Cardinal Update

SEPTEMBER 2024

A Double Dose of Good News

BANK OF CANADA CUTS RATES AGAIN AS TSX HITS ALL-TIME HIGH

Amid slowing inflation and rising unemployment, the Bank of Canada kicked off September by lowering its benchmark rate by another 25 basis points.

It's the third quarter-point rate reduction in 13 weeks, bringing the country's key interest rate down to 4.25 per cent as the central bank continues to walk an economic tightrope with inflation falling to 2.5 per cent and unemployment rising to 6.6 per cent.

Many economists and market observers believe additional rate cuts are needed to help stimulate the economy and provide some relief from the crippling levels of consumer debt that Canadians currently hold – $2.5 trillion at the end of June, up four per cent from a year earlier.

Against this backdrop, the S&P/TSX quietly hit an all-time high of 23,413 in late August, up nearly 19 per cent over the last 12 months.

Our investment thesis from last fall has been playing out – that an eventual rate-cutting cycle would propel companies that continued to generate profits and grow their dividends but weren't seeing that reflected in their stock price.

This has contributed to a 21 per cent gain in the S&P/TSX over the past year, but has especially benefited our dividend-focused Canadian Equity portfolios that have posted returns well ahead of the S&P/TSX over the same time period. Interest rate sensitive companies such as Manulife, CIBC, RBC, TC Energy and Pembina Pipelines have helped lead this charge.

Staying invested and being patient has paid more than dividends. As we look ahead, the combination of falling interest rates and resilient corporate earnings should continue to drive strong performance for Cardinal holdings as the share prices better reflect the underlying company fundamentals.

As individuals, this is also a great time to proactively take stock of your personal financial situation. If you carry a mortgage, how much time is left until you have to renew it and how might a declining interest rate environment be beneficial for you?

We believe we're in the middle of a worldwide rate-cutting cycle. If you have a variable-rate mortgage, it would likely be beneficial to switch to a fixed-rate mortgage in the near future. Other possibilities include blending and extending your term to provide repayment certainty or changing your amortization period.

Or maybe increasing assets have provided you with the comfort level to proceed with a large expense you had been postponing, such as replacing a vehicle, completing a home renovation or leaving a legacy gift to your favourite charity.

We remain focused on identifying quality companies that thrive in this evolving economic environment. Our strategy of maintaining a diversified portfolio and capitalizing on opportunities in interest rate-sensitive sectors positions us well for future growth.

COMPANY FOCUS: ELEMENT FLEET MANAGEMENT

The next time Amazon delivers a package to your door, thank Element Fleet Management for overseeing the vehicle that brought it to you.

Element relieves the stress of running a fleet of vehicles so companies in oil and gas, energy, construction, food and beverage, healthcare and utilities can focus on more important, revenue-generating matters.

Element provides the servicing and fleet management as well as the vehicles themselves (through lease arrangements) to a wide array of customers across North America, Australia and New Zealand. It operates about 1.5 million vehicles, ranging from from Mercedes Sprinter Vans to Chevy Malibus.

Element uses its scale in purchasing and servicing to provide clients with lower operating costs (about 20 per cent) than in-house management.

Following the restrictions of the COVID-19 pandemic and the lack of vehicle availability, Element is finally able to grow without constraint. As vehicle manufacturers continue to move away from the internal combustion engine while companies struggle with the complexity of an electric vehicle-centric fleet, Element is well-positioned to guide its corporate clients through the process and gain new clients at the same time.

As Element grows, we expect shareholder returns to follow suit. The company increased its dividend by 20 per cent in 2023 and we believe further dividend hikes are likely as it continues to strengthen its balance sheet.

DIVIDEND INCREASES

COMPANY	INCREASE
Saputo	2.7%

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Cardinal CAPITAL MANAGEMENT 30 YEARS