

The investment trust that is set to benefit from higher inflation and interest rates

By Nick Sudbury 26 April 2022



Middlefield Canadian Income is heavily invested in pipelines and energy, real-estate, financials and renewable power generation, it also enjoys a favourable economic backdrop with Canada being a net exporter of oil and gas.

There has been a strong improvement in the relative fortunes of Canadian equities since the development of the first Covid vaccine in November 2020. One of the main beneficiaries has been the £200m **Middlefield Canadian Income (LON: MCT)** and it has enjoyed further gains since the increase in energy prices following the invasion of the Ukraine with plenty of upside still to come.

Middlefield is the UK's only listed Canadian equity fund that is focussed on high income and is currently yielding 3.7%. The dividends should be fairly dependable as the underlying portfolio consists of stable, profitable businesses with competent management teams and strong balance sheets.

It is an unusual fund as the managers have the flexibility to invest in both Canada and the US, although at the moment the latter only accounts for five percent of the assets. The difference in valuation between the two countries is immense – it has been more than 20 years since the forward P/E discount was this extreme – with Canadian equities looking cheap compared to their southern counterparts.

Reversal of fortune

Since the global financial crisis of 2008 the US stock market has powered ahead with its heavy exposure to tech benefiting from the low inflation and low interest rate environment. Resource-rich

countries like Canada have been left trailing in its wake, but the development of the first Covid vaccine in November 2020 has brought about a significant change of fortune.

Middlefield has certainly benefitted from this, yet the broker Investec thinks it can continue to deliver attractive returns as we move into a new regime of higher inflation, interest rates and volatility. They have just issued a buy note with the shares available on a nine percent discount to NAV.

Investec also highlight the relatively favourable macroeconomic backdrop with Canada forecast to achieve GDP growth of 3.9% in 2022. As a net exporter of oil and gas it benefits from higher commodity prices and will not experience the risk of such high inflation and interest rates as the US and Europe.

Ideally positioned

The trust's two largest sector weightings are real-estate at around 26% and financials at 25% and both should benefit from higher inflation. Many Canadian REITs are still trading on discounts despite the strong earnings growth, while financial stocks should do well in a rising rate environment and are expected to increase dividends again this year.

There is a strong focus on renewable power generation within the 15% utilities weighting and a similar exposure to pipelines and energy, with the manager having increased his allocation to these areas to take advantage of the impact of elevated commodity prices on cash flows.

It all suggests that Middlefield Canadian Income is ideally placed to benefit from the new regime of higher energy prices, inflation and interest rates. The trust offers the potential for capital growth and a decent level of income so should appeal to all risk tolerant investors.

