

PORTFOLIO ACTIVITY

In February, we sold our shares in Vontier (which had been spun out from Fortive) and trimmed weight from CVS to generate the capital necessary to open a new position in Intercontinental Exchange Inc.

FEATURE STOCK

Middleby Corp. (MIDD)

Perhaps no stock in DM portfolios symbolizes the economic anxiety brought on by the pandemic and the recent optimism unleashed by vaccine distribution better than MIDD. As a leading manufacturer of commercial food service equipment, MIDD found itself squarely on the frontlines of the lockdown and the market saw little to like in its future, slicing off more than half its share price last March. A year later, though, with investors looking around the corner to a time when restaurant traffic will have rebounded, the stock has more than tripled, reaching a new high in early March. Though sales were understandably down from the same period last year, MIDD's recently reported Q4 earnings per share of \$1.62 were well ahead of the \$1.41 that was expected. CEO Tim Fitzgerald said, "Our solid financial performance was a result of successfully reducing our cost structure and maintaining strong levels of profitability across all three of our business segments, despite revenue decreases." Perhaps most heartening to investors were indications that the business is bouncing back strongly, with the company's order backlog now sitting at a record \$522.7 million.

PRUDENTIAL PAYBACK

Like just about everyone else at this time last year, Canada's banks were justifiably concerned about what the unfolding pandemic would mean for their economic futures. How would mortgage books be impacted by surging unemployment and a potential chill across the real estate market? Where would the explosion of the government's balance sheet send interest rates? Would ordinarily reliable wealth management and brokerage revenues plunge if investors became locked in a state of inactivity? Against this uncertain backdrop, the management teams of the big 5 banks sharply increased provisions for credit losses (PCL's), while the Office of the Superintendent of Financial Institutions (OSFI) put a freeze on share buybacks and dividend increases.

As it turned out, the scale and swiftness of government programs, such as CERB, filled the economic chasm created by the lockdown and the principal worries hanging over the banks never came to pass. In fact, federal support contributed to:

- a surge in deposit growth
- a drop in impaired loan PCL's to their lowest level since Q1-2007
- a boom in capital markets activity, leading to higher brokerage, mutual fund, and wealth management fees

Contrary to what might have been predicted just months ago, profits for Canadian banks grew by 12% in the most recent quarter, with collective earnings per share reaching an all time high and exceeding consensus expectations by widest margin on record. Though bank stocks roughly tracked the TSX through its covid-crisis plunge and initial recovery, they began to separate themselves from the broad index at the beginning of last year's fourth quarter; in early Q4, we added to our positions in Bank of Nova Scotia and TD Bank and boosted our weight in regional lender, Canadian Western Bank. With significant capital accumulated, Canada's banks now sit in an enviable position – when OSFI eventually loosens its restrictions on buybacks and dividend increases, look for a big chunk of this cash to be returned to shareholders.

