O Canada

The North American market may act as a safe haven for investors in the near future...

Update
29 April 2022

Earlier this month, **we wrote** that investors looking to protect their portfolios against the Scylla and Charybdis of high inflation and war in Europe may want to look at **BlackRock Latin American (BRLA)**.

The trust's exposure to commodities companies, along with the West's need for alternative trading partners as countries seek to isolate Russia, mean there are some positive macroeconomic tailwinds working in BRLA's favour.

But there is an argument to be made that these trends won't only benefit Latin America. Although the US has its own problems, notably high inflation, it looks more immune to some of the difficulties countries in Europe are now facing, particularly regarding energy security.

The same is also true of Canada. In fact, Canadian companies are arguably better placed than their southern peers to benefit from the current macroeconomic environment. Partly that's due to the pressure inflation has placed on higher valuations. The Canadian stock market has performed well since the pandemic started in 2020 but has not seen the same sort of eye-watering earnings multiples that the US has.

Prospective interest rate hikes have not been as hard-hitting to equities as a result. Whereas the S&P 500 is down almost 13% in the year up to April 27th, the S&P/TSX index has fallen less than 3%.

Another reason for that is likely to be the prevalence of energy, materials, and industrials companies on the market. Indeed, 16.97% of the MSCI Canada Index was comprised of energy companies at the end of March 2022 – very close to the 16.90% in the equivalent Brazilian index. These businesses have benefitted from high commodities prices and can also keep prices in line with inflation.

One trust that seeks to take advantage of opportunities in the Canadian market is **Middlefield Canadian Income (MCT)**. The trust is overweight to energy and utilities and has substantial exposure to businesses in the oil and gas pipelines sector as well.

MCT also invests heavily in real estate investment trusts (REITs), with holdings in the commercial, industrial, healthcare, office, and residential sectors. Trust manager Dean Orrico wrote in a report published earlier this month that he expects REITs to manage inflation by raising prices, adding that some of the REITs in the MCT portfolio have inflation-linked contracts with tenants.

Canada has been slow to open up from the pandemic but, as that happens, rental rates are returning to pre-pandemic levels. Despite this, some REITs in the MCT portfolio continue to trade at a discount. These may tighten as 'normality' returns, providing some capital uplift to the MCT portfolio as well.

None of this is a guarantee of success. We continue to live in an extremely volatile world but, all things being equal, Canada looks like one of the more resilient options available to investors.

Past performance is not a reliable indicator of future results

Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that Independent financial advice should be taken before entering into any financial transaction.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. **In particular, this website is exclusively for non-US Persons.** Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.