydrogen ecosystem to meet the growing demand for low-carbon energy in industries such as transportation, manufacturing, power generation, and aviation. The plant demonstrates the reliability of Plug's electrolyzer technology and contributes to the company's vision of a comprehensive hydrogen solution.



ECONOMIC CONDITIONS

U.S. labor market continues to yield moderate income gains.

Nominal **personal income rose 0.3%** in December, down from 0.4%, but in line with consensus. The advance was led by a 0.4% uptick in wages and salaries as employers attempt to retain existing workers and attract candidates to fill open positions. The solid monthly gain pushed the YoY growth rate up to 4.7% from 4.6% in November, but down from 5.8% in January. Real, or inflation-adjusted, disposable income growth, the pacesetter for consumer spending, rose 0.1% in December. This is the smallest gain in three months and points to somewhat slower spending growth in the near term, as does a lower saving rate.

Consistent with the upside surprise to retail sales growth in December, **nominal consumer spending rose 0.7%** last month, nearly double the upwardly revised growth of 0.4% in November and the largest gain since September. Spending on goods climbed 0.8%, led by a 1.1% increase in spending on durable goods, while spending on services rose a more modest 0.6%, unchanged from November. The strong monthly gain drove the year-ago growth rate up to 5.9%, the fastest pace since July. **Real consumer spending also posted a solid increase of 0.5%** and is 3.2% higher than a year ago, the strongest gain since February 2022.

On the inflation front, the PCE deflator climbed 0.2% – in line with the consensus forecast – and is up 2.6% year-on-year, unchanged from November. More importantly for monetary policy implications, the core Implicit Price Deflator for Personal Consumption Expenditures (PCE deflator), which excludes food and energy and is the Federal Reserve (Fed)'s preferred gauge of inflation, rose 0.2%. While this is double the 0.1% increase in November, the year-ago growth rate slipped to 2.9%. This is the first print of below 3% since March 2021.

U.S. economy, according to the Bureau of Economic analysis, expanded 3.3% annualized in the fourth quarter, a lot more than the median economist forecast calling for a +2.0% print. Year on year, real gross domestic product (GDP) expanded 3.1%. Domestic demand grew at a healthy clip in the three months to December, supported by household consumption (+2.8% quarter over quarter (q/q) annualized) as well as structure (+3.2%) and intellectual property (+2.1%) investment. Business investment in residential structure (+1.1%) and machinery/equipment (+1.0%) expanded as well, albeit at a more tepid pace. Government spending rose 3.3% annualized. Going against the expected trend, household spending grew at a faster pace in the goods segment (+3.8%) than in the services segment (+2.4%). Consumption growth was solid in both categories. Trade had a positive impact on growth (+0.43 percentage point) as exports expanded at a faster pace than imports (+6.3% vs. +1.9%). Inventories, for their part, added 0.07 percentage point to the headline GDP figure.

French flash Purchasing Managers' Index (PMIs) for January were mixed, with the services index surprising to the downside, falling to 45.0 (market (mkt): 46.0)—a third straight decline—while the manufacturing index came in stronger than expected, rising to 43.2 (mkt: 42.5). That said, the increase in the manufacturing index was largely due to a sharp lengthening in suppliers' delivery times, perhaps due to Red Sea disruptions—the output index fell to a 44-month low of 40.5. Overall, the composite index surprised a full point to the downside, falling to 44.2 (mkt: 45.2). Anecdotal evidence suggested that lower activity levels at clients, uncertainty around the economic outlook were two key drivers of the weak prints. Moreover, the report showed inflationary pressures worsening, with input and output cost inflation rising across the board.

German PMIs were generally weak in January. The services index surprised 1.9 points to the downside, falling to 47.6 (mkt: 49.3), and composite came in 0.7 points weaker than expected, declining to 47.1 (mkt: 47.8). The manufacturing PMI surprised sharply to the upside though, rising to an 8-month high of 45.4 (mkt: 43.7). Driving the weak print was continued challenging demand conditions. Lower international demand was also reported as an important factor in driving the slowdown in the German economy. That said, a key driver of the improvement in the manufacturing index, like in France, was a sharp lengthening of suppliers' delivery times—potentially due to disruptions in the Red Sea.

UK PMIs came in a bit stronger than expected in January, with the manufacturing index rising to 47.3 (mkt: 46.7) and the services index edging up to 53.8 (mkt: 53.2). The composite index improved to a seven-month high of 52.5 (mkt: 52.1). The increase in the manufacturing index was essentially entirely driven by lengthening suppliers' delivery times, largely on the back of disruptions to shipping in the Red Sea—elsewhere, both new orders and output both declined. In contrast, the increase in the services sector was supported by improving demand conditions and higher levels of firm optimism, which some survey respondents attributed to lower borrowing costs. On inflationary pressures, while input and output cost inflation rose in the manufacturing sector, they both declined slightly in the services sector—a promising development for the Bank of England.



FINANCIAL CONDITIONS

Bank of Canada left its overnight rate target unchanged at 5.0%, a decision in line with a unanimous consensus. As for its balance sheet policy, “the Bank is continuing its policy of quantitative tightening”. Governing Council is still concerned about upside inflation risks, “particularly the persistence in underlying inflation”. While in past statements, this led to a ‘threat’ that they were prepared to hike further, that is notably absent now. We’d note that the press conference opening statement (published at the same time) explicitly states they haven’t ruled out further policy rate increases. Still, the removal from the statement is an important signal that their focus has shifted. The central bank also released the latest edition of its Monetary Policy Report (MPR), which showed a less robust growth trajectory in 2023 (from +1.2% to +1.0%). This revision came as no real surprise, given recent data pointing to stagnation in the Canadian economy. Further on the forecast horizon, the central bank sees the economy expanding just 0.8% next year (down from the 0.9% penciled in October’s MPR), before recovering in 2025 (+2.4%, still down from +2.5% in October’s MPR). The inflation trajectory, for its part, appeared slightly more benign

than the one presented in October, with headline Consumer Price Index (CPI) now expected to decline to 2.9% in 2024, lower than the 3.0% figure penciled in three months ago. Expectations for 2025 remained unchanged at 2.2%

Bank of China Governor Pan announced that the required rate of return (RRR) will be cut by 50bps to 10% (prior 10.5%) from 5 Feb, a few days before Lunar New Year. The 50bps cut is a bigger step than the typical 25bps cut increment and will release CNY1 trillion in liquidity into the system. The RRR cut shouldn't come as a surprise to most given the liquidity needs over this period and the ramp-up in bond issuance onshore. Moreover, economic data remains weak and the People's Bank of China (PBoC) is relying more on liquidity injections rather than outright rate cuts to support the economy (evident from the liquidity operations over the past few months). As a policy signal, this should calm markets nerves especially after they held the 1year Medium-Term Lending (MLF) rate (policy rate) unchanged despite broad expectations of further easing. On the CNY, the PBoC is keeping to their rhetoric of a stable yuan which isn't ideal in our view given that a weaker CNY may be more favourable for the current economic situation. Overall, Pan's comments today don't suggest that the PBoC is being proactive in its monetary policy stance and is still taking a more reactive approach to incoming data.

Evergrande Group — the firm whose woes triggered global interest in China's property crisis —has received a liquidation order from a Hong Kong court

European Central Bank (ECB) left policy rate unchanged at 4%. There has been a coordinated effort by ECB officials to push back against early rate cut expectations.

Bank of Japan left all policy levers unchanged and kept their forward guidance, pledging to “not hesitate to take additional easing measures if necessary”. While the Bank of Japan (BoJ) is probably closer to the exit door for its negative interest rate policy (NIRP) than before, recent events (e.g., earthquakes/political scandals) put the Bank in a difficult spot to advocate any significant shift in its ultra- easy monetary stance in our view. The updated core inflation projections also don't suggest any significant change in stance with FY2024 revised lower to 2.4% (prior:2.8%) and the FY2025 slightly higher at 1.8% (prior: 1.7%). With FY2025 core inflation still projected <2% as well as the Bank's commentary that didn't highlight any upside risk to the price outlook, it broadly reads that the BoJ stuck to its typical dovish stance.

Norwegian central bank left rates unchanged at 4.5% and said the policy will be kept at that level for some time. The central bank also said, “further out, when inflation falls back and economic conditions so warrant, the committee can start lowering the policy rate.” The central bank commented that if the economy or inflation slows quicker than expected, the policy rate can be lowered more than envisaged back in December.

The U.S. 2 year/10 year treasury spread is now -0.22% and the U.K.'s 2 year/10 year treasury spread is -0.39%. 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 6.42%. Existing U.S. housing inventory is at 3.2 months supply of existing houses as of October 31, 2023 - well off its peak during the Great Recession of 11.1 months and we consider a more normal range of 4-7 months.

The VIX (volatility index) is 13.82 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

And Finally: **“Real knowledge is to know the extent of one's ignorance.”**
~Confucius

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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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