Q2 2023 – The Quarter That Was

IT'S *DÉJÀ VU* ALL OVER AGAIN

Kyle Smith

If the second quarter seemed eerily familiar, that's because many themes continued from Q1.

While inflation appeared to be levelling off, central banks are still increasing rates to combat rising prices. This is a balancing act. Higher rates increase the cost of borrowing, but higher prices make overall life less affordable. The goal, of course, is to minimize the impact of both. As managers of risk, we expect some economic indigestion as this process works its way through the system.

It is *déjà vu* all over again as the S&P 500 Index staged a rally that was once again dependent on the performance of a small group of the largest publicly traded technology companies. Year-to-date, the index was up 15.9% – and 73% of that came from seven stocks. That is not a typo.

While less disciplined investors would have been tempted to chase momentum, Newport is experienced enough to know that the torch eventually gets passed off to a broader group. We have started to see this happen.

Meanwhile, U.S. banking crisis worries carried into April. Treasury bonds staged a spring rally as they are viewed as a form of financial "safe harbour" in times of crisis. However, by the time the Maple Leafs made their annual early playoff exit, the bank regulators appeared to have things under control. Our Investment Committee continues to monitor this situation.

At the halfway point

The year-to-date performance of our five mandates is inline with expectations. We manage and evaluate ourselves over a three or five-year economic cycle, not three-month windows.

Periodic lags are normal in the short term, especially after outperforming in 2021 and 2022, and our long-term performance proves our thesis and approach.

Assessing opportunities in times of stress

Newport's Investment Committee is always assessing new opportunities. Ideas are analyzed through a three-to-five-year lens to best position our clients for long term success. New investment activity in the second quarter showcased our multi-asset class approach to investing and highlighted our ability to source, analyze and invest in these opportunities.

Public Equities: We make investments in regular intervals in public equities as we prefer to make consistent allocations to participate with market fluctuations. We believe that "time in the equity markets" matters more than "timing the equity markets".

Fixed Income: Interest rate hikes have put a shine on the bond market that has been absent for more than a decade. Access to other income-generating asset classes is being balanced by new opportunities. We invested in the bond market in April, adding to previous fixed income allocations in 2023. This asset class will remain an area of keen focus for our Investment Committee.

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Infrastructure: After over a year of due diligence, we made a new investment to a maritime shipping fund. It's focused on all three sub-sectors of the shipping industry: dry bulk, containers, and tankers. Investing in all three reduces the cyclical risk associated with any one sub-sector.

Private Equity: We allocated money to a private equity manager with whom we have an extensive track record. The fund is focused on investing in companies poised to benefit from digital transformation in the information, technology, and marketing sectors.

Private Real Estate: Canada is expected to have the fastest growing population of any G7 nation over the next five years, so opportunities in our largest urban centres are attractive. Newport made an investment in a fund focused on private multi-family residential and industrial investments. Our exposure to commercial real estate remains cautiously low.

Newport continues to like the multi-family residential sector, and we have added opportunistically to a new development in the southwestern United States.

Positioning & Outlook

While we've remained active, the prospect of higher interest rates and inflation remain an overhang. The top-heavy nature of the equity market did not entice us to increase weightings beyond first quarter levels.

Newport has longstanding relationships with a global network of best-in-class sub-advisors. We are in constant contact with them to identify opportunities. Those opportunities remain plentiful, particularly in private investments, and we continue to use these asset classes to provide income and growth that are independent of public market performance.

As the next quarter unfolds, we'll continue to use our cash on hand to act strategically. With uninvested cash in our funds yielding 5.20%, we are being compensated to be selective.

To find out more about Newport's unique investment approach, **get in touch**.

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