GUARDIAN MANAGED INCOME & GROWTH PORTFOLIO
Q1 2024
MANAGER COMMENTARY

Market Review

During the first quarter, stocks continued to march higher driven by a resilient economy. While economic growth has slowed, investors gained confidence that a recession will be avoided. The strength in the market occurred despite the fact that interest rate cut expectations have been scaled back, both in terms of timing and magnitude. The S&P/TSX Composite Index returned 6.6%, led by Health Care (+18.4%), Energy (+13.1%), Industrials (+11.1%), and Information Technology (4.8%). All other sectors underperformed the Index, with rate-sensitive sectors, Communication Services and Utilities, delivering negative returns.

Oil prices increased to over US$83 per barrel on strong demand and disciplined OPEC+ supply cuts, while the price of gold continued its momentum into the first quarter to finish over US$2200/oz. Central Banks in Canada and the US held interest rates flat in the quarter, as inflation remained above target, while 10-year Canada bond yields increased by 36 basis points to end the quarter at 3.47%.

Performance Attribution

The Fund delivered a strong performance, performing in-line with the S&P/TSX Composite Index in the quarter. On the positive side, an overweight position in the Energy sector and good security selection in Arc Resources, Suncor and Canadian Natural Resources added to performance. Within the Materials sector, the Fund's positions in CCL Industries and Agnico Eagle also added to performance. Alta Gas delivered a strong performance, but this was offset by the Fund being overweight the Utilities sector, which underperformed. On the negative side, Maple Leaf Foods underperformed within the Consumer Staples sector, and TD Bank and Bank of Montreal lagged within the Financials sector. Lastly, Canadian Apartment REIT underperformed in the Real Estate sector and Open Text lagged within the Information Technology sector, despite solid execution.

Portfolio Transactions

The Fund sold its positions in Fortis and TC Energy, given more attractive alternatives within other holdings in the portfolio, and the Fund added to positions in CCL Industries, Granite REIT, Open Text, Altagas, Bank of Montreal, Northland Power, Finning, Chartwell REIT, Canadian Apartment REIT, Enbridge, Keyera, Pembina Pipeline and Maple Leaf Foods, while trimming positions in Constellation Software and SNC-Lavalin.

Portfolio Outlook & Positioning

Following the strong rally in equity markets to start the year, stocks are discounting an economy that will avoid a recession and that inflation will continue to moderate, allowing central banks to start cutting interest rates by mid-2024. Therefore, the primary risks to equity markets are that the negative impact on the economy from previous aggressive rate increases is yet to be fully realized and that inflation remains elevated above central bank targets, leading to another delay in rate cuts beyond market expectations. While the risk of a recession remains, the likelihood has moderated given recent resilient economic data, including early signs of improvement in China. However, given the strong stock market performance over the past 6 months, a normal correction in the market is becoming increasingly likely.

The Manager continues to have a positive outlook on the Energy sector as oil fundamentals remain strong. Inventories, including SPR's, remain well below average, OPEC+ remains steadfast in managing supply to defend higher oil prices, and demand remains solid. Energy stocks continue to offer attractive free cash flow yields, shareholder friendly capital return policies, strong balance sheets and attractive valuations.

The Manager believes the Utilities sector also looks attractive given its defensive attributes should volatility return. With interest rate increases at an end and rate cuts expected later this year, what has been a major headwind for the sector should turn into a tailwind. As well, valuations have come down substantially and the sector has growth that is less economically sensitive should a recession occur.

With price-to-earnings multiples still below long-term averages in Canada, valuations generally remain attractive. While there remains uncertainty about the economy, the Manager continues to see good opportunities in high quality dividend stocks that generate steady and growing income, which may help ride-out volatile markets, as well as provide solid upside potential. In addition, the Manager believes Canadian stocks remain well positioned relative to their US peers, given the Canadian stocks offer a more attractive relative valuation following a year of substantial underperformance.

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