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Commentary: NCM Global Income Growth Class

On August 7, 2024, portfolio manager Jason Isaac, CAIA, CFA provided his perspective on recent market volatility and some changes he has made to the NCM Global Income Growth Class portfolio.

TRANSCRIPT:

Good afternoon everybody. Jason Isaac here coming at you from Calgary, Alberta. It's a soggy day but it's summer and it's not snowing. So that's a win as far as I'm concerned. It's Wednesday, August 7th, 2024 and I'm here with a quick update with the NCM Global Income Growth.

Up until last week, I was going to talk about how it's the summer of the small cap, and we've got some sister funds here that do really well in the small cap space. But even in the last eight days, there's been some stuff that's gone down. So let me count the ways.

First of all, we had Japan come out with a surprise rate hike last week, which caused a lot of market turmoil, and everybody was angsty and it looked like the Fed was actually going to have to come and do an emergency meeting. People were disappointed and then people are loving it and it's all over the place.

The Bank of Japan just came out last night and said they won't be increasing any rates while the market's in turmoil. So that seems to have caused or assuaged markets a little bit.

But the other news is massive changes in the US presidential election. Ordinarily, I don't pay a lot of attention to it because in the grand scheme of things, whoever sits in the white House doesn't really matter for the markets. They just kind of trudge on. But it is the topic of the day. So we've had an assassination attempt. We've had Biden stepping down and Harris stepping up. We've had Trump appointing Vance and we've had Harris pick Walz. It's just been absolutely crazy.

But I I'm assuming that the topic on most people's mind is, you know, is this a bigger issue with regards to the markets. Again, I've always of the opinion that the presidential elections, while they make a lot of noise, don't really drive the direction of the markets. It's the economy. And the economy's doing fine.

With that'll dovetail into what's happening in the markets over the last couple of days. The markets are worried about rates. Obviously we've got the carry trade in Japan, which is causing a lot of selling issues. And the dislocation in rates from various geographical regions seems to have calmed down.

We're not through the woods yet, but, you know, typically the summer has a couple of bumps. And with that, I just wanted to highlight Bank of America just put out some research and they said going back to 1930, the American stock market usually has a 5% correction three times a year. It's kind of where we're at. Has a 10% correction once per year. It has a 15% correction once every other year, so once every two years. And it has a 20% drawdown once every 3 to 4 years.

We don't believe we're in the camp where we're going to see a massive drawdown, especially with the tailwinds leading into the US election and the fact that it looks like the Fed is probably going to decrease rates or cut their rates by 50 basis points. So we're still of the opinion that this is a correction - the 5 to 10% camp, we would be looking to, add to existing positions.

That being said, we did have a dark cross in two year yields, meaning the 50 day moving average crossed below the 200 day moving average in the US two year treasuries. When that happens, typically the market gets a little bit defensive. That means names like health care, names like utilities, some communication services tend to do a little bit better than more of the cyclical stuff. That's kind of what we're seeing.

We're going to be looking at discretionary versus staples as the canary in the coal mine, making sure that discretionary and staples kind of trade in tandem. If it looks like the discretionary space - things that you have a choice to spend money on versus things that you don't have a choice to spend money on - if the things that you have a choice to spend money on start to falter, that signifies there's a little less risk tolerance in the market. And there's probably a little bit less liquidity. Those things get you to pump the brakes a little bit on the equity.

With that, and it was a little bit prescient, but what we did do in the the portfolio is we, for those of you that follow the strategy, I tend to barbell the equity component between a high beta and a low beta. And up until probably May of this past year, we were running about 50% high beta and 50% low beta. Well, since the summer and as we've turned with the sector rotation, we are now at about 75% low beta names. So, you know, names like the Royal Bank, UnitedHealth, Walmart. Those are the names that are in the low beta bucket.

And we're 1% cash. We're 14% bonds. We're increasing that a little bit. And about 85% stock. It looks like we'll be a little bit more on the defensive side as the market turmoil rolls around. But generally speaking, happy with the way the portfolio's dealt with this market turmoil and we expect it to remain a little bit elevated until the end of August, for sure. And then September is going to roll around when people get back to work.

With that, I think I'll sign off. Happy to take any questions. You can reach your local wholesaler if you need to, and we can have a chat. If we don't talk before, have a great summer. Talk to you soon. Bye.

NCM Asset Management Ltd.
Head Office 1850-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5
client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com