

Funds in focus: BFIN - Brompton North American Financials Dividend ETF, LBS - Life & Banc Split Corp., LCS - Brompton Lifeco Split Corp., SBC - Brompton Split Banc Corp.

In our [previous edition of Brompton Insights](#), we discussed how a rising rate environment can be good for earnings of North American Financials. Rising yields in the mid to longer end of the yield curve allow lenders to expand their net interest margins, which means they are borrowing money from deposit holders at interest rates that are near historic lows, while lending out to customers at higher rates. Another good reason for optimism in the sector is the strength of consumer balance sheets.

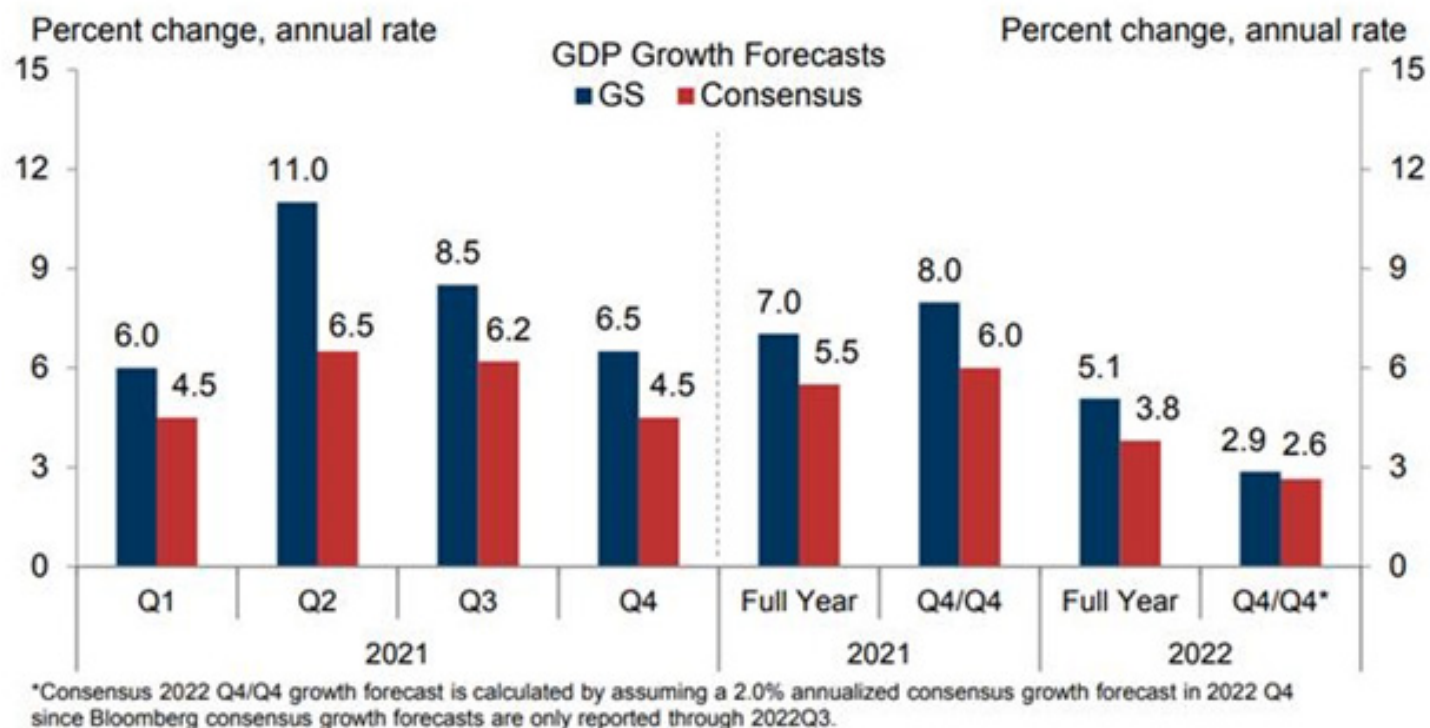
US household savings reached an all-time high in 2020. The combination of temporary business closures and government stimulus cheques resulted in an increase in disposable income for US consumers, who then had no opportunity to spend their money. A similar experience has occurred in Canada. With savings rates still at levels 2 to 3 times higher than the average, North American consumers have significant excess savings and available credit to put to work in the economy.

US Personal Savings Rate



Source: Refinitiv Datastream, as at March 19, 2021

As the pandemic subsides and larger segments of the economy re-open, consumer spending will supplement significant government fiscal spending in 2021 and beyond. The chart below depicts the consensus GDP growth rate for the US in red, and the blue line represents the Goldman Sachs' growth forecast, which is even more bullish through the end of 2022.



Source: Bloomberg, Goldman Sachs Global Investment Research

Despite loan provisions taken in 2020, banks in both the US and Canada remain very well capitalized and have begun a process of releasing excess provisions that have not been realized in their loan portfolios. Economic growth in the ranges noted in the above chart generally results in the expansion of business fundamentals, which further lowers the risk of loan losses and allows banks to expand their loan book as businesses ramp up commercial activity to meet increased demand.

With the pandemic end in sight, The Office of the Superintendent of Financial Institutions has announced that, as of May 1, some of the emergency relief measures put in place last March will be unwound¹. This announcement is the first step in the process of allowing Canadian banks to use the excess capital they have retained over the past year. We expect that in the second quarter of 2021 a further relaxing of capital restraints will allow banks to consider using their excess capital to increase dividends and re-start share buyback programs, both of which typically help move bank stocks higher. Similar restrictions are already in the process of being relaxed in the US.

Lastly, not only are North American Financials very well capitalized, they are also very cheap relative to the broad market. Canadian and US banks are both trading at a discount to the market on a P/E basis. As of February month end, banks in Canada and the US were trading at a 33.5% and 37.2% discount, respectively. The same is true for Canadian and US Lifecos which were trading at a 44.7% and 60.7% discount, respectively.

There are a number of fundamental reasons for strength in the financials sector. The rotation that has begun into financials is well founded and earnings from the sector should continue to strengthen into 2022.

[Brompton North American Financials Dividend ETF](#) (TSX - BFIN, BFIN.U) offers investors a way to invest in a portfolio of large cap North American financial services companies selected by Brompton, complemented by a proprietary covered call program.

[Brompton Split Banc Corp.](#) (TSX – SBC, SBC.PR.A) offers investors a way to invest in an equal weight portfolio of the “Big Six” Canadian Banks.

[Life & Banc Split Corp.](#) (TSX – LBS, LBS.PR.A) offers investors a way to invest in an equal weight portfolio of Canada’s four largest publicly-listed life insurance companies and “Big Six” banks.

[Brompton Lifeco Split Corp.](#) (TSX – LCS, LCS.PR.A) offers investors a way to invest in an equal weight portfolio of Canada’s four largest publicly-listed life insurance companies.

¹⁾Source: Advisor's Edge: OSFI unwinds emergency pandemic relief measures

This document is for information purposes only and does not constitute an offer to sell or a solicitation to buy the securities referred to herein. The opinions contained in this report are solely those of Brompton Funds Limited ("BFL") and are subject to change without notice. BFL makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, BFL assumes no responsibility for any losses or damages, whether direct or indirect which arise from the use of this information. BFL is under no obligation to update the information contained herein. The information should not be regarded as a substitute for the exercise of your own judgment. Please read the annual information form or prospectus before investing.

Commissions, trailing commissions, management fees and expenses all may be associated with exchange-traded fund investments. Please read the prospectus before investing. Exchange-traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

You will usually pay brokerage fees to your dealer if you purchase or sell shares of the investment funds on the Toronto Stock Exchange or other alternative Canadian trading system (an "exchange"). If the shares are purchased or sold on an exchange, investors may pay more than the current net asset value when buying shares of the investment funds and may receive less than the current net asset value when selling them.

There are ongoing fees and expenses with owning shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in the public filings available at www.sedar.com. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

Certain statements contained in this document constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to matters disclosed in this document and to other matters identified in public filings relating to the fund, to the future outlook of the fund and anticipated events or results and may include statements regarding the future financial performance of the fund. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.



VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

Investor Relations

PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website

www.bromptongroup.com

Address

Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3