Mark Noble
Hi everybody. It's Mark Noble, Senior Vice President of ETF strategy at Horizons ETFs and you're listening to our latest episode of Generation ETFs. Really excited about today's episode because we have one of my favorite people to chat with about macro-economic issues, Candice Bangsund, who is a VP and portfolio manager of the global tactical asset allocation group at Fiera capital. And why I think it's really exciting to have Candice on right now, particularly as we look at start of the year is because I think you'll find that many investors are very frustrated with the market performance of last year, not the returns, but I think the experience of being an investor last year. Because despite generating good returns last year, they weren't in a straight line and I think if you were glued to BNN or Globe and Mail or whatever it is you get your investment news from, the news seemed very dire, very negative and a lot of conversations we had were concerned around deflation and the ongoing US-China trade war.

Mark Noble
I think that's why it's a real gut punch to a lot of investors that despite all this 2019 was actually the best year for US equity returns since 2009. So despite all of this negative movement in terms of economic concerns and discussion around the end of the bull market, it was quite the opposite. It was a great year to be an investor. It probably just didn't feel like a good year to be an investor. Now, it's really great to have Candice because our value partners at Fiera Capital have been very consistent from the beginning that we've been working with them, but particularly in 2018, 2019 talking about the fact that despite all of this concern that we get from the news media, we're actually still fully in sort of a global economic expansion. So they were very bullish at the start of the year, which I think they took some flak for, ended up being prescient, ended up being right, which is always good to hear if you're an economic forecaster.

Mark Noble
And we're going to talk about what Fiera and Candice see going into the rest of 2020. So we're going to talk about some of the key macro-economic trends with Candice Bangsund who is the Vice President and Portfolio Manager of global asset allocation at Fiera Capital as I mentioned. And rather than me introduce you Candice, just tell us a little bit about what you do there because I think you have a really interesting role that you're working for a large independent asset manager really helping inform sort of their internal investment decisions.

Candice Bangsund
Thanks Mark. So you essentially nailed it. We are the global asset allocation team and we essentially derive the mix between stocks and bonds on a tactical basis for a 12 to 18 month time horizons for all of our clients across the board. And this involves obviously a lot of macro-economic research, forecasting on the economy, financial markets, and inevitably properly positioning our client's portfolios to capitalize on our expectations for financial markets.

Mark Noble
And the actual portfolio management teams, they don't necessarily take what you do and put it into their strategies, but certainly it informs a lot of kind of the opinion and commentary that comes out of Fiera?

Candice Bangsund
Well, from a top down perspective, a balanced portfolio would implement our tactical asset allocation strategy, whereas the individual investment managers operate independently from a bottom up perspective. So we come at it more from a top down stocks versus bonds perspective. Whereas they're looking at the underlying fundamentals of a company, for example.

Mark Noble
So looking at really the top view asset allocation as opposed to security selection?

Candice Bangsund
Exactly. Yeah.

Mark Noble
And globally, we've heard a lot of discussion about deflation and the potential for an economic recession going into 2019 so going back a year, most people were saying, "Well, I don't think there'll be a recession in 2020 but there might be in 2021." Looking at your annual outlook it does seem that your view tends to be a little bit more expansionary on this. So are we in for slower economic growth at any point in the next couple of years?

Candice Bangsund
Well, okay. It's interesting because in 2019 like you said, there was a lot of pessimism on the state of the global economy. Back in August when the yield curve inverted, we even heard the recession chatter pick up quite substantially. We maintained our positive bias on the global economy though and thought that a lot of those fears were misplaced because of course a lot of the weakness in the global economy was largely concentrated in the factory sector and notably in survey data. And this of course was stemming from uncertainty on the US-China trade front. While in contrast, the consumer, the services side of the global economy remained fairly healthy and the environment of rock bottom unemployment, higher wages, the consumer in general remained quite positive. And our view was that that would cushion the blow from factory related uncertainty.

Candice Bangsund
So our base case for a re-acceleration coming into 2020 was based on two key catalysts. One, was a resolution or a ceasefire on the US-China trade debacle, which has essentially come to fruition with the phase one agreement. And we can talk a little bit about that later, but essentially that means that trade issues will be sidelined for 2020. So that's the one key catalyst in helping to reinvigorate the global economy, most notably in the factory space. And we're starting to see some very early indications of this coming to fruition. And the second of course is all of the reflationary efforts that we've seen from central banks, from governments finally proving successful in revitalizing the global economy.

Mark Noble
It's like 2013 again.

Candice Bangsund
Exactly, exactly. We've had three of these boom bust scenarios and I think we're in the third right now.

Mark Noble
Okay. At some point though, do we just go bust?

Candice Bangsund
At some point? Yes. But because of all of that reflation in the system and the central banks accommodative bias, this has inevitably extended the dawn of recession and the length of the expansion, you hear a lot of talk about, "Well, we're in a record long expansion," these things don't die of old age. They can go on for longer. And we've pushed our call for a recession to 2022.

Mark Noble
2022?

Candice Bangsund
Yeah.

Mark Noble
So that's when I should start getting out of my long US treasury tree?

Candice Bangsund
Mark it's obviously going to front run that so probably six to nine months before you're going to want to start. We're going to be likely underweight equity at that time.

Mark Noble
Okay. Nice segue there. Right now I'm looking at your outlook, you are overweight equities right now relative to the fixed income market.

Candice Bangsund
Yes. We've maintained that overweight equity positioning all through 2019 so like you said, we had a phenomenal year with that position. We have carried that over into 2020 because that reflationary environment that I described is still evolving as we expect it. In fact, we're just coming out of that cyclical downswing and we expect the economy to, like I said before, re-accelerate. At the same time, you've got central banks, they're not going anywhere. They're not taking away the Punchbowl. This is that Goldilocks, not too hot, not too cold backdrop that is positive for equities versus bonds.

Mark Noble
And you did mention that you factored in the likelihood of a China agreement last year. How does that work out this year in your outlook? So obviously we did phase one, I'm assuming phase two comes to some sort of fruition. Is that already factored in then this expansionary view?

Candice Bangsund
So the base case was the phase one agreement. But the inevitable truth is that we have not yet come to a conclusion on the US-China trade situation. The structural longer term imbalances and issues have yet to be resolved. That's largely going to take place in phase two. So while trade is still our largest risk to the base case, we think, as I mentioned, that this will be sideline for 2020 going into the re-election for Donald Trump. We do not think we're going to see an escalation in 2020 though after the elections, we're going into 2021, this is when we think trade issues and that protectionist push will come more into focus.

Mark Noble
Did any of the trade issues actually work their way into the economic system? I mean obviously valuations were being hurt because people recognized how impactful that could be for trade, but from what I've seen, you look at this stuff closer than me. Before what I've seen, a lot of the Chinese exports were sort of front run in front of the agreement. So you had like a big ramp up in 2018 before tensions in terms of just getting things to market. Obviously, you saw some factory decline a little bit, but generally was there really any impact at all to the trade war globally?

Candice Bangsund
Well, it's interesting because the impact that we saw was mainly through confidence and what we call that was a crisis in confidence because of course businesses didn't know what the US-China trade situation would evolve into in 2019. The hope was that they would reach a cease fire and

even a slight de-escalation and that's eventually what did come to fruition with phase one. But the most notable part of the economy that saw that US-China trade uncertainty was the surveys and most specifically in the export oriented economies such as China, Europe, Japan, that were obviously the number one casualties of that uncertainty. But from an activity perspective, we didn't see as relevant as a move as those surveys were indicating. In fact, we think that business surveys largely overstated the weakness in the global economy and like I said, now we're starting to see some signs that especially after news of phase one, that some of that uncertainty in the factory space is a subsiding.

Mark Noble
And how do you come up with some of these projections? You mentioned you look at surveys, but in terms of an investment perspective, how do you marry the economic and the investment outlook? What sort of process does your team or you in particular go through?

Candice Bangsund
So behind the scenes we're doing a lot of rigorous research and our process inevitably revolves around economic fundamentals, the state of the global economy and how central banks are positioned because these are the two key factors in deciding whether to be overweight or underweight risk versus risk off for example because of course we're always looking for that next recession. And what typically drives a recession is a central bank tightening event. So that's why we focus there. And when we're in an environment where yes, we've seen a bit of a cyclical slump on the economic front, largely in the surveys, the good news is that central banks immediately stepped up in 2019 with that dovish turn and that actually led risk assets higher throughout the year.

Mark Noble
Okay. In terms of asset pricing though, initially, what people saw as the big rally was obviously the bond prices and decline in interest rates. But has that been too much of an overreaction? I mean, what is your view on the key benchmark interest rates for the next 12 months? Because they did jump in, and obviously they've seen some positive effect as you're highlighting, but is there also a dual edged sword there? I mean, could they have cut too much?

Candice Bangsund
Well, that's the third consideration in our asset allocation process when it comes to valuation. And so 2019 was largely a year of multiple expansion. When you think about equity market returns, we saw very little in the way of material earnings gains or fundamental gains. It was largely driven by that dovish pivot from central banks, which inevitably increased what investors were going to pay for their equities. I think 2020 is largely going to be where fundamentals matter more, where earnings will play a more meaningful role, particularly if we're right that the global economy does revitalize and re-accelerate here in 2020. But when it comes to rates, now we're in a position where central banks are going to maintain an accommodative approach, which is supportive, not likely to ease much further from here.

Candice Bangsund
The message that we're getting from the federal reserve, even the Bank of Canada largely comfortable on the sidelines, and we think the economic backdrop supports that. So while the short end will likely remain anchored, the other message that we're hearing from central banks is that they're going to allow inflation to run hot and we've undershot inflation targets for so long they're going to want to overshoot for not the same amount of time, but to ensure that inflation expectations are well anchored. So this means that the longer end is likely going to move higher.

Mark Noble
So you're thinking they'll happily let the economies run above 2%?

Candice Bangsund
Absolutely. Absolutely. It's this theme of symmetry and you hear it mainly from the federal reserve, but we think other major central banks will follow suit.

Mark Noble
In terms of another thing that you look at, because I always like looking at European because it's global. But one of the interesting analysis we were doing, and your thoughts on this, is that we we're looking at European rates and we're looking at Canadian and US rates. But if you look at European rates, obviously they're nominally negative, negative rates in the major developed European nations. But you have positive nominal rates in North America. But if you factor in sort of the ratio of inflation, you basically got a negative rate of return now across the board on most fixed income. How long can that kind of status be maintained? Where really at the end of the day, if I buy bonds, like a five year treasury or a one year treasury, I'm not actually generating a rate of return higher than inflation, particularly if you highlighted that inflation's going to run up above two.

Candice Bangsund
Well, that's largely at the root of our underweight asset allocation and our underweight preference or our underweight allocations already to bonds. Inevitably we think interest rates need to move higher from here. And again, investors also have largely exaggerated weakness on the economic front, priced for a dire macro-economic backdrop, but we think that interest rates are too low given the rather sound fundamental backdrop and given their status as overbought, overvalued, overcrowded, are vulnerable, should that re-acceleration on the global growth front come to fruition.

Mark Noble
You've made a really strong case here for over weighting equities. That makes perfect sense to me. But in terms of where I overweight equities, what sort of region equity markets would I be looking at then if I'm building a portfolio?

Candice Bangsund
Yeah, so in the environment that we expect of a synchronous global expansion, this is a reflationary backdrop. We think the pro-cyclical higher beta regions and sectors of the world should outperform in this environment. I think largely the US equity out performance has run its course. This is largely a growth play. We're looking more for a rotation towards value oriented, cyclically biased sectors and regions and this is inherently good for other regions of the world that have lagged in the latest run-up be it Canadian stocks and particularly on the emerging market front. So you can get some decent growth prospects for a much cheaper price.

Mark Noble
Are you still looking though at the earnings of these companies, they're still growing earnings at the same rate as the US they're just trading at an intrinsic discount?

Candice Bangsund
Absolutely. The emerging market story is a little bit more of a stronger growth. It's not material, but nonetheless, if you look at the earnings expectations, it's a stronger growth part of the world. We're in that environment of improving global growth. This should benefit a region like emerging markets more so than the US for example, just due to that cyclical biased growth oriented nature of emerging markets in general. And then of course you're trading at a multiple point discount to the US. Canada is a little bit more of a similar growth profile. Obviously, our economies are more linked, but here it's the makeup of the TSX that we like. The fact that it is composed of predominantly value oriented pro-cyclical sectors of the market.

Mark Noble
Those sectors being energy, material?

Candice Bangsund
Energy, materials. Financials is a big one. I talked before about the steepening yield curve. This should inherently be positive for the financial sector, the banks, life insurers, obviously, resources, again, reflationary trade. Think weaker US dollar, stronger commodity prices, stronger growth. This should bode well for the commodity space and right there you've got two thirds of the S&P/TSX and again, I'm trading at a very sizable discount to its US counterpart.

Mark Noble
We did well last year in Canadian equities even when we take out the oil price factor. Where's your view on oil and how much more leverage can Canadian equities get if we do see a noticeable uptick in energy demand?

Candice Bangsund
Well, and this is where we see the upside in the Canadian market in general, we are bullish on oil prices. We have a $70 target on WTI. This is largely based on that backdrop of a stronger global growth, global demand, obviously a key headwind removed with the US and China coming to the ceasefire on trade. This is improved the demand outlook for commodities in general. So our overweight in Canada is largely driven by that bullish outlook for oil, energy stocks, like you said, have lagged the latest run-up. I think a lot of the bad news is priced in, again, investors likely positioned to be too pessimistic. And here there's an opportunity for a re-rating.

Mark Noble
A lot of investors come to us and say, "Well, the energy trade is dead long-term because of alternative sources of energy." But that's not actually the case. When you look at manufacturing and especially the emerging market and you're looking still at hard commodity kind of buildup, right?

Candice Bangsund
Oh absolutely. And you see that in how it trades, as soon as you get some global uncertainty, even today, with the news out of China, we're seeing that reflected in the outlook for demand for oil. But yeah, this is a very much a demand story.

Mark Noble
Okay. That's perfect. Yeah. You don't hear a lot of people talking about that or you usually hear people talking it in the longer term, but I think what's nice about your view as you're looking at this stuff in the fundamental basis. This is what the data's telling you now to come up with that that information. How much of your projection factors in the monetary stimulus on a go forward basis because again, you highlighted that if your interest rates are too low, you move to the equity side. Does that become a risk off at any point in time?

Candice Bangsund
At some point, absolutely, but right now the backdrop continues to favor equities versus bonds. It's interesting because while equity markets have run 20% in the last year, we haven't seen that same expectation from bond markets that you would largely predict in that type of risk on environment. Actually bonds have been trading in a very tight range and we think that that again is a disconnect and that rates should move higher in that environment. Now, you talked about the central bank backdrop, the fact that central bankers are likely to remain sidelined for 2020 bodes well for equity markets and could argue for a little bit more multiple expansion. There is a lot of liquidity in the system when you

think about it. The big major central banks are in balance sheet expansion mode again, so there's lots of liquidity in the environment, but when it comes to bond markets we think the move will be upward, not a material move that's going to destabilize either bond or equity markets, but it's going to nonetheless result in an equity out-performance versus fixed income in 2020.

Mark Noble
And then if I am in fixed income, because demographically just a lot of our investors have to be in fixed income and our partnership with Fiera is largely based on your fantastic fixed income strategy that you guys run for us. Is there within the fixed income space, is there pockets of more opportunity? I guess based on what you're saying, you'd be looking for more sort of like corporate, higher yielding products.

Candice Bangsund
Yeah, and you're absolutely right. Fixed income is arguably one of the most important allocations for our client's portfolios than capital preservation stability. So within fixed income we are looking for pockets of opportunity. Where we see that is by looking further up the risk spectrum into those areas that you mentioned. The credit space still supported by the macro backdrop obviously has done very well in the last year, so from a valuation perspective, probably not a lot more upside, but nonetheless the carry that you're given largely compensates. So we continue to like the credit space. Another area of interest is inflation protection. The tips market. This is an area where investors are largely under-appreciating the potential for inflation.

Candice Bangsund
When you look at the inflation expectations, there's just a clear disconnect there and we think that these should resolve themselves, particularly in the environment of stronger growth, higher commodity prices. This should see a revival in inflation expectations and particularly being that we know central banks are going to allow this to happen until inflation is well anchored. So we think these are some interesting areas of opportunity.

Mark Noble
Then I guess, back to my earlier point, if you look at your portfolio what is your real rate of return if your real rate of return is negative because of extraordinarily low interest rates from governments? I mean it may make sense that you've got to move up on the yield of risk curve to generate a positive rate of return.

Candice Bangsund
Oh, absolutely. And particularly when you look at the government bond space or treasuries in the US like I mentioned before, a key part of our process is looking at, we look at the technical backdrop but valuations and the positioning in the market and treasuries are an extremely crowded trade. And in our view, overvalued, overbought from a technical perspective and are vulnerable in this environment that we believe will come to fruition here in the coming year. So that's why we have to look elsewhere for opportunities within that space.

Mark Noble
This is fantastic insight. I really appreciate that. Just a final question I just want to look at is on China. I really enjoy reading your weekly updates and I keep seeing sort of my view, and correct me if I'm wrong, but I sort of saw that China in 2016, 2017 and early 2018 almost had, it wasn't a recession, but it certainly was a negative outlook. So we're seeing a large expansion in the developed market, but China really an anchor on everything else. Economically though coming out of 2019 even with the trade issues, it seems like it's very well positioned from an economic growth perspective. I'm wondering what your thoughts specifically are to China. Obviously right now though, we also have an X factor on that they're dealing with a growing pandemic which has hurt valuations, but we won't speculate on how bad things could be on that side of things. But in terms of just the actual fundamentals on China, how was it positions and where's your thoughts on where that goes?

Candice Bangsund
Yeah, so there's a number of developments on that front. China's actually the area of the world where we're seeing the most clear signs of stabilization and a revitalization after a tough 2019. China, arguably one of the biggest casualties of the US-China trade war. Not surprisingly where we saw the most impact, whether it's on the economy but also in the stock market. So from a valuation perspective, investors were extremely negative on Chinese and emerging stocks in general through 2019. Now that those issues have been sidelined at least temporarily, this is where we see that a lot of that pressure will be alleviated and that there is actually more potential for upside here. And that is because on the economic front too, you're seeing say the survey data, for example, the PMIs have been ticking higher for now three, four months.

Candice Bangsund
The activity data finally turned higher, whether it's retail sales or factory production. A lot of this due to the simmering US-China trade tensions, but also think about all of the stimulus that we've seen from both monetary and fiscal policy makers in China. Well over 100 individual easing moves in the last 12 to 18 months. Again, acting with a leg these are now starting to feed into the data. So this is an area where we see a lot of upside, whether it's on the equity or on the fixed income side.

Mark Noble
And they should remain in your view around the 6% kind of growth rate?

Candice Bangsund
Policymakers have largely pledged to maintain this growth rate. You talked about previous years, China is undergoing a structural slowdown as they transition their economy towards the consumer services sector away from growthier manufacturing debt and do space. So they are trying

to achieve a soft landing for the economy and the 6% level I think is their benchmark obviously and why they're stepping in so periodically or so often. And I think you mentioned with the outbreak in China right now, I think if anything, this is going to expedite stimulus from policy makers because of course this is going to have a near term impact and we just don't know for how long. But inevitably we think there's enough of a cushion there and support to allow the economy to come out of this.

Mark Noble
I find it not hilarious, but I just find it amusing because people get disappointed with 6% from China, but that's an 18 to $20 trillion economy growing at 6% versus, we're happy to get two.

Candice Bangsund
Two, two and a half. Exactly.

Mark Noble
So you got to see some sort of multiple expansion on the equity side just from that kind of growth alone?

Candice Bangsund
Oh, absolutely. When you think about the discount that emerging markets are coming into play right now, it's always going to be at a cheaper price just due to the inherent risk in the emerging world. But like you said, given the stronger growth backdrop in the developing world, that obviously spills over into the earnings outlook. This is where we're seeing that stronger growth at a very reasonable price proposition.

Mark Noble
Amazing. Thank you so much, Candice, as always. Look to have you back before the end of the year and I'm betting that most of these projections end up being right, and thank you again for your continued support. So, at Horizons we have a very strong partnership with Fiera in a lot of the information that Candice provides, filters its way through a number of the ETF products we offer that are sub-advised by Fiera capitalists. We have over $4 billion now that are sub-advised by Fiera. So if you like what you're hearing here, I urge you to take a look at HorizonsETFs.com, look at some of our actively managed strategies. A lot of this wonderful insight is filtering its way through those strategies. So thanks again, Candice.

Candice Bangsund
My pleasure. Thank you.

Mark Noble
All right, take care.

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