DIXON MITCHELL
INVESTMENT COUNSEL

DM MONTHLY REPORT
April 2023

PORTFOLIO ACTIVITY

In March, we trimmed several equity positions which had depreciated significantly and reallocated this capital within mandates.

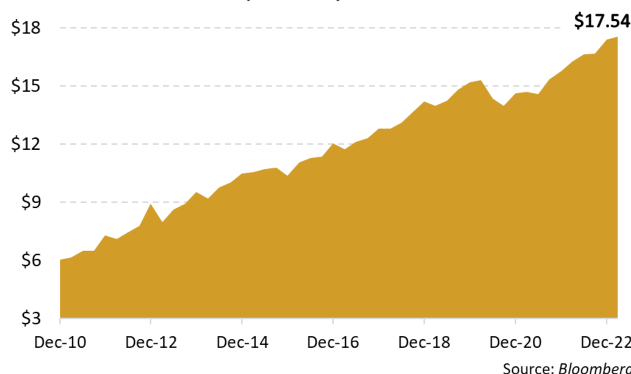
FEATURE STOCK
JP Morgan (JPM)

The biggest US bank by assets reported a significant earnings beat for Q1, exceeding analyst expectations by more than 25% on an adjusted per share basis. The result helped propel JPM shares to a one-day gain of nearly 8% and provided investors with a great deal of comfort in a quarter filled with banking uncertainty. Whereas regional banks struggled to hang onto deposits in the wake of the Silicon Valley Bank failure, JPM saw its savings balances rise on a quarter-over-quarter basis, with individuals seeking safety amidst the turmoil, a trend which will likely spill into Q2. At the same time, management guided that interest income in 2023 will be about $81bn, or $7bn more than their previous forecast. Some of this expected jump can likely be attributed to the fact that, by virtue of its brand and fortress balance sheet, JPM is able to pay less on deposits than its smaller peers, creating a greater spread vs. now higher mortgage and other loan rates. With worries building around the outlook for commercial real estate, CEO Jamie Dimon also reminded shareholders that this area represents less than 10% of JPM's loan book and is primarily focused on multi-family properties in supply-constrained markets.

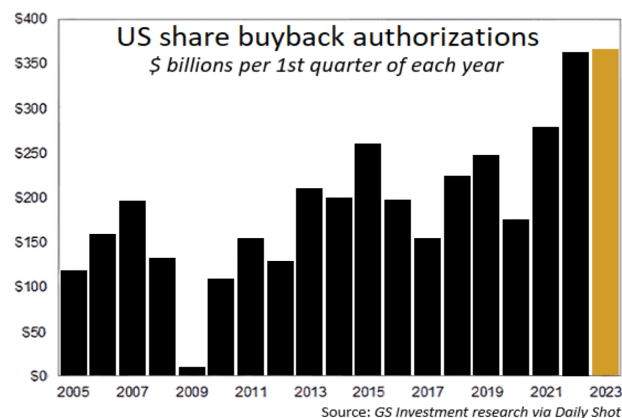
AND THE CASH ROLLS ON ...

As we've highlighted in the past, the most important fundamental input to our equity evaluation model is cash flow, and in particular its steady production, its growth, and how it's redeployed by management. When a company is presented with attractive investment options, it will often retain much of its generated capital and use it to boost organic growth or to fund acquisition activity. Organic growth opportunities can be represented on the company's balance sheet (e.g. Dollarama using internal cash to open new stores and expand warehouse facilities) or they might flow through the income statement (e.g. Thermo-Fisher spending funds to develop a better covid test). Strong management teams, however, are also able to recognize when the investment landscape is less attractive and when potential projects are not likely to produce returns in excess of the company's cost of capital. When this is the case, it's often preferable to return some or all of the excess cash to shareholders, either directly through dividends or by repurchasing and retiring outstanding shares.

While investors obsess over the possibility of a recession, whether or not interest rates have peaked, or where the market will go next, companies have been quietly returning capital to shareholders at a record clip. The charts below show that aggregate dividends paid by S&P 500 members and 1st quarter share buyback authorizations have both reached all-time highs. Though market chatter will always find an audience, it's concrete fundamentals like these that drive long-term wealth accumulation.



Source: *Bloomberg*



Source: *GS Investment research via Daily Shot*