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First Quarter 2024

Stocks gained nicely and bonds and the Canadian dollar edged lower in the first quarter. Enthusiasm for artificial intelligence and stronger than anticipated economic activity have supported stocks, especially the S&P 500, so far in 2024.

What follows is a short commentary on some noteworthy holdings in almost alphabetical order:

Amazon.com Inc. gained 18.6% in US\$ in the first quarter, Amazon Web Services' cloud computing, storage and database offerings are seen as prime beneficiaries of the huge demand for generative artificial intelligence. In 2023 Amazon was one of the Magnificent Seven, in 2024 it is part of the Fab Four, or something.

BCE Inc. was a detractor from performance in the first quarter. It fell -11.25%, despite having a dividend yield of 8.6%. The dividend was increased by 3% in February, the 16th annual increase, even though the dividend payout ratio will likely be over 100% in 2024. In March, Members of Parliament summoned the three telecom CEOs before parliament and complained about price increases and layoffs. BCE has invested heavily to upgrade its network with fiber. However, the transition 'from telco to techco' and the promise of 5G's quick potential download speeds, seem some time off.

Verizon Communications Inc., by contrast, gained 11.5% in US\$ in the first quarter, after a tough year in 2023. The dividend yield is 6.3% and the dividend coverage seems solid. The largest U.S. wireless carrier must balance price increases with market share losses.

Berkshire Hathaway Inc. gained 17.2%, not because of its famous investment in Apple Inc. Apple which, at the end of 2023, made up almost half of Berkshire's portfolio of publicly traded stocks, was down -11.1% in the first quarter. Berkshire's operating earnings, excluding investment gains and losses, were up 28% in the December quarter, mostly from much better insurance underwriting results. Berkshire ended the year with a record \$167.6 billion in cash and cash equivalents.

Boralex Inc., like other clean energy stocks, especially small ones, was among the worst performers. It fell -15.7% and pays a dividend of 2.3%. Boralex has 3,000 MW of renewable power stations in Canada,

France, and the United States. Clean energy stocks generally were particularly challenged by the sharp rise in interest rates and the sharp rise in development costs in 2022-2023. Boralex has a strong track record of growth through development and in 2024 it is bidding in Quebec, Ontario and New York and is recontracting some wind power contracts in France.

CCL Industries Inc. was up 15.9% and yields 1.7%. CCL had \$6.6 billion in revenue in 2023, up from \$1.6 billion in 2001. CCL is headquartered in Toronto and is the largest label company in the world. For many years I thought CCL stood for Canadian Container Labels. Eventually I learned that Gordon Lang had in 1951 gone to Connecticut and bought Connecticut Chemical Limited which had developed an adhesive. CCL has made many acquisitions over the years including Checkpoint Systems in 2016. Checkpoint's RFID tags are suddenly very popular for countering thieves. Shoplifting is a growing problem.

Fortis Inc. Cumulative Redeemable Preferred Share Series K was up 8.5% and yields 7.2%. It is an example of a rate reset preferred where the dividend resets every 5 years based on the 5-year government bond yield. After languishing for a couple of years investors are starting to appreciate the potential for reset preferreds to pay higher dividends now that bond yields have moved up.

Loblaw Companies Ltd. gained 16.4% and yields 1.19%. Loblaw is Canada's largest retailer. It gets 60% of its revenues from the discount channel (banners like No Frills, Maxi in Quebec, and Canadian Superstore in western Canada) which is well suited to today's price conscious shopper.

Nike, Inc. issued a disappointing forecast on March 20 and the shares lost -13.6% in the first quarter. After a 9% boost to the dividend at the beginning of the calendar year, Nike yields 1.6%. Nike now expects a low-single-digit percentage sales decline in the first half of fiscal 2025 (the fiscal year ends in May). Weak demand for sportswear in North America and China is being exacerbated by a gap in new product introductions.

Visa Inc. is a relatively new introduction to the portfolio. In the first three months it gained 7% and yields 0.75%. Visa is the largest payment processor in the world and is a leader in digital payments. It should benefit as technologies advance, consumers turn away from cash and geographies expand. Visa's application of artificial intelligence and blockchain helps to secure its worldwide network.

Waste Connections Inc. gained 17.5% and yields 0.66%. Headquartered in Toronto it is the third-largest provider of traditional solid waste and recycling services in North America. Waste Connections serves more than 2 million residential, commercial, and industrial customers. Its economic resiliency and record of profitable acquisitions have earned it a premium valuation.

Xylem Inc. is another relatively recent addition. It gained 13.3% and yields 1.1%. You would never know it by the name, but Xylem is a global leader in water technology for water utility (50% of revenues), industrial, commercial, and residential sectors. Xylem had revenues of \$7.4 billion US in 2023. The application of smart water offerings such as automation, remote monitoring and other digital technologies help utilities with challenges such as ageing infrastructure, non-revenue water (leaks), storm water management, and sewer overflow.

As you know I love discussing our investments and would welcome doing so with you. I think that by investing in individual companies it is possible, after developing an understanding of the business, to

feel some loyalty to the company beyond just the stock price. I would be happy to send you more information about any of the companies we have invested in.

Our family was excited that the total eclipse grazed Montreal. We had our glasses ready and felt very fortunate for the fine weather. I wish you plenty of clear sky in the days to come.

Sincerely,

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