PORTFOLIO DASHBOARD:
MAKE OR BREAK MOMENT FOR EUROPE

So often, it takes a crisis to bring about meaningful change. This is an unfortunate truth. Despite an abundance of credible research and counselling from healthcare professionals, lifestyle choices (diet, exercise, smoking, etc.) tend to be modified after a heart attack, not before one.

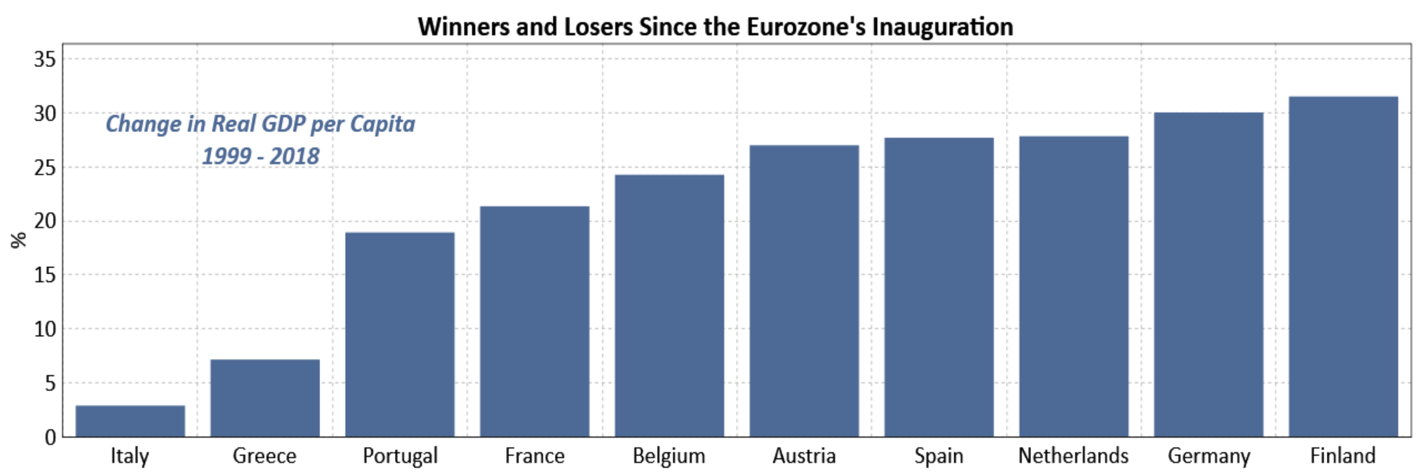
Today that cardiac episode is playing out in Europe. The continent has faced rising unrest over the past decade, as populist Euroskeptic politics gained traction; fueled by a backlash against rigid austerity measures, national security concerns (exacerbated by the Syrian refugee crisis) and rising economic disparity across the region. Per the chart below, GDP-per-capita (a measure of national prosperity) has barely changed in Italy and Greece since the inception of the Eurozone in 1999 and has been significantly outpaced by other member nations. Now, with Britain leaving the European Union (EU) and COVID-19 pandemic-induced economic stress putting a spotlight on glaring structural issues, Europe is at a pivotal crossroads.

Taking a step back, the European Economic Community (a predecessor to the European Union) was formed in 1957 when Germany, France, Italy, the Netherlands, Belgium and Luxembourg signed the Treaty of Rome. Despite a focus on economics and creating a "common market", the EEC was ultimately a peace project, formed amidst a cold war between the west and east, and following two world wars. In that respect, European integration actually has a decent track record of fulfilling its primary objective. EU dissolution would therefore be highly detrimental to global geopolitical stability.

Through an economic lens, the alphabet soup of European agreements and institutions (EU, ECB, EMU, EC and EEA just to name a few) are demonstrative of the unwieldy nature of today's system. Some EU members have adopted the euro as their currency, some have not. Some nations such as Norway have their own unique agreement appendaged on. Banks have a harmonized regulatory backdrop and resolution mechanism, but still lack a common system of deposit insurance required for a true banking union. Most glaring of all is the lack of a fiscal union, whereby enhanced risk-sharing would help offset macroeconomic shocks in individual nations and thus prevent contagion from spreading to the broader region. Furthermore, a fiscal union would complement the existing monetary union and thus greatly improve policy cohesion.

While it's certainly too early to claim victory, a potential major stepping stone towards fiscal unity is on the horizon. France and Germany have jointly proposed a 750 billion euro recovery fund to be financed by bonds issued directly by the European Union. The package would be comprised of 500 billion euros in grants and 250 billion euros in loans to the countries hit hardest by the COVID-19 pandemic. These sums of money are large, but not outrageously so given the historic policy responses from the US and other major countries of late. But it's the details that matter. The so-called "coronabonds" would be guaranteed by the EU directly, not the member states. Servicing the debt would require new tax policy from the EU to raise additional revenues. Lastly, the initiative would entail shifting from "pass-through" spending of tax revenues to permitting EU leverage to finance outlays. Significant precedents would be set for future economic shocks.

Undoubtedly, the proposal will meet some opposition (all 27 EU member nations must sign off) and there is a good chance that elements of the plan get watered down. But given that crises tend to sow the seeds of change, we believe that structural reform is now afoot. We remain overweight European equities, which stand to benefit immensely from an improving institutional landscape.



Sources: Macrobond, IMF, Forstrong Global Asset Management

GLOBAL STRATEGY OVERVIEW

CASH

An explosion of US dollar liquidity being pumped into the system, ballooning US fiscal deficit spending and longer-term overvaluation all contribute to USD vulnerability. We maintain our partially hedged positioning in US asset class exposures.

EQUITIES

European equities stand to benefit from numerous pivotal tailwinds. If passed, a 750 billion euro recovery fund would represent a critical first step towards an EU fiscal union. The ECB's various asset purchase programs have been increased to such an extent that they effectively cover the combined deficit spending of all members for 2020 and 2021. Significant policy accommodation and falling Eurozone break-up risk support our investment case for an overweight positioning.

BONDS

Despite developed market bond yields already being at extraordinarily low levels, substantial monetary stimulus is likely to keep interest rates suppressed and yield curves relatively flat for the foreseeable future. We remain underweight developed market bonds, but still believe they carry a critical diversifying role in client portfolios.

OPPORTUNITIES

The Brazilian real and Mexican peso faced significant downwards pressure amidst the COVID-19 market panic. Both countries now have real effective exchange rates at multi-decade lows. Importantly, these devaluations have not yet fed into inflationary pressure, which provides flexibility to their respective central banks. With relatively high yields, the potential for significant currency appreciation and benign monetary conditions, we are overweight local currency sovereign bonds in both nations.

Portfolio	Inception Date	1 Month	Year to Date	1 Year	3 Year	5 Year	10 Year	Since Inception
CORE SERIES								
Core Income	Jul 1, 2008	1.40%	-2.07%	1.23%	2.50%	3.84%	6.58%	6.64%
Core Balanced	Jul 1, 2003	2.30%	-2.79%	2.65%	3.21%	4.17%	6.75%	6.95%
Core Growth	Jul 1, 2003	2.82%	-6.37%	0.77%	2.92%	4.05%	7.37%	7.53%
GLOBAL SERIES								
Global Income	Jul 1, 2008	1.93%	-1.03%	2.17%	2.93%	4.96%	7.73%	8.15%
Global Balanced	Jul 1, 2003	2.71%	-1.75%	4.09%	3.74%	5.19%	8.10%	7.06%
Global Growth	Jul 1, 2003	3.46%	-5.02%	3.22%	3.83%	5.40%	9.17%	7.86%
FOCUS SERIES								
Special Opportunities Focus	Jan 1, 2014	3.07%	-8.19%	-2.68%	0.65%	2.19%	N/A	5.77%
Emerging Markets Equity Focus	Feb 1, 2019	2.02%	-9.12%	-6.86%	N/A	N/A	N/A	-4.62%
Global Ex-North America Equity Focus	Dec 31, 2019	3.65%	-10.55%	N/A	N/A	N/A	N/A	0.00%

Gross-of-fees performance ($CAD) as of May 31, 2020. Returns for periods greater than 1 year are annualized.

Performance statistics for ETF Managed Portfolios are calculated from documented actual investment strategies as set by Forstrong's Investment Committee and applied to its portfolios mandates, and are intended to provide an approximation of composite results for separately managed accounts. Actual performance of individual separate accounts may vary with average gross "composite" performance statistics presented here due to client-specific portfolio differences with respect to size, inflow/outflow history, and inception dates, as well as intra-day market volatilities versus daily closing prices. Performance numbers are net of total ETF expense ratios and custody fees, but before withholding taxes, transaction costs and other investment management and advisor fees. Past performance is no indication of future results. A rate of return for one year or less is not annualized.