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The idea that a bell rings to signal when to get into or out of the market is simply not credible. After nearly 50 years in this business, I do not know of anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who



- John Bogle



Lorne Steinberg
MBA CFA
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# Time for Noise-Cancelling Headphones

When we look back to the start of this year, imagine someone telling us that the U.S. would impose steep tariffs on nearly all of its major trading partners who would respond in turn with retaliatory tariffs of their own. Hardly a bright scenario for investors.

Our first reaction would probably have been to reduce equity exposure and raise cash in anticipation of slowing economic growth, especially for Canada, increased inflation, and weaker corporate profits. Yet here we are today, with markets performing well and Canadian equities leading the way. Times like this remind us of why investors need to focus on the fundamentals of the businesses they own, instead of thinking too much (and worrying) about the possible implications of current events.

Great businesses, such as the ones we highlight below, have the financial strength and competitive positioning to ultimately help them navigate through any issues they may face. That is why we need to stay focused on the quality of the businesses we invest in and their valuation, and ignore the daily news cycle.



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## Why are markets up?

If you've been asking yourself why markets are up, you are not alone. Many investors are both pleased by this year's gains and puzzled by them, especially given all of the negative news and uncertainty.

So what is going on?

There are a couple of fundamental reasons for the recent market performance. First, corporate earnings, particularly among mega-cap technology stocks, have been exceptionally strong. The market is rewarding those results and pricing in continued growth. The risk is that these companies won't meet these growth expectations.

Second, central banks in both Canada and the U.S. have recently reduced interest rates. Lower rates, and the prospect of further cuts, increase the value of financial assets and offer more incentive for companies to repurchase shares, make acquisitions, or invest in growth. In short, markets are discounting the geopolitical noise and trade issues, while pricing in strong earnings, stable inflation, and accommodative monetary policy.

There is, however, a third factor: investor expectations. With the global economy still expanding, though at a more modest pace, many investors assume that corporate earnings growth will remain resilient while trade and other tensions will ultimately subside. Yet sentiment can shift quickly, as evidenced by April's selloff, so in the near term it would not be surprising if markets retraced some of their recent gains.



### Where's the Value Today?

While technology stocks have been the dominant driver of market performance in recent years, and we have benefitted from our exposure, there are many great businesses in other sectors that offer outstanding value at present.

We own a diversified portfolio of companies not just because we are managing risk, but because when one sector continues to outperform, the best opportunities going forward usually lie elsewhere. An example of this is Smith & Nephew, the UK-based medical device company which is one of our best performing investments this year, outperforming such tech darlings as Microsoft, Meta, NVIDIA, Alphabet and Amazon!

In our portfolios, we own many other world-class businesses such as Allstate, American Express, Cisco, Starbucks, Canadian banks, and Johnson & Johnson.

These companies have stood the test of time, delivering excellent long-term results for investors and should continue to do so in the future.

The securities highlighted below reflect new positions added to our equity portfolio this past quarter and are an example of the type of quality businesses that offer compelling value today.

#### Alimentation Couche-Tard

Founded in Quebec in 1980, Couche-Tard is an operator and licensor of convenience stores (most of which would be accompanied by gas stations) under various banners including Circle K, Couche-Tard, Ingo, On the Run, and Mac's with close to 17,000 outlets globally.

Fuel constitutes about 70% of sales and half of profits. The U.S. accounts for about 60% of revenues, Canada 10% and Europe most of the balance.



The company has consistently demonstrated superior operating efficiency, with industry-leading merchandising margins and disciplined cost control. Their growth strategy has been based on acquiring and integrating smaller chains to expand geographic reach and extract synergies, and the company has completed about 60 acquisitions over the past fifteen years. Given its size, the company enjoys significant economies of scale and purchasing power.

Having served us very well as one of the initial holdings we purchased within our Canadian dividend growth strategy, we sold the stock in late 2024 following Couche-Tard's unsolicited bid for Seven & i Holdings of Japan, the owner of 7-Eleven stores globally, due to our concerns over the potential size and complexity of the deal.

Having now walked away from that purchase, management can refocus on what has made the business so successful over the years, namely driving organic growth supplemented by bolt-on acquisitions so as to both broaden its geographical footprint and increase market share. There remains a long runway of growth ahead, both within existing markets (they only have about 6% market share in the U.S.) and from breaking into new ones, aided by strong free cash flow and a solid balance sheet.

While the transition to electric vehicles raises long-term questions about fuel demand, Couche-Tard has been proactively investing in EV charging infrastructure while also expanding foodservice offerings to diversify its profit base. With its proven ability to generate returns across cycles, a strong entrepreneurial culture, and ongoing opportunities for consolidation of a fragmented global market, Couche-Tard offers an attractive blend of stability and growth.

#### Linde

Linde traces its roots back to 1879, when Carl von Linde founded the company in Germany to commercialize refrigeration technology. Today, following its 2018 merger with Praxair, this company is the world's largest industrial gases company, as well as a designer of gas processing plants. With a global footprint, revenue is fairly evenly split between the Americas, Europe, and Asia Pacific.

In essence, Linde provides customers with high purity gases ranging from those distilled from air such as oxygen and nitrogen to those more processed in nature such as hydrogen and helium. Their products are essential inputs for a vast array of manufacturing processes.

The company's customers cover a wide range of industries such as petrochemicals, food and beverage, electronics, and healthcare.



The industrial gases industry enjoys an oligopolistic structure, as barriers to entry are high due to capital intensity, regulatory requirements, long term take-or-pay contracts, high switching costs and embedded infrastructure. Linde, Air Liquide and Air Products control the lion's share of global markets while Linde is generally regarded as the most operationally efficient and with the most technological knowhow.

They have consistently delivered industry-leading growth due to operational excellence, pricing power, a disciplined acquisition strategy, as well as being at the forefront of investing in newer markets such as hydrogen and carbon capture solutions. This has resulted in industry-leading operating margins and robust free cash flow, supporting both a growing dividend and meaningful share repurchases. With a diversified customer base, strong balance sheet, and exposure to structural trends in clean energy and advanced manufacturing, Linde provides a high degree of predictability in revenues and profits as well as ample growth opportunities over the long term.



#### McDonald's

With one of the most recognizable global brands, McDonald's has come a long way since the opening of its very first restaurant in 1940. Today, as the world's leading fast-food chain, the company operates over 40,000 outlets in over 100 countries around the world (the U.S. accounts for about 50% of revenues) and serves close to 70 million customers daily. The vast majority of outlets are run by franchisees, from which McDonald's collects rent and licensing fees, providing an income stream that is very scalable and much more predictable than its peers.

Their iconic global brand is synonymous with affordability and consistency, key factors that have driven its dominance in the quick-service restaurant segment even through periods of economic volatility. Management continues to invest in operational efficiency and innovation, including expanding its digital ordering capabilities as well as advancing its loyalty programs.

This focus on technology, alongside compelling value promotions and menu innovation, has enabled them to maintain broad customer appeal while driving higher margins and free cashflow even when consumer budgets are pressured. The group is a disciplined capital allocator, paying out half or more of earnings in dividends and a similar amount in share buybacks each year, as well as being able to fund steady expansion. Despite competitive pressures and fluctuating consumer traffic in some segments, McDonald's extensive geographic footprint, cost leadership, and ability to adapt both menu and service formats have made it one of the most resilient and successful consumer-facing businesses in the world.



# Final Thoughts

The idea for noise-cancelling headphones came to Dr. Amar Bose in 1978 during a noisy flight, when he found it impossible to concentrate. After years of development, Bose introduced the first headset for pilots in 1989 and later brought the technology to consumers in 2000, offering travelers the ability to shut out the noise around them and to help focus on whatever is important. Investors today might consider doing the same, cancelling out the noise and focusing on what is really relevant.

We are living in a volatile time, and one can get consumed by worry about the state of the world today. However, today's news should not influence long-term investment decisions. For us, the best approach is not to speculate about the future, but to stay disciplined by investing in a diversified portfolio of quality businesses which have been able to evolve over time and adapt to an ever changing environment.

As the quote at the top of this letter suggests, investors will create far more wealth for themselves over time by owning great businesses, instead of trying to predict what will happen tomorrow.

Sincerely,

Lorne Steinberg Co-President

Lome Stiller

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