TD Greystone Asset Management

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Feature:
Equity Markets - Taking the cue from Central Banks

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Fund Performance Highlights:

Performance (%)

As at June 30, 2019	YTD	1 Yr	3 Yrs	5 Yrs
Global Equity	**13.4**	**5.7**	**13.7**	**14.0**
MSCI World-ND	11.9	5.6	12.0	11.1
Difference	**1.5**	**0.1**	**1.7**	**2.9**
U.S. Equity	**16.0**	**13.9**	**18.1**	**18.0**
S&P 500	13.4	9.7	14.4	15.3
Difference	**2.6**	**4.2**	**3.7**	**2.7**
U.S. Income & Growth	**13.7**	**16.6**	**16.7**	**17.8**
S&P 500	13.4	9.7	14.4	15.3
Difference	**0.3**	**6.9**	**2.3**	**2.5**
International Equity*	**12.3**	**1.1**	**10.9**	**9.4**
MSCI EAFE-ND	9.1	0.4	9.3	6.5
Difference	**3.2**	**0.7**	**1.6**	**2.9**
China Income & Growth	**22.8**	**5.1**	**23.1**	**n/a**
CSI 300 (Net)	22.6	6.4	7.8	n/a
Difference	**0.2**	-1.3	**15.3**	**n/a**
Canadian Equity	**16.2**	**3.5**	**8.0**	**4.2**
S&P/TSX Composite	16.2	3.9	8.4	4.7
Difference	**0.0**	-0.4	-0.4	-0.5

* International funds and MSCI EAFE performance is net of foreign dividend withholding taxes. This figure shows the performance in Canadian dollars, including cash; net of custodial fees, audit fees, transfer agent fees and administrative expenses; gross of investment management fees.

M2M

Equity Markets - Taking the cue from Central Banks

The S&P 500 posted its best first half since 1997 (+17% on a price return basis in USD), and the best June since 1955 (+6.9%), according to Bank of America Merrill Lynch. Global equities underperformed U.S. equities on a total return basis (in local currency terms), but still posted healthy gains. In terms of sectors, U.S. cyclicals led the way in June, while growth stocks led value stocks and small cap names narrowly outperformed large caps. All of this despite a somewhat weaker macroeconomic picture where Global PMI's were falling, economic surprise indices were moving lower, and global earnings revisions continued to fall as concerns of an extended trade war weighed on expectations. Despite the strongest first half S&P 500 market in over 20 years, the S&P's gains over the past 12 months have been predominantly driven by defensive sectors like Utilities, REITs and Consumer Staples. These sectors made new highs along with the S&P 500 as lower global interest rates have seemingly accelerated investors' appetite for yield.

Equity funds around the world have attracted their biggest weekly inflows in more than a year, as investors grow increasingly confident central banks will support financial markets with looser monetary policy. Equity mutual and exchange traded funds had US$14.3 billion in net inflows for the week to June 21, 2019, the largest amount since March 2018, according to EPFR Global data. U.S. equity funds were the drivers with US$17.8 billion of inflows, the highest weekly total in three months.

Dividend stocks look well positioned to lead going forward: Given the flattening yield curve and growth bias, it's not been a great year to date ("YTD") for the dividend factor. The low yield bucket (which also includes zero-yield firms) has outperformed all others by about 5% YTD (see Figure 1). The argument for dividend yield going forward is that yield curve compression is basically done and re-steepening is possible in July with a U.S. Federal Reserve (the "Fed") rate cut, plus a bounce in value that supports high dividend/income. Yield tends to do well in a reflation/central bank stimulus environment.

Figure 1: MSCI World Index – Dividend Yield Factor (absolute price performance) YTD 2019

Source: FactSet, TD Greystone Asset Management. As Jun 30, 2019.

Dividend-growth stocks could also get a boost: One of the biggest macro developments last month came from the Fed, which signaled that it would be prepared to lower its target Fed funds rate at the July 30-31 meeting for the first time since 2008. In addition, the ECB's Draghi signalled to the market that he would support further easing. According to Bank of America Merrill Lynch, the global sum of assets with negative yields is now well into uncharted territory at US$11.5 trillion. On the equity side of things, renewed central bank easing and negative yield instruments could have positive implications for dividend-growth stocks. Today, U.S. high-yielding stocks trade at approximately 70% of the market's current valuation, a historically low level. As well, almost 40% of U.S. large cap stocks have a dividend yield greater than the U.S. 10-year Treasury. As investors look for investments with income and growth characteristics, dividend-growth strategies such as our Income & Growth funds are well positioned.

Xi and Trump: the G-20 wrap-up – Where to from here?

No news is good news: President Trump and President Xi met in Osaka Japan on June 29. Reports and tweets of the meeting have been characterised as generally positive but non-specific in terms of additional timelines or commitments beyond no new tariffs, and reduced pressure on Huawei. Huawei will remain on the restricted entity list and the administration will meet to more fully discuss the plan, according to news reports. In the end, nothing substantial was achieved at the G-20 except postponement of the previously threatened additional tariffs on US$300 billion of goods, and the statement that "both sides will continue to talk." Nevertheless, the weekend news seemed to be enough for the S&P 500 to push ahead to new all-time intraday highs on July 1, 2019.

The Bottom Line:

Tariffs remain a major concern for investors. They affect economic growth and increase uncertainties. The threat, though, still exists and the result of the G-20 meeting between Trump and Xi isn't going to change the uncertain business climate. It would be difficult to assume that many CFO's and CEO's would have changed their outlook in any way as a result of the G-20 Summit. So while the market advances on a delay and continuation of trade talks, the economic environment may continue to deteriorate. On July 1, 2019, Global Manufacturing PMI's showed further weakness in China, Spain, Italy, France, and Germany. And while it is still in expansionary territory, the U.S. ISM Manufacturing Index slipped 0.4 points in June, down in four of the past five months, to 51.7. This is the lowest level this index has been at since October 2016.

As we have highlighted in the last few months, at TD Greystone Asset Management ("TD Greystone"), we have positioned our public equities portfolios to be **more balanced between defensive and cyclical companies**. In particular, we have somewhat reduced our exposure to the Semiconductor sector in the International, Global and U.S. pooled funds as the macro indicators suggest we are in the later stages of the business cycle. We continue to have prudent exposure to the sector through the global industry leaders with higher-quality balance sheets and reasonable valuations. In light of the Huawei ban and supply chain disruption, we remain comfortable with the lower weighting in the Semiconductor sector within our portfolios.

Around The Bend – A Glance Ahead

Upcoming Events

Date	Event	Comment
July 21, 2019	Japanese elections	
July 23, 2019	UK PM announced	Current frontrunner is Boris Johnson
July 25, 2019	ECB meeting	
July 23-30, 2019	BOJ meeting	
July 30-31, 2019	Second Democratic Debate	Round II for the DNC debate forums
July 30-31, 2019	FOMC meeting	Will the Fed lower rates?
August 22, 2019	Fed Jackson Hole Conference	
October 1, 2019	Japan sales tax increase	Sales tax is scheduled to rise from 8% to 10%
October 21, 2019	Canadian Federal Elections	
October 31, 2019	Brexit Deadline	Article 50 extension deadline
2H2019?	USMCA vote	Likely congress to vote yes but debated

Source: FactSet. TD Greystone Asset Management.

While the equity markets seemed not to pay much attention to the Brexit drama last month, British PM Theresa May announced that she will step down as Conservative leader, triggering the process to choose a successor in July. A potential outcome of this could be a new vote on Brexit itself, either by new Parliamentary elections or by another referendum. For now, the October 31, 2019 deadline for finalizing the transition arrangement still applies.

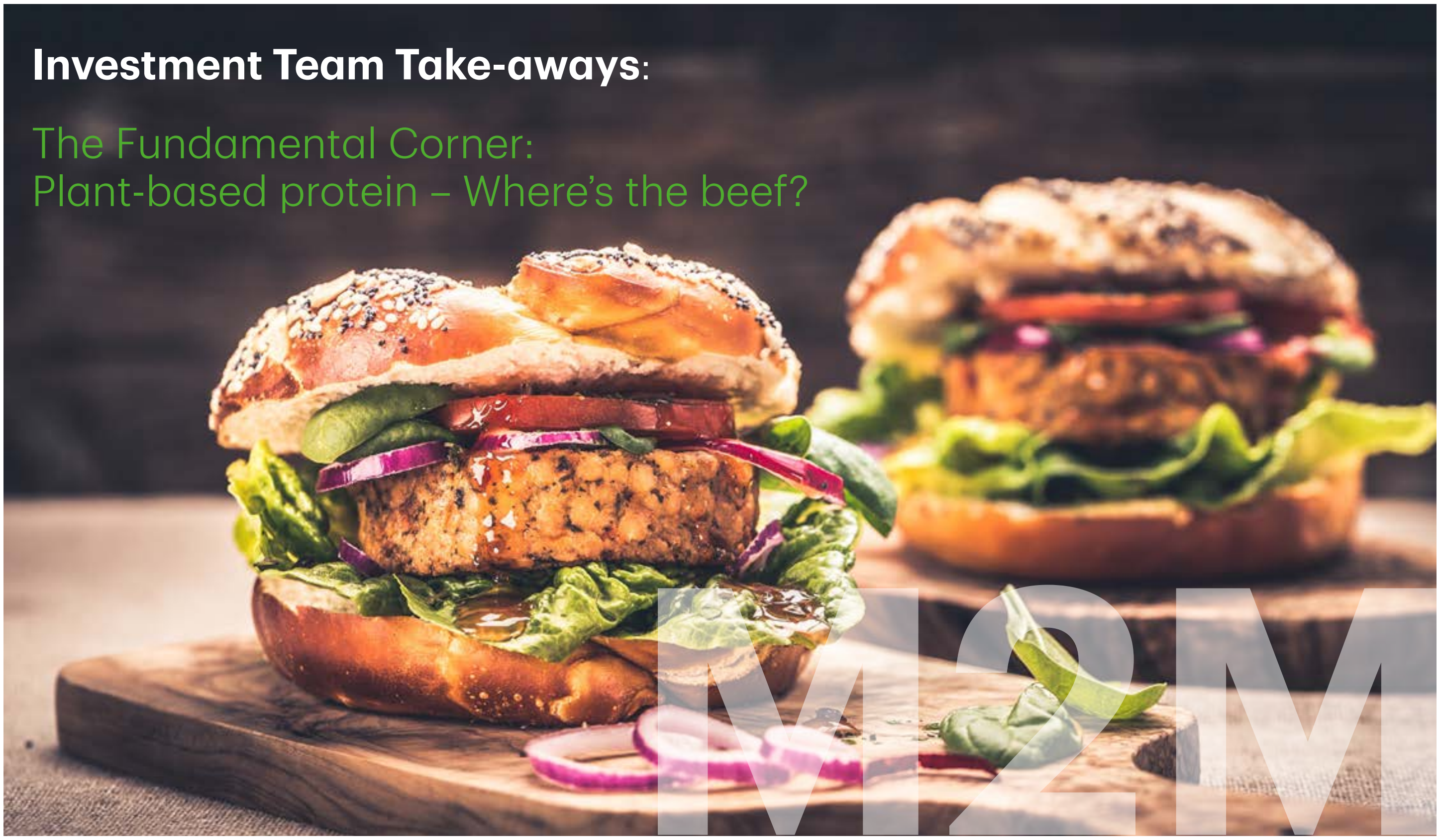
The Bottom Line:

Our exposure in the U.K. is tilted to companies with the majority of their revenues coming from outside of the U.K. **We believe our direct exposure to the U.K. has been minimized and our exposure through U.K. listings is not material.** There are many moving parts to the U.K./EU negotiations and, as such, we do not believe that adding exposure is favorable on a risk-reward basis at this time.

As far as the U.S.-China trade dispute coming to a resolution in the near term – or not - our investment process looks to diversify risk exposures by region and by sector. As such, we are cognizant of the macroeconomic risks associated with a prolonged trade dispute and, when possible, seek to reduce sources of macro risk. As noted above, at TD Greystone we believe that we are in the later stages of the business cycle, and therefore have moved to a balanced exposure to cyclical and defensive companies when compared to the respective U.S., International and Global indices.

Investment Team Take-aways:

The Fundamental Corner: Plant-based protein – Where's the beef?



Many of our readers will be able to immediately recognize the humour in the title "Where's the beef?" For those of you unfamiliar with "Where's the beef?", this was a catchphrase in the United States and Canada introduced in 1984. The phrase originated as a slogan for the fast food chain Wendy's. Since then, it has become an all-purpose phrase questioning the substance of an idea, event or product.

Each month, we feature some of the work coming from our Public Equities team. This month, we feature an analysis by Leila Kulbayeva, Global Consumer Staples Analyst, on the growth in the plant-based protein industry.

Disruption comes to the plant-based burger industry. You may have tasted the latest plant-based burgers from Beyond Meat ("BYND") in Canada at A&W, or their similar breakfast sausage at Tim Horton's, or you may have picked some up at the grocery store to consume at home. While BYND certainly has grabbed the most attention so far, it isn't alone in the new veggie-patty category: Impossible Foods Inc., Kraft Foods Inc., and Morningstar Farms Inc., are among its competitors in the U.S., while Maple Leaf Foods Inc. is a Canadian competitor with significant U.S. market share.

The disruption to the meat industry comes after many decades of stagnant product development in the vegetarian burger category. Originally, plant-based protein brands struggled with the fundamentals of price, taste and convenience. They targeted only a small niche of consumers. Today's high-growth plant-based protein companies, BYND and Impossible Foods, are targeting mainstream consumers. New methods of manipulating plant-based protein and other ingredients to formulate a patty that looks and tastes like ground beef have created a breakthrough opportunity for some food companies. Maple Leaf Foods Inc. President and CEO, Michael McCain, estimated that the size of the market today is about US$1 billion in North America alone.

The Bottom Line:

Beyond Meat shares go up beyond reason. Regardless of what you might think about the new burgers, equity investors seem to be well onboard with the plant-based protein movement. Shares of BYND have increased more than 500% since its May 1, 2019 initial public offering. Our research shows that the global plant-based protein market is expected to grow at an approximate 7.0% CAGR over the next 4-5 years. Drivers of value in the industry will come from strong revenue growth given initial pricing power associated with strong demand and limited competition today. We expect that over the next few years this pricing power will slowly decline as the number of players in the industry increases. New entrants will spur more innovation and development, which over time will shift the focus toward quality, food safety and sustainability of plant-based proteins. Beyond the 5-year outlook, industry consolidation is likely to occur, and the profit-margin structure of the industry will likely change again.

We will continue to watch industry developments closely, but we do not own shares of BYND in any of our pooled funds today. For one thing, our investment discipline does not typically lend itself to participating in IPOs. Secondly, we find the valuation of BYND shares to be irrational at this time, given earnings are estimated to become positive only after 2021. Shares currently trade at 41.2x times price-to-sales, compared to the industry average of 1.5x. We are a growth manager but we don't like to overpay for growth. Valuation has to make sense to us. Today, it just doesn't make sense to us to buy into BYND.

Our exposure to the plant-based protein industry comes through our holding of Maple Leaf Foods Inc. (MFI-TSE), which is currently investing in plant-based strategies. MFI's plant-based protein market share in the U.S. is approximately 40%, and it intends to maintain that leading position through its Lightlife and Field Roast brands by investing in additional processing facilities. The interest seen in the debut of BYND has positive implications for the valuation of MFI's plant-based protein business.

Growth.

It's what we do.

Broader offerings. More opportunities.

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