Today's Challenging Markets

Talking points from Brian Belski

Instant Replay for Brian Belski Call:

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On May 27th 2020, Brian Belski of BMO Capital Markets – who oversees the BMO U.S. Equity Plus Fund joined BMO GAM to provide a fund and markets update.

Key Takeaways from the call:

On Brian Belski's management style and BMO US Equity Plus Fund: Everything flows through Belski's research, as he the Chief Investment Strategist at BMO Capital Markets for BMO Investment Strategy Group. He is a stock picker, and has always preferred to have fewer versus more stocks, with his portfolios generally between 35-50 names. A large position would be 4%, while a small one would be 1%. If Belski is worried about a name, he would generally start bringing it down to 1%, while the opposite applies for new positions where the position would start at 1%, before building over time with higher conviction. His portfolios have low turnover, and he prefers not to have high flying "hot" stocks, with perhaps Lululemon and Amazon being the only exceptions.

On the headlines and negativity in the markets: Belski remains bullish, and believes the U.S. is in the middle of a 20-year secular bull cycle. He urges investors to ignore headlines and negative rhetoric, proclaiming that the fundamental construct of the U.S. stock market is in the best condition it has been in years, and therefore the best place to be invested. He is not a fan of macro investing, pointing out that in the last 20 years the world was dominated by economists and quantitative analysts building models to provide buy signals, as opposed to his fundamental belief that you should buy a stock because it is a great company. He thinks that now is the time more than ever to tune out the rhetoric and focus on fundamental research, and once again urges investors to ignore the negativity that has plagued the financial services industry for years. He thinks it is not a coincidence that private wealth has done a better job than institutional investors lately, who have made lots of binary decisions based on headlines.

U.S. Sector positioning

Belski still favours U.S. over next 3-5 years: The economy is positioned for onshoring and repatriation, and has the best companies in the world to get through an increasingly volatile period. His favourite sectors were Communications and Technology heading into the pandemic, and that has not changed. In particular, he believes Technology is a secular overweight in portfolios, and that it has its tentacles everywhere with regard to onshoring, industrials, consumption and health care. He also likes REITs, using it as a source for yield, and indicates that his research has shown that Consumer Discretionary should be overweight during recessions, noting that the biggest theme in the sector is now lifestyle, with Lululemon the best stock representing that theme.

Canada Sector positioning

Canada is misunderstood and undervalued: Belski is particularly bemused by the negativity and rhetoric surrounding Canadian banks. He has maintained core positions in BMO and RBC, thanks to their more U.S.-centric business and diversified business models, pointing out that recent earnings results showed that Capital Markets and Wealth Management can carry the weight. He believes that any rallies within the next 6-12 months will be driven by the big banks, and finds the speculation that Canadian banks would cut dividends "ridiculous", instead pointing to their strong dividend history.

Pointing to his published research on Canada, he thinks there are two contrarian signals for two of the most important sectors in Canada: Energy and Financials. First, record levels of contango in the WTI crude (when future prices are above spot prices) have historically been followed by a triple digit advance in WTI prices over the next 12 months, an advance that he points out has already happened with the recent surge in WTI crude prices. Second, record high loan loss provisions have historically signaled rallies averaging 25% over the next twelve months. He thinks the underperformance was largely from U.S. hedge funds shorting Canadian bank stocks. He reiterates that he is overweight Financials, Energy and REITs in Canada, and underweight Health Care due to cannabis stocks.

Concluding, he urges investors to brush aside the negative headlines and remember that "good stocks drive markets". He still thinks the U.S. stock market is in the midst of a 20-year bull market, and it is better to be in Canadian positions that are centered towards the U.S, as he believes over the next 3-5 years it is still very much "As America goes, so goes Canada."

Fund Codes

Series	MER (%)	Front End*	Low Load	DSC†
Canadian Dollar Codes				
Advisor Series	2.20	BMO99744	BMO98744	BMO97744
F Series	0.82	BMO95744	-	-
US Dollar Codes				
Advisor Series	2.20	BMO79744	BMO78744	BMO77744
F Series	0.82	BMO40744	-	-

* Sales Charge † As of May 4, 2018, DSC purchase option is no longer available for sale.

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