

FORSTRONG

GLOBAL

2022 SUPER TRENDS

WORLD IN TRANSITION



Dear Clients, Colleagues and Friends,

"All life is a process of breaking down," the great American author F. Scott Fitzgerald once wrote in an essay for *Esquire*. "But the blows that do the dramatic side of the work...don't show their effect all at once." The writer was referring to his personal challenges during the mid-1930s. But the observation could have applied to the global economy moving into 2022: we are only getting early glimpses of how transformational the pandemic has been. Full impacts are still to be seen.

Yet it is now abundantly clear that last year was a hinge moment in history. The world of tomorrow will resemble nothing of what we see today. Global supply chains are in unprecedented flux. The operative word in boardrooms is "decoupling". Labour shortages are driving wages higher, while the conventions of office life have been completely shredded. Rather than an aberration, we are seeing the start of a profound shift in the trajectory of the global economy.

From an investment standpoint, a new regime is quietly unfolding. In fact, we are witnessing the endpoint of several Super Trends that have been firmly in place for decades. Prices are now rising at a rate not seen in 40 years. US household wealth has increased by the largest amount since records began in the 1950s. Even ideas about how best to arrange and manage our societies are changing.

This shouldn't be surprising. Crises always lead people to question economic orthodoxies. The trauma of the 1970s led to a collective repudiation of big government. Today, support for Keynesian-style macroeconomic management is back in vogue and Modern Monetary Theory has electrified the policy atmosphere.

Fitzgerald titled his classic essay "The Crack-Up" — focusing on the breaking-down, destructive side of life. But a sequel could have been written, with a focus on the opposite: building up. By definition, chaos — or some form of demolition — must come before creation. The challenge is that regime changes look like a single event in retrospect, but they are never experienced that way. Instead they are protracted periods, decades even, where the existing order disintegrates and is replaced with a new way forward. This is always messy. And, it is difficult for investors to be forward-looking when they are caught in the glare of incoming short-term data.

In these environments, the typical default is to anchor oneself to the prior investment regime. Today, most are still assuming that the slow-growth era of 2009 – 2020 and the associated investment leadership will remain in place. Forecasting higher economic growth is controversial, even transgressive. But, here, we are spoilt for lines of argument. In particular, the post-pandemic situation contrasts starkly with the destruction of household wealth that accompanied 2008's global financial crisis — setting up a very different economic cycle ahead.

To be sure, the coming world transition will be bumpy. Yet many Super Trends are spring-loaded to last for years. Investment leadership will change. More than ever, investors need to look out further and lean into long-term secular themes. Wide-angle global perspectives will be crucial to discern the path ahead and set the right investment roadmap.

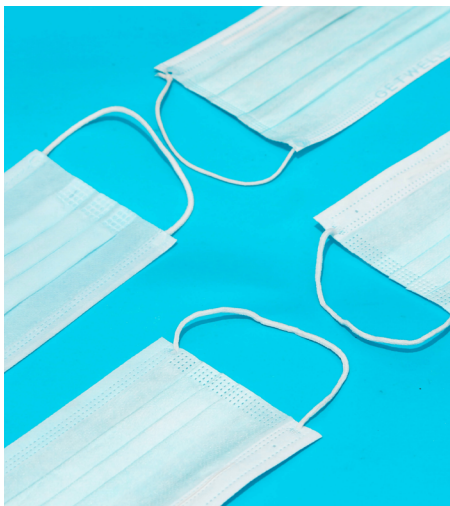
We aim to do just that in the pages that follow. Forstrong's investment team, a collective with over two centuries of combined global experience, shares our best ideas about the world's most important Super Trends — those enduring themes that will have the largest impact on capital markets. Our hope is that this report will help investors make sense of the unfolding macro landscape.

A special thank you to our partners and clients for joining us on this journey. It is a distinct privilege to steward your financial futures.

Warmly,



Chief Executive Officer and Chief Investment Officer
December 2021



2022 Super Trends

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Super Trend 1

A Pandemic Reboot

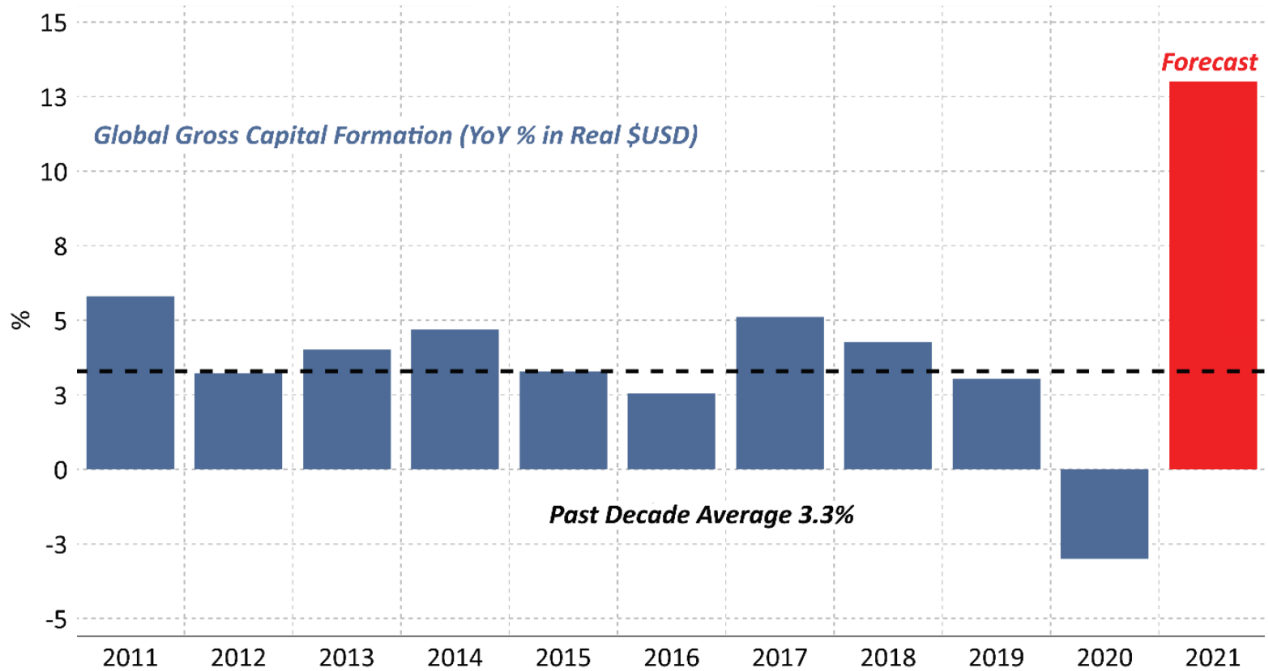
Many are still mistaking the coronavirus crisis for another 2008. It is not. This is because the terrain upon which the virus landed is far different. No major global imbalances existed in early 2020. Consider that the 1930s depression was a classic credit crunch, exacerbated by counterproductive policy measures and protectionism. The bursting of the technology bubble in the late 1990s had its root in financial excesses and capital overspending. The crisis in 2008 was a perfect storm with the bursting of a major asset bubble and years of financial deleveraging afterward. What do all of these have in common? Deep financial imbalances that took years to work out.

By early 2020, most financial imbalances had largely been worked out in the post-2008 crisis period — mainly due to the deleveraging of the American and European consumer. That meant, should the threat of the virus recede (as we are working through now), the cyclical rebound would be immediate and explosive.

As it was, the pandemic offered a rare opportunity to kickstart sluggish economies. Yes, the global supply chain is currently a snarled mess. But it's also an enormous opportunity for durable productivity gains. In America, we are now witnessing the strongest capex cycle since the 1940s. Measures from other countries and regions show similar dynamics.

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Burgeoning Capex Cycle



Sources: Macrobond, S&P, World Bank, Forstrong Global Asset Management

On the consumer side, another missing feature of previous recoveries has now appeared: wage gains. In fact, wage growth has been the highest at the lower end of the income scale. This is where the marginal propensity to consume is higher and will trigger a sustainable pickup in velocity. Global consumers also have far more robust balance sheets, with more savings to be spent earlier in the cycle. All of this adds up to an economic cycle that is not only likely to last for several more years, but will also see higher GDP growth than the last decade.

Investment Implications:

Enough data points support a robust economic cycle. Yet most investors end up anchoring on the prior regime, assuming that the “secular stagnation” era of 2009 – 2020 and the associated investment leadership (US assets, Big Tech, bonds, etc.) will remain in place. The reality is that much of today's asset pricing still reflects the disinflationary trends of the last 40 years. But investors need to position for an investment regime change of higher growth. That means broadly staying with a reflationary bias and cyclical-orientation in portfolios.



Super Trend 2

A Clunky Transition To A Lower Carbon Future

For corporations, the missing ingredient of both the recoveries in the early 2000s and after 2008, has been meaningful capital spending, with most companies preferring the “capital-light” investment of software and smartphones. This is certain to change in the coming years. Whether readers agree with climate change or not, it is clear that fossil fuels will be steadily replaced by renewable electricity as the globe’s dominant energy. This transformation will be enormously capital intensive (with estimates ranging from \$100 trillion to \$150 trillion over the next three decades) and could be comparable to the post-

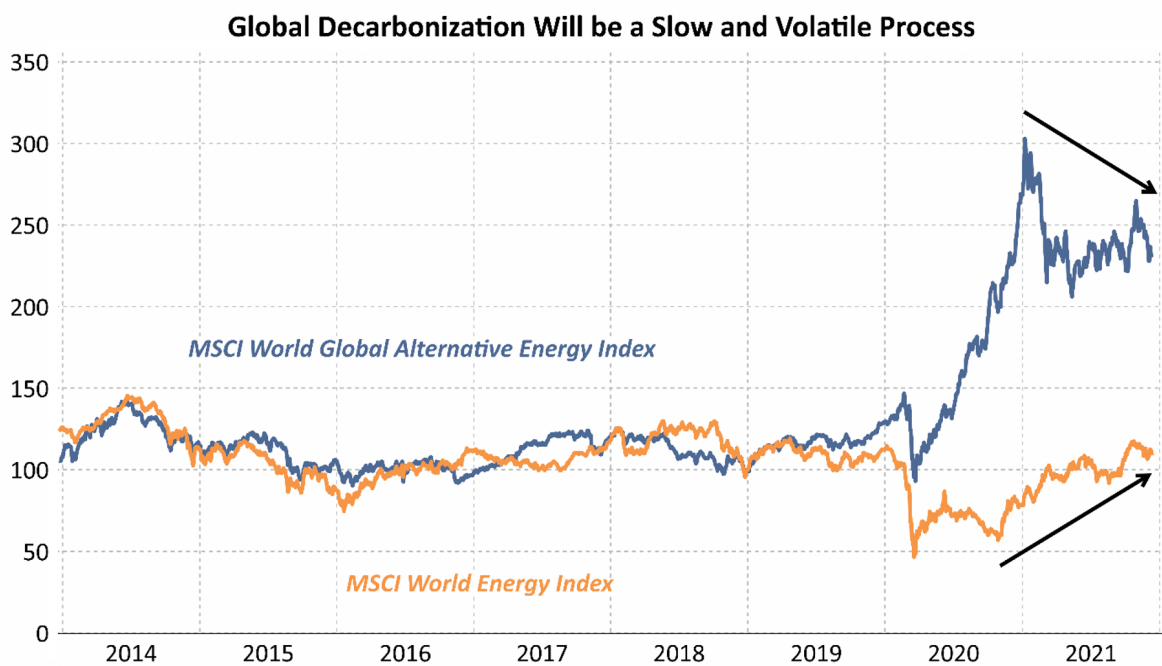
WWII reconstruction boom, as infrastructure, transportation networks and technologies require vast amounts of fixed capital investment. This is not just a domestic phenomenon either. It will be pursued globally. In fact, the China-US geopolitical tensions only reinforce this trend. The experience of the United Kingdom and Germany in the late 19th and early 20th century, along with the US-Soviet Cold War, suggest that big rivalries act as spurs for massive investment in technology, science and other innovations. This time will not be different.

Investment Implications:

The global carbon transition is not a one-way bet. After years of underinvestment by fossil fuel producers and the stunning collapse of energy prices in early 2020, no one should be surprised that traditional energy prices have rebounded. Recessions have always caused supply-side withdrawals, setting the stage for price increases in the subsequent recoveries. Yet the transition to a lower carbon economy was always destined to be clunky. Shortages in China and the EU highlight the continuing need for fossil fuels despite global efforts to decarbonize.

Renewable energy will take decades to build up. The problem is that investors have been too quick to price in a nearly-utopian green future, aggressively bidding up the prices of alternative energy companies. That sets them up for future disappointments. What's more, traditional energy companies themselves are strategically buying renewable assets. They, too, will be diversifying their asset mix from fossil fuels into renewables. The path to a green future will be far messier than most think.

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Sources: Macrobond, MSCI, Forstrong Global Asset Management



Super Trend 3

China No Longer A Deflationary Force Upon The World

Whether investors believe China is “un-investable” or not, the reality is that the rest of the world remains tightly linked with the world’s second largest economy. The hinge of history has opened to the Asian century. In fact, in an era that is increasingly defined by geopolitical competition and a push towards economic “decoupling”, Western business has never been closer to the Chinese economy. This makes sense. China will continue to be the fastest growing market for nearly everything for the foreseeable future. China’s retail sales are larger than America’s, and China is the largest market for nearly all consumer goods, from autos to personal electronics and luxury goods. Foreign business will not abandon the Chinese market any time soon.

China’s 2001 entry into the World Trade Organization was profoundly deflationary, unleashing 500 million new workers into the global economy. But domestic wages have risen to the point where China is no longer exporting deflation to the rest of the world. In 2001, a US manufacturing sector worker earned over 27 times the amount of a Chinese worker. By 2019, that figure had narrowed drastically to under 5 times as Chinese manufacturing wages grew a cumulative 845% over the period. Understanding this increasingly Asian growth-driven world, and how these regions are stitched together in our sprawling, global economic ecosystem, is becoming increasingly crucial to get right.

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opened to the Asian century.**





Investment Implications:

After China's heavy-handed intervention and austerity drive of the last year, we are now approaching a key inflection point. Regulators are adopting a far more constructive tone, aiming to restore confidence in domestic capital markets. A decisive turnaround in China's fiscal and monetary policy is also now underway. Historically, this has always been the time to start accumulating Chinese equities. In fact, the wider emerging market equity complex, having just hit a 20-year low versus US stocks and with far lower valuations, is primed for a long period of outperformance. China's policy will be one of the catalysts to spark a change in trend.

Looking out further, the ascent of China as an independent economic center of gravity is an enormous advantage for global asset allocators. With diverging economic trajectories and monetary policies (especially from America which, in the post-war period, has functioned as the de facto leader of world order and economic stability), macro trends in China are highly diversifying. Chinese assets reflect this, showing among the lowest correlation to rest-of-world stocks and bonds. And, while the developed world's bloated bond markets have been sucked into a black hole of negative interest rates, investors will increasingly be driven into the positive real yields of China's bond market and the more attractively-priced stock market.



Super Trend 4

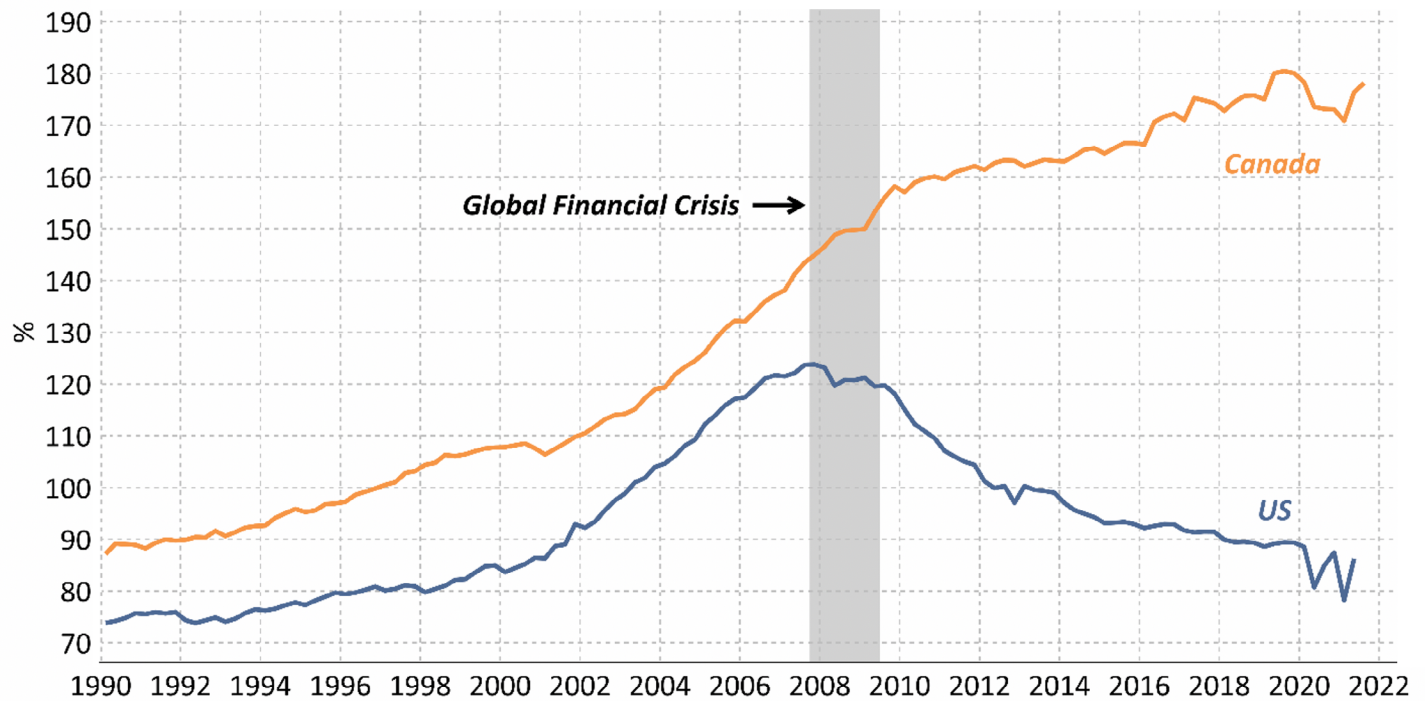
Canada: Stuck In The Middle

The Canadian stock market has soared in 2021. Yet, in 2020, the peak-to-trough decline was 37%. All of this is unsurprising. Canada is a highly cyclical economy, moving in a “high beta” fashion to the gyrations of the world economy. The question, then, for the globally-minded investor should be about Canada’s performance relative to other cyclical economies and even sectors. Here, several macro headwinds remain for our country. Most conspicuously, Canada still carries the weight of substantial credit imbalances. Total household debt has far outpaced disposable income and wages. And contrary to the successful private sector deleveraging episodes that occurred in the US and Eurozone since 2008, Canada had no such reckoning.

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Canadian Households have not Deleveraged

Debt-to-Disposable Income

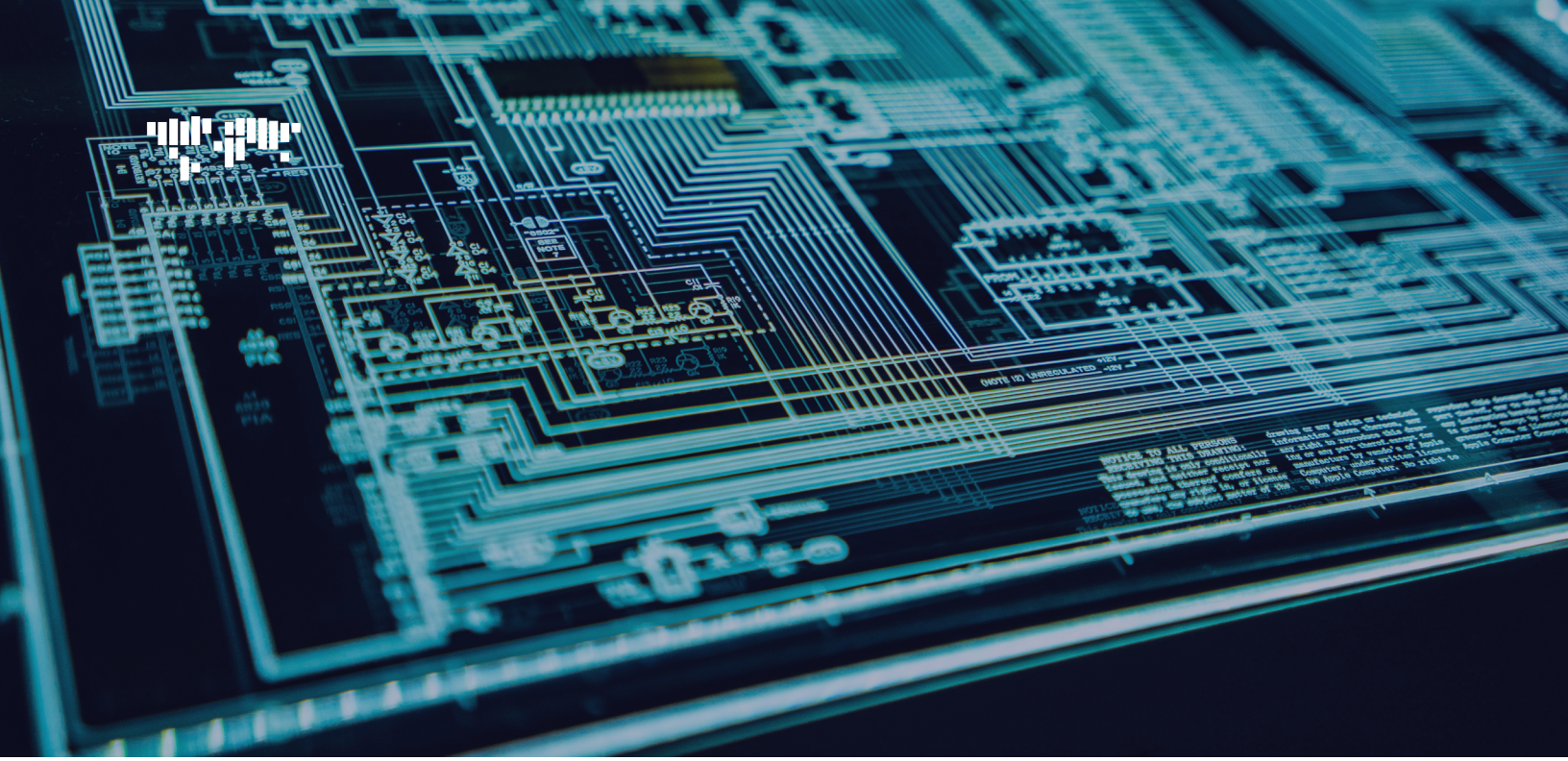


Sources: Macrobond, Federal Reserve, Statistics Canada, Forstrong Global Asset Management

Another longer-running macro issue still exists. At its core, Canada has been far too complacent in strengthening its international competitiveness. Our country relied on currency depreciation throughout the 1990s, then the commodity super-cycle boom in the 2000s, and, most recently, the housing and credit excesses of the 2010s for growth. A key issue is that Canadian businesses have persistently under-invested in productivity enhancing processes. Looking ahead, productivity improvements take time. What chance will Canada outperform its more competitive global peers over the coming years?

Investment Implications:

Adding it all up, Canada is destined for middling performance. Better opportunities exist in other cyclically oriented regions with more durable macro tailwinds and lower valuations. Most of these can be found in the developing world.



Super Trend 5

Breaking Up Big Tech

Increasingly, the public is viewing Big Tech through a different world lens — not as individual companies operating in efficient markets, but as winner-takes-all monopolists abusing their power. This reflects a deeper understanding of their business models, where the preferences, exchanges and interactions of users are monitored, leveraged and ultimately pushed and promoted across business lines through behaviourally-targeted algorithmic methods.

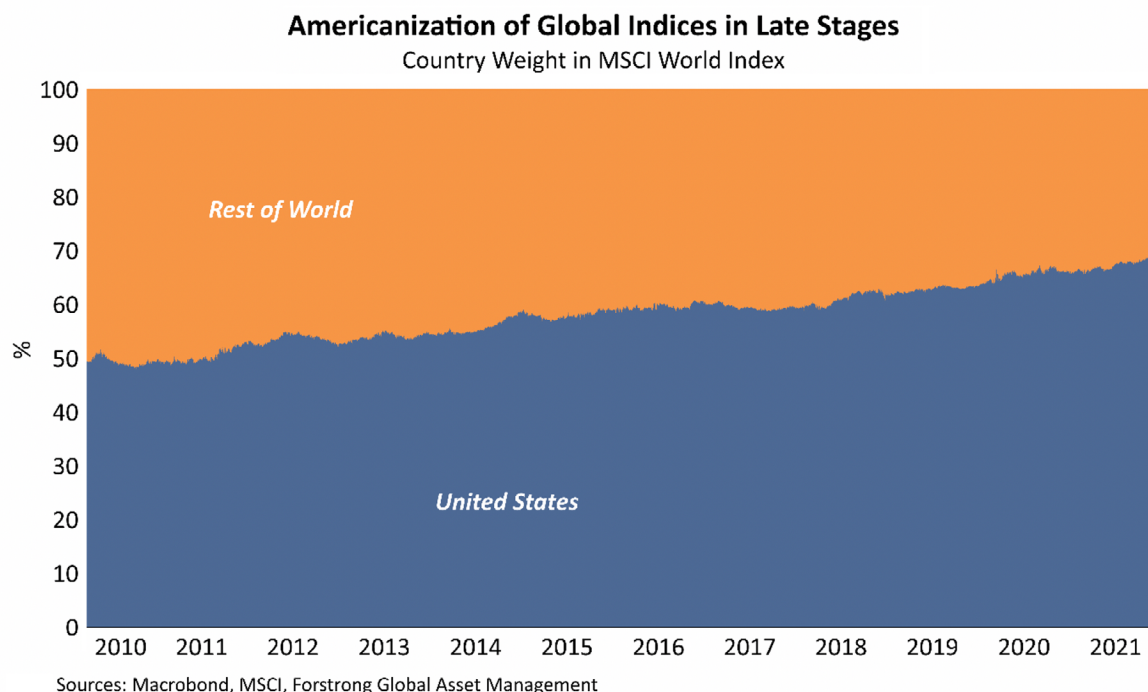
Looking ahead, regulators are aiming to throw a big stick in the spoke of Big Tech's business model. And why shouldn't they? The pandemic has hyper-charged the world's movement to digitization. Data, not oil, has become the lifeblood of the modern economy. Google, Facebook and Amazon now account for more than 70% of

online advertising globally. There are legitimate concerns that Big Tech will stifle innovation and continue to swallow younger competitors.

Investment Implications:

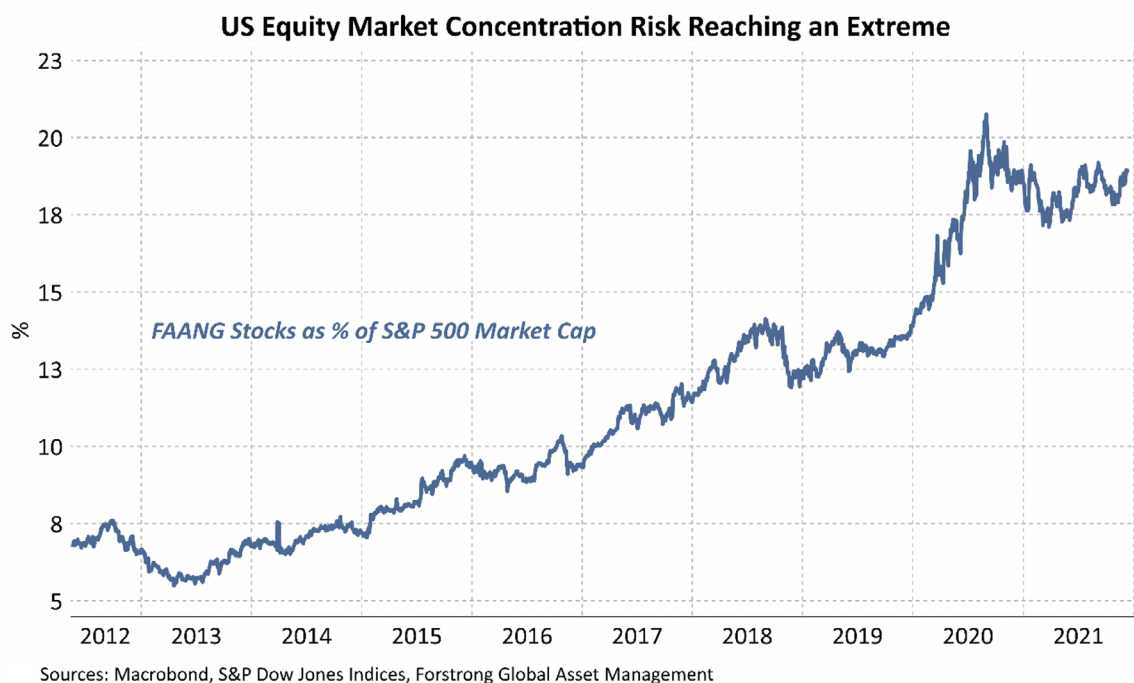
America has been a chronically strong performer. This extends all the way back to 2009 — its stock market, bond market and currency have all outpaced global counterparts since then. And even though the US share of global GDP declined from 28% in 2008 to only 24% recently, its stock market capitalization nevertheless commands 69% of the MSCI World Index. Silicon Valley's disruption engine has been a crucial prop to that outperformance. When most companies slashed spending in order to boost earnings, tech provided a rare shot in the arm — an inoculation against a growth-deficient world.

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The problem is now twofold. First, everyone is in on the trade. Valuations are very rich. The FAANGs recently accounted for more than 20% of the S&P 500's market cap. Apple alone commands a bigger weight in the MSCI World equity index than any single country apart from the US and Japan. Secondly, we are now heading

into a period where the global economic outlook is improving. Investments outside the US tend to catch a strong bid in this environment as confidence in the economic outlook improves. Capital becomes braver in its search for alpha. We are only in the early stages of a long journey.



Super Trend 6

Policymakers Fighting The Last War

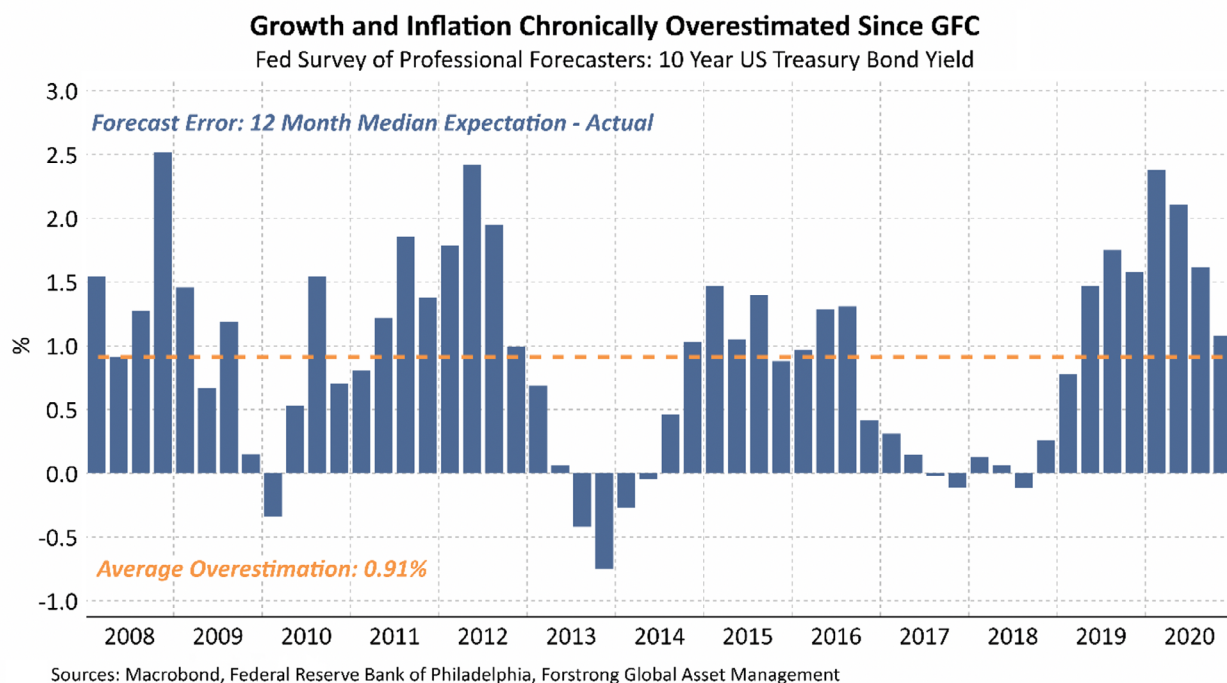
In the early days of the pandemic, most central banks remained fixated on the past, assuming a long, plodding recovery like the post-2008 period with a complete lack of inflationary pressures. This was a classic case of generals preparing to fight the last war. They have now moderated that view. But the Fed and other global central banks have already made major modifications to their monetary policy frameworks, with many shifting to an “average inflation targeting” approach (allowing inflation to run hot to make up for past undershoots). Clearly, central banks no longer view their main job as stabilizing prices but rather creating a “full employment economy”. This is a massive ideological shift.

In the world of fiscal policymaking, the pandemic has been a moment of revolutionary break. Fiscal stimulus, which packs a bigger punch than the monetary variety, arrived fast and furious. In fact, a strong consensus amongst governments has emerged: the risks of doing too little greatly exceed the risks of doing too much. Austerity is dead.

What is certain is that the highly stimulative policies introduced to address the pandemic’s economic fallout will linger far longer than the virus itself. A key lesson from the past is that when policy turns, especially during a crisis, it turns in a big way. We should not underestimate the power of this decisive shift.

Investment Implications:

Looking back to the pre-pandemic decade, global policymakers (and indeed professional forecasters) consistently overestimated growth and inflation. We will now see the opposite: policymakers, conditioned by years of being ahead of the curve, will now likely underestimate growth and inflation in the next decade. Real rates will remain deeply negative across the developed world. Reflationary portfolio positioning will continue to be rewarded.



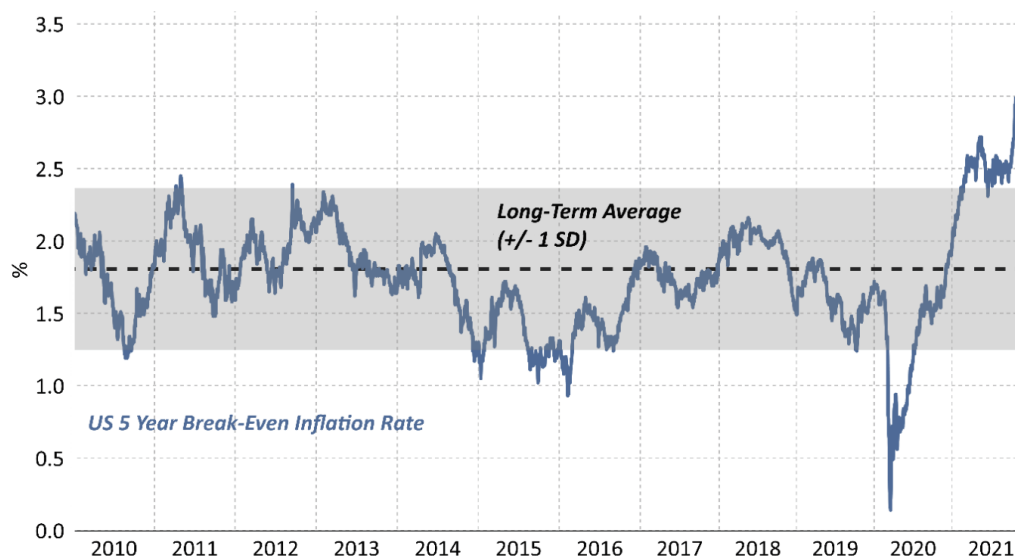
Global Inflation: The Force Has Awakened

Clearly, the inflation environment has changed. But the burning question is the stickiness of all of this. To be sure, this is not a return to the galloping inflation of the 1970s (which peaked at 14% in 1980). Back then, a series of inflationary shocks also plagued the economy — escalating costs of the Vietnam war, a doubling of the oil price in 1970 alone and, ultimately, the breakdown of the Bretton Woods system in 1971 (where the US unilaterally terminated convertibility of the US dollar to gold). Today, much of recent inflation is pandemic-driven. The world has just witnessed the largest supply collapse ever seen, caused by Covid lockdowns. Base effects and bottlenecks are now contributing to a surge in prices. However, these dynamics will moderate at some point, easing price pressures.

But the world has also just witnessed the largest demand surge since World War II, caused by reopening and policy largesse. This boom in global

aggregated demand will continue. In fact, the kindling needed to light a blaze in demand can be seen almost everywhere. This can be viewed through a consumer, corporate and government lens. Household balance sheets in the major economies are in very decent shape, capital spending is booming and governments have abandoned austerity. There is also a behavioral component: inflation expectations. The US 5-year break-even inflation rate (a market-derived proxy for inflation expectations) has gone from an all-out collapse in March 2020 to breaking out of its historical range and hitting the highest level in nearly 13 years. The glaring risk here is that forecasts become self-fulfilling prophecies. If inflation is expected to be higher in the future, people will be willing to pay more at current prices. As inflation rises above target, expectations become un-anchored. All of this suggests inflation will be far more stubborn than central banker forecasts.

A Break-out in Break-Evens



Sources: Macrobond, Gavekal Research, Forstrong Global Asset Management

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Investment Implications:

Inflation is the key macro battleground among global asset allocators. Yet human beings have a habit of framing outlooks in a binary way: will there be inflation or will there not? Or, investors focus on point forecasts: just how high will inflation be?

Those are the wrong questions. Markets react to changes at the margin. And, importantly, they react to the interplay between expectations and the actual incoming data. That means the best approach for investors is to plan for asymmetry in positioning. The reality is that many of today's asset prices still reflect the disinflationary trends of the last 40 years. Western government bonds, in particular, are still pricing in a deflationary ice age.

Looking out over the next 3 – 5 years, our investment team anticipates inflation to average modestly higher

than the last two decades. Demand is still booming and is unlikely to ease any time soon. Yet even with this moderate shift, investment leadership will radically change. Losing investments will be those that have been bid up on the “lower forever” inflation thesis. This includes the long-duration growth stocks that have become today's darlings. Winners include bank stocks (which have become well-capitalized and are natural beneficiaries of a steepening yield curve) and industrials (and other sectors that can pass through rising costs). Other cyclical industries will come back in vogue. Emerging market bonds will catch a steady bid as there are few yield plays that offer positive real rates. Higher inflation and higher rates hold the key to these secular shifts. Markets are nowhere close to pricing any of this in.

About Our Quarterly Forums

We are now entering the third decade where Forstrong's investment professionals gather for our quarterly forum, identifying the most important market trends and setting longer-term portfolio strategy for clients. Today, the philosophical cornerstone of our investment process — globally-diverse perspectives produce better outcomes — is stronger than ever.

Broadly, this approach demands thinking that is actively open-minded, curious, committed to continuous improvement and, above all, intellectually humble — recognizing that reality is complex and can change quickly (even Fitzgerald defined a first-rate mind as one that can hold contradictory ideas at the same time). Actively seeking information or views that are different from our own — and updating our beliefs when the evidence suggests we should — is hardwired into our structured investment process. Neither task is easy.

This approach has become increasingly relevant in today's digitally-charged era. Online platforms often serve as echo chambers for already held beliefs, enclosing members in an intellectually impenetrable layer of like-minded peers, biased blogs and partisan views. The world can look completely different depending on the type of media consumed or the group that one identifies with.

“We ask the questions that nobody else is asking in order to see what nobody else is seeing.”

Of course, it's a trap. Never leaving one's world presents a clear and present danger. New realities are never experienced. A potentially rich, textured subject stays one dimensional. And so, one's world view remains one-sided with a focus on certain insider voices — deprived of any new evidence.

Looking ahead, arbitraging this will be a winning strategy. And, increasingly, wide-angle global perspectives are essential to any investment process: they are fatal to localized biases and radically reduce the risk of falling victim to groupthink. Conversely, rigid ideology, accompanied by the usual investor overconfidence, are the twin enemies of outperformance.

We have been developing our global approach for several decades now (extending back to our founder's tenure as Chief Investment Officer of Canada's largest global investment group). By design, investing is an intellectual contact sport at Forstrong ... a collegial intersection of ideas, spirited debate and, yes, wrestling with the probability that we have some things wrong. Before we search for answers, we are highly aware that we must get the questions right.

Strategic Foresight

This dedication to the practice of what we call “strategic foresight” requires an investment team with varying skills, diverse cultural backgrounds and even a wide range of personal qualities. It also requires a commitment to “how” we think, namely:

Collaboration

Ability to work as a team with the confidence to challenge and be challenged

Inquisitiveness

Openness to other perspectives distinct from current consensus

Prescience

Foresight to anticipate various future scenarios and events or trends that may alter those trajectories

Clients can count on us that this investment process will continue. It remains the surest way to achieve long-term returns with less risk.

Investment Team

Fortstrong Global



Tyler Mordy, Chief Investment Officer

Tyler leads the firm's business strategy and oversees a multi-disciplinary investment team committed to extensive macro research and analysis.

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David Kletz, Lead Portfolio Manager

David carries out a broad range of research and analysis and oversees the firm's investment process and implementation of strategies.

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Ka Lam Tsang, Trading and Investment Operations

Karen is responsible for managing the investment operations of the firm including trading and execution workflows.

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Ken Hawkins, Research Manager

Ken is responsible for the team's quantitative analysis and updating of internal and external databases that inform our proprietary research.

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Shibo Gu, Research Analyst

Shibo is a quantitative analyst specializing in opportunity investments integral to the production of Forstrong's leading-edge proprietary research.

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Wilfred Hahn, Global Strategist

Wilfred brings unique global macroeconomic perspectives, spanning 4 decades of research and strategy experience.

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Mark Arthur, Strategic Advisor to the Investment Team

Mark has served on the Forstrong Investment Committee since July 2009, and now acts as an Advising Member.

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