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NCM

Commentary: NCM Dividend Champions

On May 27, 2024, Portfolio Manager Michael Simpson, CFA provided an update on the markets, world events, his macro outlook and some of the Dividend Champions currently in his portfolio..

TRANSCRIPT:

Good day. It is Monday, May 27th, and I am Michael Simpson, portfolio manager of the NCM Dividend Champions Fund. We have a lot of topics to discuss, but first, a shoutout to the only remaining Canadian team in the NHL playoffs. The Edmonton Oilers. Although we are far from Edmonton, we are rooting for the Oilers to bring the Cup back home to Canada.

We are one month away from the halfway point of 2024 and the markets have had a positive start. As of today, May 27th, the Nasdaq is up 12.7%. The S&P 500 11.2% and the TSX 6.7%.

Drilling down further on the TSX, year to date as of May 24th, Celestica is up 109%, Hudbay 85% and Ivanhoe Mines 53%. One key takeaway from these figures is that seven of the top ten performing stocks from the TSX are from the mining or materials sector. Hard assets in many ways: hard to extract, hard to get to and must have expensive earthmoving equipment and supplies.

On the digital front, Nvidia continues to power ahead with their graphics chips and as a leader of the AI transformation. There's much excitement about artificial intelligence, how it will transform society, the economy and our personal lives. We are watching closely to see which companies can monetize or make money from AI.

We know that high speed graphics chips are in high demand and are watching ever so carefully to see if Nvidia can maintain 78% gross margins and 66% EBITDA margins. The chips have a co-relationship with data centers. In order to build data centers, you need adequate land and power, preferably low carbon intensity power.

On the macro front, we have a continuation of the Russia Ukrainian war and the seven month old Israel-hamas War. In both conflicts, there has been incredible human suffering and loss. The best outcome is for peace in both conflicts.

Closer to home, the US presidential election is less than six months away. Americans know both candidates well, and depending on who wins, there could be changes to American trade and taxation policy.

China's political and economic relationship with the US is not the best. And the Biden administration has recently levied tariffs on electric cars and solar panels. On the one hand, China's weak economy is forcing it to export cheap goods to the US and Europe, which is good for bringing down inflation. However, a surge in manufactured goods risks curtailing capital investment and risk further job loss in North America. Cheap imports and near shoring cannot be reconciled.

We have witnessed a slowdown in the North American economies. Companies such as McDonald's, Starbucks, Pet Value and Lululemon have talked about slower spending. And as the grocers have told us, their strongest growth is coming from their discount store banners.

So you may ask, how are we positioned in the NCM Dividend Champions Fund? Based on the economic data, we see labor demand declining and labor supply remaining constant. So as a result, we expect the Bank of Canada to start to lower rates in June or July. As a result, we own high quality utility stocks such as Fortis and Hydro One, both having a history of raising their dividends every year.

A Dividend Champion that has been up, but still but has recently raised their dividend by 7%, that company is called Telus. Market position, market strength and balance sheet strength are keys. Names such as Emerson Electric, Granite REIT and Jamieson Wellness can perform in a more subdued economic environment.

Investing is more akin to a marathon, not a sprint. Dividends do add an income stream to an investment. However, they are not always in favor. Case in point the TSX Composite Index is up 6.7% year to date, while the TSX high dividend Index has increased by only 4.2%.

The rule here at NCM is know what you buy. We are not stretching our searching for yield. We invest in dividend champions for their consistency and yearly dividend increases. Timing the market is for no one. Stay invested in the dividend champions and most importantly go, Oilers, go!

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