DM MONTHLY REPORT
November 2023

PORTFOLIO ACTIVITY

In October, we liquidated our position in Brookfield Asset Mgmt. in favour of Brookfield Infrastructure Partners.

FEATURE STOCK
TopBuild Corp. (BLD)

BLD is an installer and distributor of insulation and building material products to the US construction industry. We took a small initial position in the company in DM US Equity in mid-2021, and added significantly to it last year, despite broadly negative sentiment toward housing at the time. While the housing market is not without significant shortcomings at the moment – *exacerbated by the punishing spike in mortgage rates* – it's not necessarily all bad for homebuilders. Because existing homeowners risk forfeiting previously booked low mortgage rates if they move, much of the US resale market has become frozen, leaving new product as one of the only options for would-be buyers. Reflecting this favourable backdrop, BLD recently reported an earnings per share increase of 13% over the same period last year, a result which exceeded analyst expectations for Q3 income by 19%. In addition to residential construction products, BLD also diversifies its revenue stream through commercial and industrial end markets. The company targets accretive acquisitions for the redeployment of internally generated cash flow and had completed four such purchases through October 31st. BLD shares have gained 68% so far in 2023 and 80% over the past 12 months.

STOCKS CORRECT … *BRIEFLY*

As of Halloween, the S&P 500 had fallen by just over 10% from its summertime high, or the threshold that market watchers generally refer to as a "correction". The decline came as one major war rages on, with little end in sight, and a second grim conflict begins. Perhaps even more important from a financial perspective, however, is the fact that interest rates had resumed their climb, reaching heights not seen in a decade and a half. Despite these obstacles, however, the most important equity benchmark was still up by more than 11% year-to-date as November began, which begs the question, *"why aren't stocks down more?"*

On average, corrections happen about once a year, even when equities are in the midst of a general upswing, so the recent dip didn't necessarily signal anything out of the ordinary for stocks. One clue as to why stocks have been relatively resilient against a challenging backdrop might be found within interest rates themselves. A couple of years ago, when mid and long-term bond yields floated lazily below 1%, they were unquestionably mirroring an environment in which inflation was nonexistent and believed unlikely to become a concern anytime soon. The corollary of low inflation, however, is often low growth and, aside from the post-covid bounce back in 2021, calendar GDP in the US never reached 3% in the years following 2005. Against such an anemic backdrop, earnings growth is harder to come by and some have argued that much of the market's rise over the past decade plus was more a function of expanding valuation than of improving fundamentals.

When 3rd quarter GDP was released in the US, however, it came in at a scorching 4.9%, well ahead of what economists were expecting even as recently as a month ago (see below) and certainly a long way from the much predicted, but never arriving, recession. Not surprisingly, this general buoyancy has flowed to corporate earnings, which are 19% ahead of year-ago levels with 64% of S&P companies having thus far reported Q3 results. All of this, combined with a relatively tame labour report, caused the S&P 500 to surge by nearly 6% in the week following the GDP release, putting a quick end to the market's latest "correction".