Why this money manager doesn't foresee a recession and is hedging with growth and defensive stocks

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Anil Tahiliani of Matco Financial.THE GLOBE AND MAIL

Money manager Anil Tahiliani knows some economic indicators point to a recession, but doesn't believe we'll have one here in North America.

"We think we're going to skirt a recession this year. [Gross domestic product] may go to zero or 1 per cent, but not reach a technical recession," says Mr. Tahiliani, senior portfolio manager at Matco Financial Inc. in Calgary, who oversees about $220-million of his firm's $600-million in assets.

Now that inflation has eased and the U.S. Federal Reserve Board hiked interest rates yet again this week, Mr. Tahiliani thinks we're at the end of the interest-rate hiking cycle in North America and anticipates growth across some parts of the economy.

As a result, he's taking a more "barbell" approach to investing by choosing stocks in both the growth and defensive segments of the market.

The largest sector weighting in his $150-million Matco Canadian Equity Income Fund is Canadian financials, at about 29 per cent, which he sees as both defensive (financials benefit from higher interest rates) and growth (sector valuations have dropped owing to the U.S. banking crisis).

His next largest sector weighting is industrials, at 20 per cent, which includes Canada's two main railway stocks, followed by communication services at 14 per cent, which covers his ownership in most of Canada's major telecommunication companies.

The strategy has been keeping investors in the green lately. The fund has seen a total return of 7.6 per cent year-to-date and 2.9 per cent over the 12 months ended April 28. Its three-year annualized return is 16 per cent. The performance is net of fees.

The Globe and Mail spoke with Mr. Tahiliani recently about what he's been buying and selling and a stock he wished he still owned.

Describe your investment style.

We have a very systematic bottom-up approach focused on earnings quality and growth. We avoid riskier investments in asset classes such as cryptocurrencies or junior mining stocks. Our investment process is focused on risk management first then capital appreciation. As a result, we have lower exposure to commodities such as energy and precious metals. It means our portfolios differ significantly from broad-based benchmarks such as the S&P/TSX Composite Index.

What's your take on the current market environment?

Markets have done relatively well year-to-date. U.S. corporate earnings have been stronger than expected, especially technology stocks, which have helped global markets. Some economic indicators are still weak, but the positive – at least in North America – is we're at peak interest rates for now and inflation is cooling, which is giving the economy some breathing room. We think the U.S. Federal Reserve Board will pause rate hikes from here and wait to see the economic impact. We also believe the banking crisis in the U.S. is more of a headline crisis and nothing like what we saw in 2008 or the savings and loan crisis of the 1980s and 1990s.

What have you been buying or adding to lately?

One stock we bought late last year is ATS Corp. ATS-T +0.21% increase. It's a growth company. We see it as a long-term secular trend for companies to automate more of their manufacturing, especially the auto sector. ATS is our top holding, representing about 6 per cent of the portfolio.

We have also been adding to Nutrien Ltd. NTR-T -1.09% decrease. We've owned it since December, 2021, and added more in January. The stock is close to a 52-week low on concerns about the excess supply of corn. However, we still like the company. It's generating strong free cash flow and we think there will be another dividend increase this year and some share buybacks. Also, demand for food will continue to grow, especially protein. Supply concerns remain as the Russia-Ukraine conflict continues. The stock is cyclical, but we still believe the long-term trend is up. Nutrien is about 4 per cent of our portfolio today.

What about selling or trimming?

We haven't done very much selling lately. We trimmed some of our CI Financial Corp. CIX-T -1.01% decrease in November because we saw better opportunities elsewhere. However, we still own CI.

Name a stock you wish you bought or didn't sell.

I wish we didn't sell Dollarama Inc. DOL-T -0.29% decrease in December, 2021. We sold based on valuation concerns. The stock has significantly outperformed its peers and the overall market since then. I would look at buying the stock again on a market correction.

What advice do you have for new investors?

Every market correction is a buying opportunity. To make money in the market, you have to set aside your emotions and focus on the long term. We will always have recession concerns and headline risks, but use those as an opportunity to buy, not as an opportunity to sell. It's not always easy. As advisors, it's our job to put the market downturns in context for investors and keep them focused on their long-term goals.

This interview has been edited and condensed.

https://www.theglobeandmail.com/investing/globe-advisor/advisor-funds/article-why-this-money-manager-is-betting-against-a-recession-this-year-and/