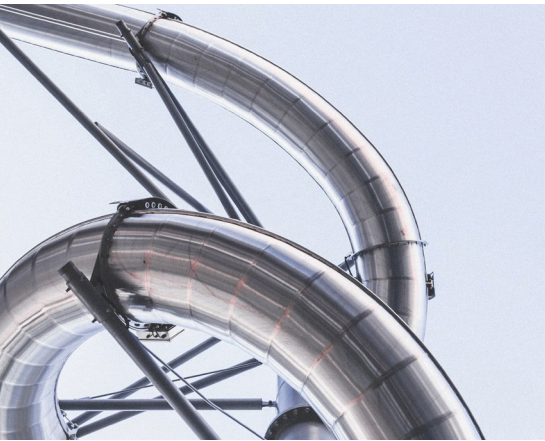




FORSTRONG
GLOBAL

2024 SUPER TRENDS

M A C R O N O V A



2024 Super Trends

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Dear Clients, Colleagues & Friends,

Everything in our universe eventually collides. In 2017, Danish astronomers detected an extraordinary event in a remote galaxy. Two neutron stars, each with a weight greater than the sun but compressed into the size of a city, had been rotating around each other uneventfully for billions of years. Then suddenly, the stars — moving at 100 million meters per second — entered into a fatal spiral and crashed into one another in a spectacular explosion.

This so-called “macronova” event created a black hole and a new mystery. The collision, as would be anticipated, pumped out elements and energetically scattered them across space. But the resulting blast completely defied expectations, creating a flawlessly spherical fireball of vivid blue and red colours. With such complex physics, why such a perfectly symmetrical shape? Even for the bright minds of astronomers this is baffling stuff and has become the most widely studied cosmic event in history.

Back on planet earth, investors have been grappling with similarly mind-bending issues. Chaos, crisis, and financial shocks defined the high-impact year that was 2023. Consider all the raw material thrown at investors — recession fears, geopolitical frictions, banking implosions in Silicon Valley and, of course, rapidly rising rates. No surprise that all this drained investor confidence and a rush into cash has been the key investment trend of 2023. Higher confusion translates into higher cash weightings. As we write, worldwide investors are on track to pour a record \$1.5 trillion into money market funds by the end of the year. Risk aversion is now at levels comparable with the depths of 2008’s global financial crisis.

New Investment Regime Unfolding

With these conditions, money managers are invited to turn everything over in their heads like a Montaigne gem and come up with a coherent investment playbook. Markets are easy right?

Yet investors should not lose sight that recent volatility simply extends a narrative that began in 2020. In essence, the pandemic was our macronova — a moment of economic reset and powerful policy breakthroughs. Most notably, fiscal stimulus arrived fast and furiously. And the largesse is still with us. A robust economy usually reduces government spending. Not this time. Astonishingly, America’s federal deficit is projected to double from 2022 to 2023, a surge only surpassed by major crises.

Other oddities are also still with us. Consider the shape of this economic cycle. None of what has unfolded over the last few years has taken the form of a traditional, well-defined business cycle. Economic shutdowns and re-openings were fully coordinated by government, rather than market forces. And because different nations opened at different times and with different velocity, the world economy remains highly de-synchronized. Of the three global locomotives, only the US has been pulling its weight; both Europe and China have been stagnating. Determining “where we are” in the cyclical roadmap has been challenging.

This is new territory. Ever since globalization gathered pace in the early 2000s, world trade and economic cycles had become far more correlated, not less. In many ways, global economic conditions are now similar to those experienced after World War II: lingering distortions with deep labour shortages, chronic government spending and a fragmenting world.

Economic crises are also crucibles for new thinking. The Great Depression led to Keynesian macroeconomic policies. The second world war cemented support for much greater public sector involvement in economic decision making. The inflationary 1970s and the oil shocks propelled free-market ideas to power. And now, the pandemic has again moved government intervention back into the driver’s seat — the activist state is back in a big way.

This shift should not be underestimated. In fact, stand in wonder at the symmetry of it all. The previous neoliberal era of the last 40 years gave us deregulation, free trade, internationalized supply chains, smaller government, independent central banks, and the death of trade unions. The 2020s are set for a full reversal.

Meanwhile, a steady withdrawal from the previous gravitational pull of globalization can be witnessed, with countries continuing to slip out of Washington's orbit. In 1975, the G7 accounted for more than half of global GDP. That figure is now below 30%. Investors do not have to venture into the dark corners of the web to see what is hiding in plain sight: the BRICs nations, with some 42% of the world's population, are swiftly gaining global influence.

Macro Matters

Our world is undergoing deep structural changes. But much of this can lead to higher returns for intrepid global investors. Exiting from the low interest rate decade of the 2010s has been an enormously positive development. Investors no longer need to suffer low rates or even take big risks to generate yield. Whereas the last decade was a great time to be a borrower, it is now a wonderful time to be a lender. Economic growth in international markets, many of which have been left for dead over the last decade, is finally showing life. At the same time, a fracturing world has amplified the power of international diversification: lower correlations, that coveted metric of portfolio construction, are now available.

Overall, the return prospects across many investment classes are much higher than they have been for decades. Of all the big ideas floating around — recession, deglobalization, fragmentation — this seems to have been lost in the conversation. And, while many have spent the last year braced for recession, our investment team has a thesis that may stretch minds: we are entering a new risk-taking cycle based on an entirely different set of macroeconomic conditions and entirely different investment leadership.

How best to proceed in this new era? When uncertainty is this high, we gain more from assessing markets at a more distant horizon. The danger is that it is easy to mistake noise for signal in volatile markets. This is especially true in the age of social media, where attentions can easily be directed to the trivial, while more weighty subjects are often reduced to tiny viral moments. That means investors need to, more than ever, lean into longer-running macro trends and identify the most important patterns in the force of change.

We aim to do just that in the pages that follow. Forstrong's investment team, a collective with several 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 and unravel some of the market's mysteries.

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

Forstrong — stronger together.



TYLER MORDY

Chief Executive Officer and Chief Investment Officer

December 2023



Super Trend 1

The Global Race To Reindustrialize

The 2010s decade was an economic dud. That convinced many investors that slow growth and low inflation were permanent features of the world's topology. Poor demographics and productivity would keep growth sluggish, while globalization and digitization would keep inflation muted. Restrained government spending after 2008's crisis further promoted this view. And capital spending in the private sector was sparse. The investment that did take place mainly went into productivity-dragging distractions — digital games, social media and other consumer internet technology. None of this made a meaningful contribution to overall economic growth.

The pandemic changed everything by paving the way for bold fiscal stimulus around the world — a clear breakaway from austerity and deficit shaming. Both are now dead, and the deflationary impulses that defined the last decade are no longer in place.

Looking ahead, a revival in demand is taking hold simply because the world has underinvested in the productive capacity of the economy for years (what our investment team calls the “revenge of the real economy”). Structural changes in advanced economies mean more resources will go to things that are increasingly viewed as “state responsibilities”: decarbonizing the energy system, building resilience into domestic supply chains and managing the digital transition of our lives and livelihoods. Even turning to the grand canvas of geopolitics, we see that heightened tensions are leading policymakers to spend more on “industrial policy” (a term revived from the post-World War II period where countries sought ways to rebuild their economies and promote domestic development).

A global race to reindustrialize — driven by decarbonization, reglobalization and remilitarization — is now firmly underway. Public and private money is flooding into capital projects of all kinds, creating an investment boom in all corners of the world. Everywhere you look companies, facing higher interest rates and labour costs, are spending money to lift productivity — in ways that extend far beyond betting the farm on AI and ChatGPT.



This is not just a Western trend. Across the developing world, a capex boom is unfolding in energy and transport projects as the world fillets itself into continental and mega-regional hubs. Countries across Asia, Latin America, Africa and the Middle East are embracing new infrastructure spending

plans, while disposable incomes rise and populations grow. All of this is reversing the secular stagnation trend of the last decade and powering an environment of structurally higher growth and inflation.

Path to Reindustrialize - A CAPEX Boom

Trailing 12m CAPEX of "Real Economy"* (3mma)



*Real Economy: MSCI ACWI Materials Index and MSCI ACWI Industrials Index are used as proxies
Sources: Macrobond, MSCI, Forstrong Global Asset Management

Investment Implications

Many investors are still using the 2010s playbook, expecting a return to an era of slow growth and subdued inflation. This is a classic behavioural case of anchoring to past conditions — and extrapolating them well into the future. Yet the world has already moved on. Over time, asset classes that do well will reflect the underlying macroeconomic dynamics. Investors are now at a crossroads. With America's technology giants continuing to dazzle, one path is to assume that the investment leadership of the last decade continues. But history provides no support for that view. Winners of the last decade rarely go on to dominate the next one simply because everyone is already all-in on the trade — high valuations and high expectations naturally lead to lower returns.

Investors should instead stay oriented toward an environment of “higher for longer” interest rates and resilient growth amid reindustrialization and higher fiscal spending. In the same way that the consensus consistently overestimated growth in the 2010s, the opposite will now occur: investors will, as they have so far this decade, consistently underestimate it. Positive economic surprises will lead to flows into equities (from cash and bonds) and rotation within equities (from defensive and tech sectors to cyclical and international stock markets). Many investment classes that struggled with chronically weak demand and dismal pricing power in the era of low inflation, are primed for a long period of outperformance. A new bull market is unfolding — just not the one most investors expect.



Super Trend 2

Fiscal Bailouts: The New Policy Put

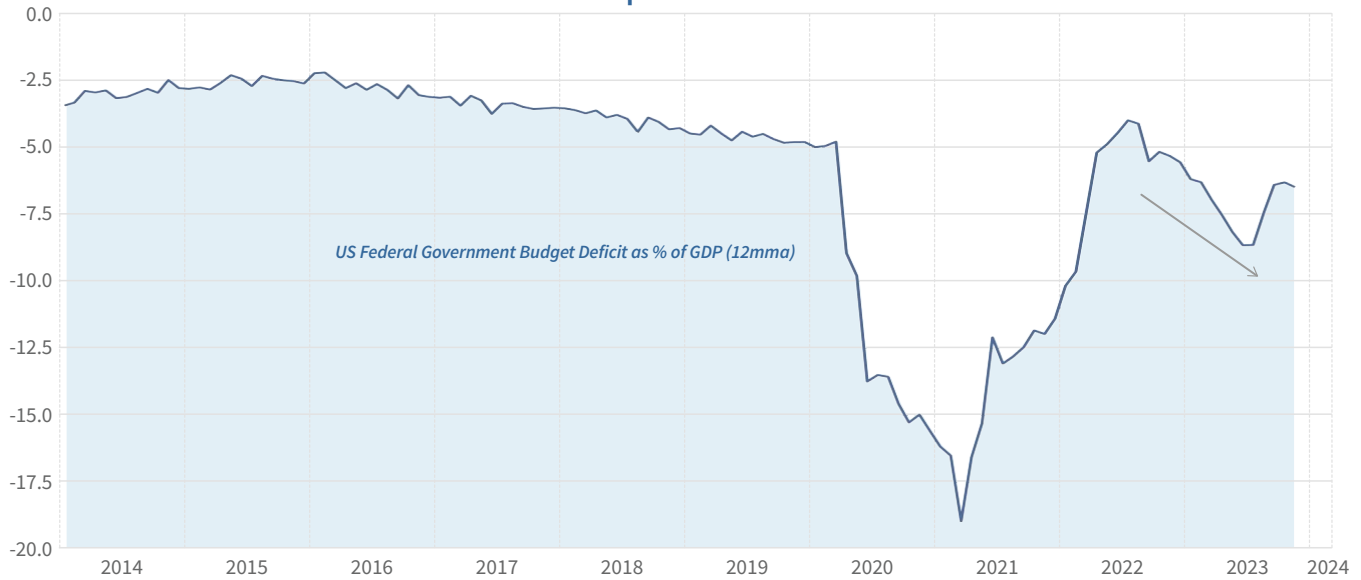
During 2023's Silicon Valley Bank implosion, the US Treasury ordering the FDIC to make good on all banking deposits was a clear signal that the government rescue reflex is not only alive but gaining strength. After a decade of regulatory reform designed to reduce systemic risks, this time was meant to be different. Alas, not. With every new crisis, the solution seems to be the same: another government backstop. If anything, the pandemic, given the size and scale of the stimulus, simply normalized these policies.

What has changed, however, is that fiscal — rather than monetary policy — is the new bailout mechanism. For the last four decades, policymakers have largely focused on demand management through central bank activity: interest rate changes, quantitative easing and

the like. Now, government activism is focused squarely on the supply side. In fact, most fiscal policymakers now clearly view their role as one with responsibility for shaping the economic structure and direction of growth. Apparently, any problem can be solved with a fiscal solution. Pandemic? Support household incomes. Geopolitical tensions? Engage industrial policy. Inflation? Assist consumers with the cost-of-living crisis (note Biden's cunningly branded "Inflation Reduction Act"). The list goes on.

Any future crises will put governments under even greater pressure to inject more money into their economies. Nowhere is this more evident than the EU, where fiscal rules have become increasingly flexible through the pandemic and Ukraine war.

Fiscal Expansion Unveiled



Investment Implications

Where does all this leave investors? Ultimately, it removes deflationary tail risks and skews the range of potential outcomes over our Super Trend horizon (3 – 5 years) towards higher inflation and higher asset prices. Any downturn will be mild and short-lived, given robust fiscal policy. A key reason why the recession call has been wrong in 2023 is an under-appreciation for persistent government deficits. Most investors are still assuming a fast-moving downturn like 2008 or 2020. But the current environment is far more like the 1950s and 1960s, where labour shortages and an investment boom prolonged the cycle. The main takeaway is that the cycle simply took longer to unfold.

Of course, capitalism is not supposed to work this way. Over time, bailouts lower productivity, economic growth and living standards as the big beneficiaries are large, established companies, which crowd out creative destruction and diminish business dynamism.

Theoretically, the potential cost of supply side dominance is inefficiency: as governments become more involved in managing the economy, they have more opportunities to choose bad policies.

These risks are, however, conceptual. For now, governments remain stimulative and nominal global growth is trending higher. A nuance that should not be overlooked, however, is that fiscal policies remained far more orthodox in emerging markets relative to the developed ones (unsurprisingly, and in a departure from history, inflation has generally been more tame in EM over the last few years). America has been the most interventionist by far. But this shouldn't be surprising after a decade where the US had among the lowest cost of capital, the largest stock market boom and raging animal spirits — which led to the largest financial excess and leverage. These excesses are now surfacing and regulators are acting.



Super Trend 3

Long And Variable Losses

The last few years have seen a bull market in recession predictions and a booming trade in the wider apocalypse forecasting genre. Engage in any of this and Milton Friedman's famous pronouncement that the effects of monetary policy are subject to "long and variable lags" will worm its way into the conversation. And the logic seems sound. Higher interest rates take time to impact the economy.

If only it were that simple. Many are now looking back wistfully on the 2010s as a kind of economic Eden built on an abundance of cheap capital and easy funding rounds for the tech sector. That symmetry is seductive: if low rates boosted asset prices, then naturally, higher interest rates should depress valuations. It's a nice narrative, but there isn't much evidence to support it. Yes, the initial impact of low rates is always a crowd-pleasing elixir. But the longer-term impact of low rates, particularly if they remain low for long periods of time, always leads to lower growth. Why? For one, low rates hinder the process of creative destruction. They also lower the incomes of retirees and savers, who are then forced to suffer from negative real returns on their fixed income instruments (what Keynes colourfully called the "euthanasia of the rentier"). The net result is widening wealth skews and a shrinking middle class — trends that impede inclusive and broad-based economic growth.

Most importantly, low rates discourage saving and investment. But capital accumulation is crucial for lifting productivity and longer-term growth. Consider that the 2010s were the decade of massive stock buybacks. That makes sense. Why would companies, even those flush with cash, engage in real business investment when growth is uncertain, and capital near-free? As it was, a capital spending cycle, with the resulting rising wages and higher growth, never took hold over the last decade. Instead, the recovery from the 2008 financial crisis was the most anemic since World War II.

Looking ahead, the move away from the zero-interest rate era and the normalization of monetary policy should be seen as a positive development.

Looking back, the low interest rate 2010s were merely a reflection of slow growth and low inflation. Deleveraging in America and the Eurozone was the main event. Many forget that the global economy limped through that decade, with only a narrowly concentrated set of asset classes doing well.

Of course, a higher cost of capital will still create damage. The key is to identify genuine monetary shocks and trace their effects through the real economy. Using this framework, higher rates are indeed hammering certain asset classes where the most leverage and credit excess took place. Long and variable losses are happening. Cryptocurrencies and profitless tech, fueled by near-free money, have already collapsed as hot money fled the sector in 2022 (don't be fooled by bear market rallies in 2023). Commercial real estate is in recession. Canadian housing, along with other developed markets that did not deleverage in the 2010s (the UK, Sweden, Australia, etc.), are — look away homeowners — facing falling prices. And the massive wave of capital that flowed into private markets, previously unburdened by pesky things like transparency, are now facing a painful price discovery process (read: much lower).

But these are all relatively limited pockets of global markets. Commercial real estate is a wealth shock, but the impact on consumption will be limited as owners are skewed toward institutions, pension funds, etc. Housing in weak-link economies will likely produce recessions but these countries collectively account for only about one-tenth of global GDP. Healthy wage gains will also help offset the downside here. Finally, the fallout from private markets will have limited contagion on the broader banking sector as regulatory reform after 2008 forced them away from speculative lending.

Looking ahead, the move away from the zero-interest rate era and the normalization of monetary policy

should be seen as a positive development. This also comes at a time when the world is far less interest rate sensitive than it has been in decades. America and the Eurozone have far healthier household balance sheets. In Asia, even though China's blistering GDP growth rates are over, pessimism toward the country

is overdone. Incoming economic data in recent months is now starting to consistently surprise on the upside. Collectively, China, America and the Eurozone account for some 80% of global GDP. Deep global downturns are unlikely, particularly if rate hiking cycles are now over.

Investment Implications

Monetary action isn't always the main event for investors. The Fed cut rates by 500 basis points in 2007 – 08 and stocks promptly plummeted by nearly 50%. Then, the Fed raised rates 9 times from 2015 to 2019 and shrunk its balance sheet. The S&P 500 more than doubled over that period. Trends in risk appetite and changing macro dynamics often trump interest rate changes.

The real danger today lies in investor complacency — refusing to change portfolio strategy to align with the new macro fundamentals. During the 2010s, markets were busy pricing in a low interest rate backdrop. That meant technology, growth stocks and all things America steadily outperformed. The reverse will happen in the 2020s. Higher interest rates coupled with a more abundant growth backdrop have changed the calculus.

Investors need to think differently here. A simple framework should guide investors through this new terrain: minimize investment classes that were reliant on low rates (i.e. nearly everything that did well in the 2010s) and aggressively accumulate productive assets in the real economy with pricing power, and high and rising yields. We are getting back to a world where near-term earnings and cash regularly paid to shareholders matter. When investors can buy a variety of international stocks on single-digit earnings multiples with high dividend yields, speculative stocks start to lose their edge.

Winners in this environment will generally be the value sector, international stocks and currencies in countries that refused to monetize the Covid crisis. These assets all have the following in common: deeply depressed valuations, astonishingly high real yields and zero dependence on low interest rates.



Super Trend 4

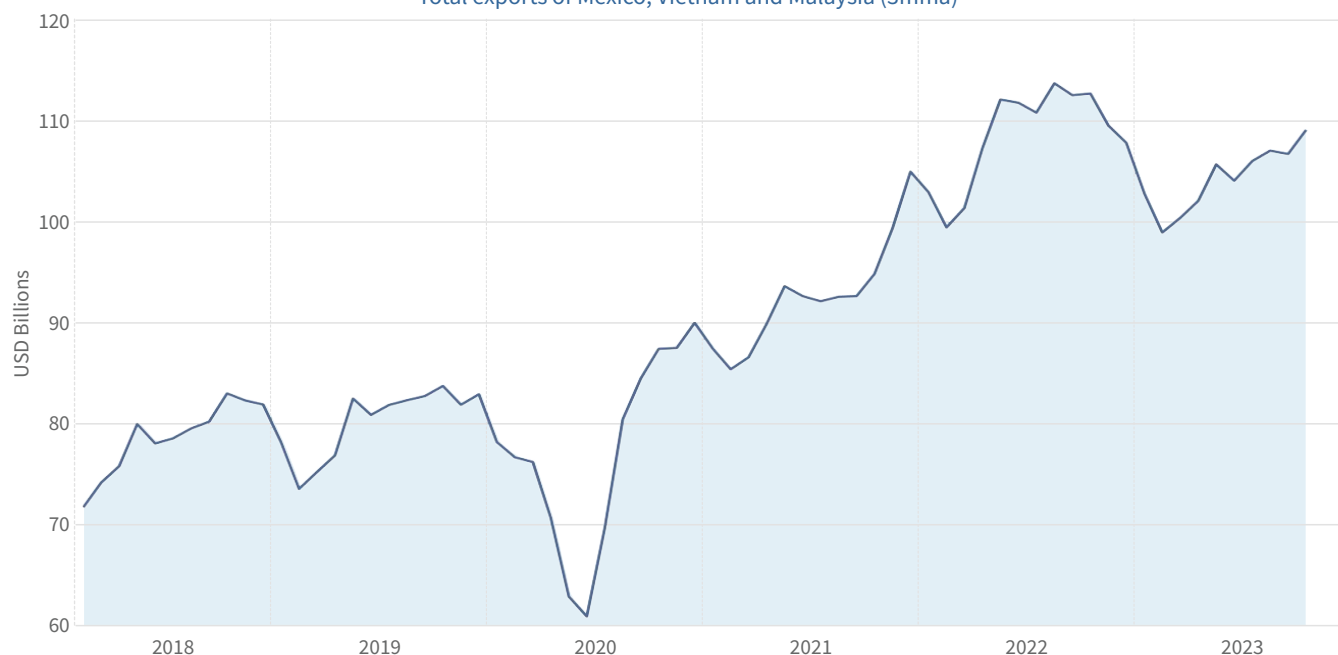
Supply Chain Diversion: Bring In The Middlemen

If you believe America is decoupling from China, take a look at Mexico's trade balance. Exports to the US are up massively, reflecting a big rise in imports from China. Translation? China is just sending its goods to the US on more circuitous routes. Middlemen are being added everywhere. This has been central to our thesis that de-globalization is actually just de-Sinification — and a broader re-industrialization of the world (see Super Trend 1).

Most Western nations continue to struggle with a series of self-inflicted wounds: high sovereign debt levels, fragmentation into squabbling trade zones and, most notably, over-stimulating during the pandemic (and entirely missing the inflationary impulse afterward). Meanwhile, emerging markets are leaning boldly into a new world order. In fact, deep cooperation is happening across many of these nations. Multi-lateral trade agreements are being swiftly signed.

Middlemen Exports are Rising

Total exports of Mexico, Vietnam and Malaysia (3mma)



Sources: Macrobond, National Sources, Forstrong Global Asset Management

Settlement of bilateral trade in national currencies other than the US dollar is rapidly increasing. And, supply-chain diversion is powering a manufacturing revival and investment boom outside of China.

Most Western nations continue to struggle with a series of self-inflicted wounds... Meanwhile, emerging markets are leaning boldly into a new world order.

Few saw this resilience in EM coming. Most expected EM economies to be especially vulnerable to rising rates, based on the view that rate increases caused serial crises in the 1980s and 1990s. But this perspective extravagantly misses the big picture. EM economies entered the pandemic with repaired banking systems and heightened financial discipline after a decade-plus of deleveraging. During the pandemic, they borrowed

less heavily for stimulus spending, and saw deficits rise on average by half as much as the US. In fact, excluding China, total EM government debt to GDP figures have fallen over the last year with improving fiscal deficits and higher nominal growth. External debt, often called the original sin in EM, has also declined dramatically. Only 15% of EM government debt is now funded from foreign sources.

What's more, the global push to build a greener economy is increasing demand for raw materials, benefitting commodity-exporting countries like Brazil, Chile and South Africa. Countries where wages are low, and populations are young and relatively skilled — such as Vietnam, Indonesia, and Mexico — are benefitting enormously from supply-chain diversification. Even the Gulf states, lured by Asia and eager to diversify their economies away from fossil fuels and restore national images (apparently soccer stars are the new safe haven asset for sovereign wealth funds), are witnessing a boom in cross-border trade and current account surpluses.

Investment Implications

It should not be difficult to see what is happening here. Increased infrastructure investment and trade is integrating more of the world's developing economies into the global economy at an accelerated pace. So much for deglobalization. Excluding China, these countries comprise more than 3 billion people, where demographics are favourable, incomes are growing, and constructive dialogues are leading to a surge in cross-border commerce and economic partnership. To ignore this new reality is now an exceptionally risky position for long-term investors. Despite better growth, lower debt and lower inflation, many EM stock markets are still trading at crisis-level valuations.

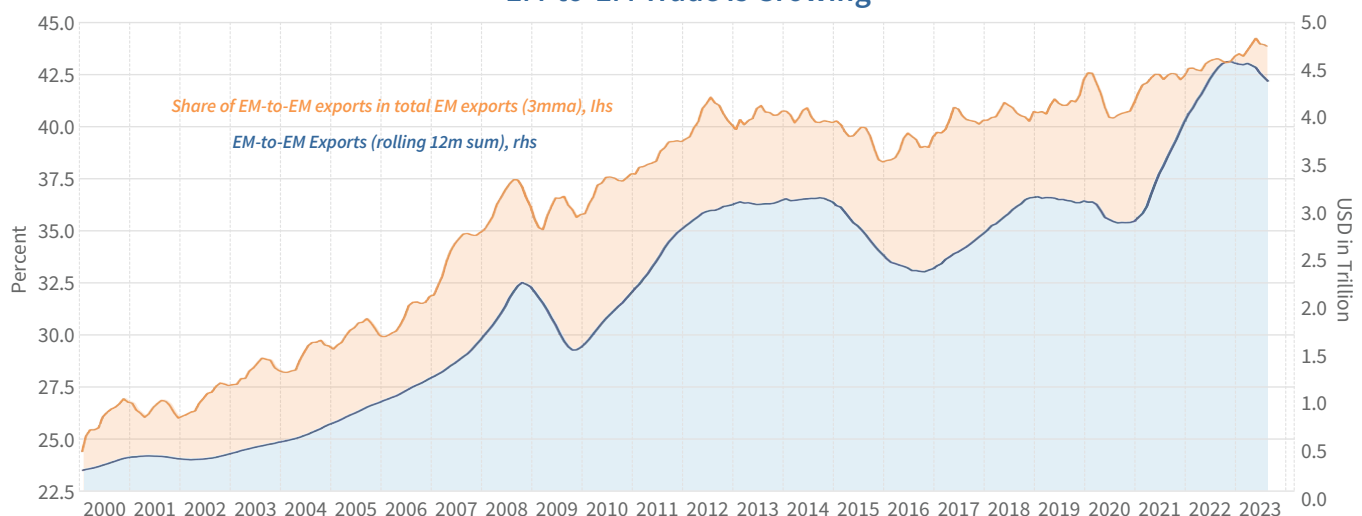
Starting points also matter in macroeconomics. Stronger sovereign, corporate and household balance sheets have lowered external vulnerabilities. But also, after a long period of foreign disinterest in EM, local currency valuations are trading near the crisis-lows of the early 2000s. Cheap currencies are the cheat code for national

economies. In fact, low currency valuations have always been wonderful starting points for EM outperformance in the past. Heightened competitiveness boosts exports. Capital then follows higher growth. And so, a virtuous cycle begins.

Layered on top of all this, is an unfolding policy easing cycle. The absence of fiscal excesses and more proactivity toward combating inflation has kept prices more contained in EM compared to the developed world. In fact, for the first time, inflation levels in major EM economies are lower than major developed economies. Now, having lots of levers to pull—in the form of lower interest rates or higher fiscal spending—provides a huge comparative advantage.

All of this leaves plenty of room for re-rating. Given the potential returns, investors need to have a strategic allocation to this part of the world brimming with opportunity.

EM-to-EM Trade is Growing



Sources: Macrobond, IMF, Forstrong Global Asset Management



Super Trend 5

The US Dollar's Weapons Of Mass Depreciation

At the G10 Rome meetings in 1971, John Connally, President Nixon's Treasury Secretary, shocked the world when he bluntly told a room of European finance ministers that "the dollar is our currency, but it is your problem". That was more than 50 years ago. Today, geopolitics are changing the game: capital is no longer flowing to the US the way it once was. Consider what has unfolded over the last few years. The Ukraine war buoyed energy prices, meaning commodity exporters were swimming in money. During previous booms, the proceeds were always recycled into America's capital markets. That is not occurring this time. Why? Primarily because the US has increasingly turned to financial sanctions as a weapon. Instead, money is heading back into domestic currencies and even into gold (with foreign central banks buying more tons now than at any time since the data began in 1950).

Currency markets, like all markets, are arenas of action and reaction. Weaponizing your currency with sanctions and using dollars as an alternative to military force when policing international order — rightly or wrongly — has consequence. In fact, sanctions have now turned against US dollar strength, becoming weapons of the currency's own mass depreciation. Looking ahead, the dollar-centric financial system that has been in place since the 1950s is now clearly moving toward a more multi-polar currency system. A mere glance of the facts shows evidence of the shift: the de-dollarization of assets, new bank-to-bank payment mechanisms and, of course, settlement of bilateral trade in national currencies other than the USD. Countries that formerly grumbled about America's financial might, and did nothing, are finally pushing back. The new refrain from foreigners may be re-phrased as "your currency, your problem."

Investment Implications

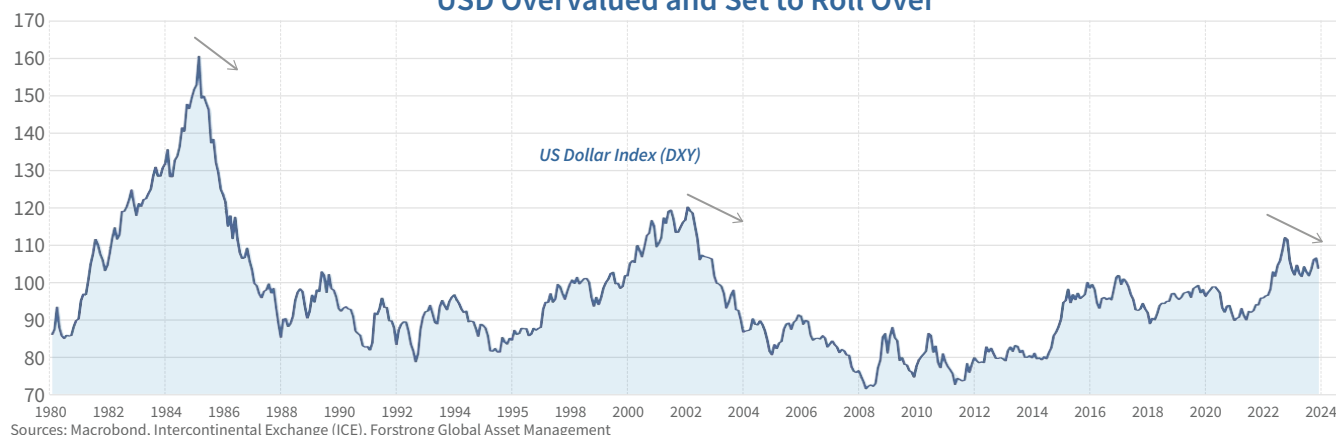
It was natural that America and its currency held the world rapt when that world was unipolar. The 2008 global financial crisis, which originated in the United States, paradoxically strengthened its status as a safe haven. When global trade, saving, borrowing and reserves are largely in one currency, these strengths are mutually reinforcing. What's more, lingering risk aversion from 2008's crisis and the perception that economies were fragile, caused capital to stay close to shore. That meant America, with its senior economy and deep and liquid capital markets, was the prime beneficiary (name your applicable metaphor: cleanest shirt in the dirty pile, safest house in a bad neighbourhood, etc.). The technology sector was also the crown jewel of global asset markets during the 2010s and Silicon Valley was its epicenter. Then, throw in some favours from providence — the shale gas revolution, Europe's austerity drive, China's long lockdown — and capital practically ran into the US dollar's embrace. Everyone swiped right on America for years.

But the world is moving on from US dollar dominance. What is now clear is that we are living through, if not the end of the US dollar as the world's reserve currency (a topic with duration measured in decades), then a brutal exposure of its cyclical limits. Much must go right for it to strengthen from here: the US dollar index is now over-valued at comparable levels with

past secular peaks in 1985 and 2002. This is happening at a time when doubt is growing whether the US really is the world's safest house. It was America, not emerging markets and certainly not the Eurozone, where animal spirits were unleashed most ferally and where excess and leverage were the most extreme. Forget the US government's record pandemic stimulus and soaring budget deficits, most of the scandals and business failures are now appearing in the US. First it was trouble in crypto-land with the collapse of FTX. Then it was regional bank failures. Next will be trouble in private markets, especially in venture capital and growth equity.

Ultimately, currencies are driven by stories. Good stories attract capital and drive up the national currency. As global growth broadens out, the long-ignored international markets will start to get bid. As capital moves in, a self-reinforcing cycle will unfold as stronger currencies attract more capital and further drive up local markets. This is already happening: At the time of writing, the trade-weighted US dollar is down more than 3% from its peak in late-September. Canadian investors should generally hedge US dollar asset exposures, remain unhedged versus select international currencies and overweight select commodities (which are priced in US dollars and benefit from currency weakness). Strong currencies are some of the best tailwinds to total returns.

USD Overvalued and Set to Roll Over





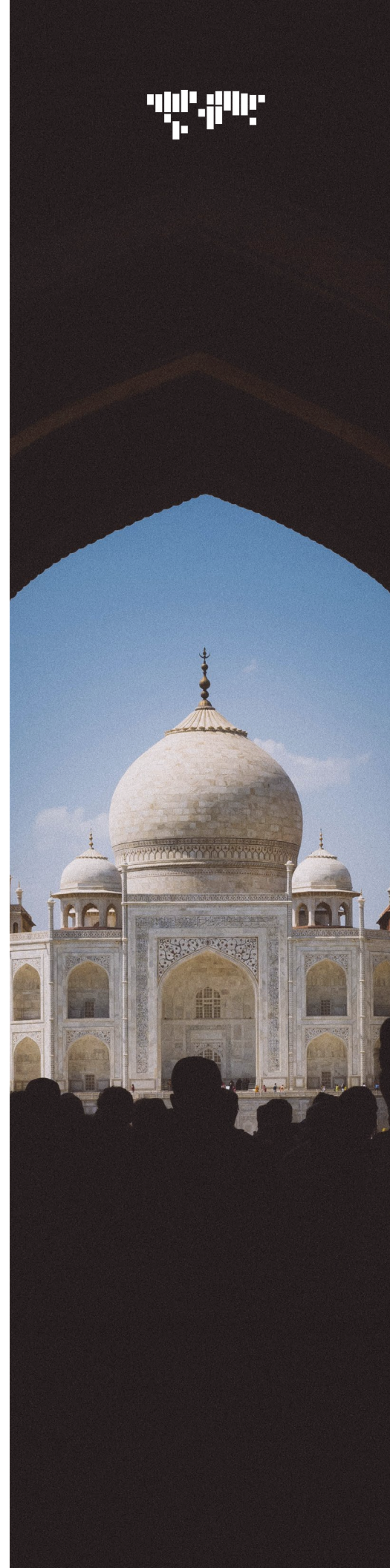
Super Trend 6

India Awakes

Gloomy sentiment toward emerging markets miss where they stand in their reform cycle. The crises of the late 1990s forced many EM countries to fix their finances, setting the stage for booms in the 2000s. The excesses of the 2000s then led to a lacklustre 2010s. Now, forced again to reform by the pandemic, they are set up for another solid run.

The last EM boom was driven by China's rapid industrialization phase. But China is now a more mature economy settling into a growth corridor of 3 – 4%. This is a slower, more constrained China but not a peaking China. Yet growth in many other emerging markets is booming, extending far beyond China with far deeper participation. Importantly, India now stands out as the world's fastest-growing major economy, with favorable demographics (more than half the population is aged under 25) and geopolitical tailwinds (one that, on the surface, shares the West's democratic values). The country is increasingly viewed as an alternative Asian partner to China.

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The single most important factor for India is the upswing in its capital expenditure cycle. Long deficient in critical infrastructure, the investment share of GDP has recently reached 35%, a record high, and among the highest in the world (for comparison, China reached 45% during its blistering industrialization phase). A large share of this investment is being funneled into upgrading India's

shoddy infrastructure — a key reason India has struggled to develop a competitive manufacturing sector. Prime Minister Narendra Modi's government, under its "Speed And Power" masterplan, aims to build 80,000 km of four-lane highways and 8,000 km of new rail-freight lines, budgeting USD 1.4 trillion for connecting different modes of transport.

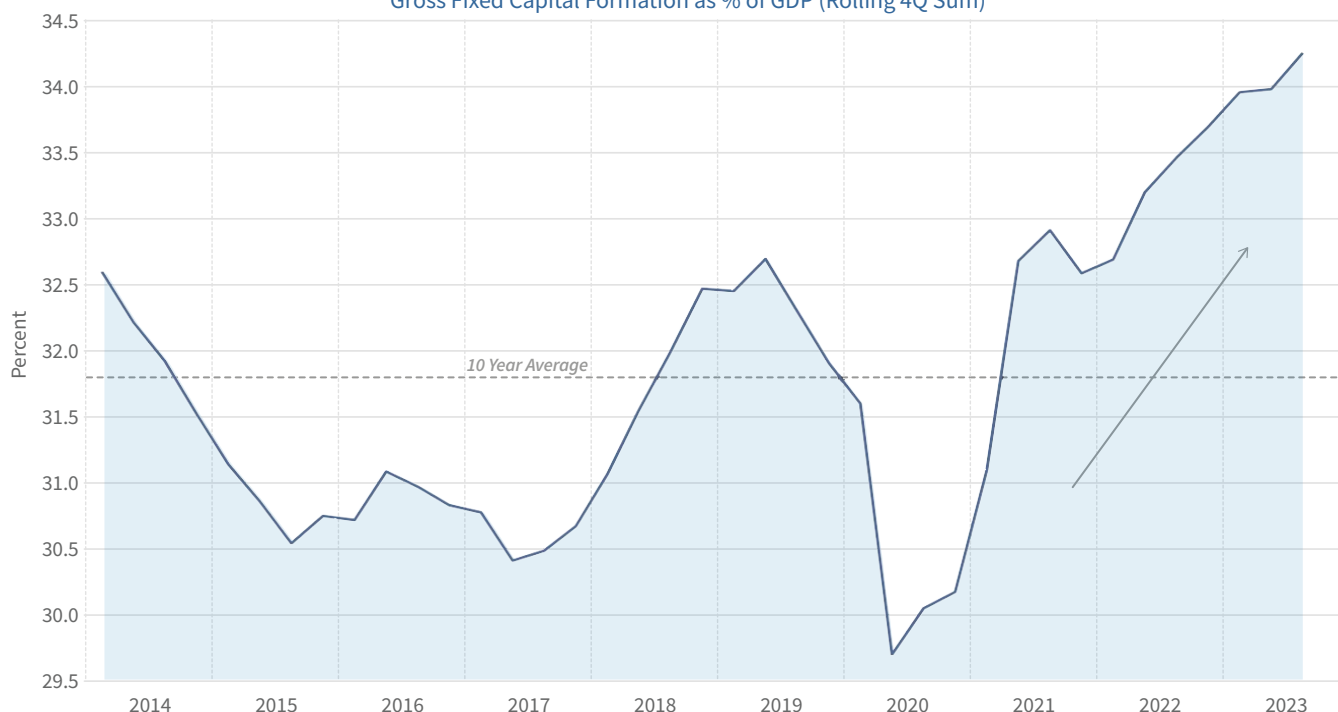
Investment Implications

The above developments for India's long-term growth outlook should not be underestimated. Increasing infrastructure development will ease India's transportation bottlenecks, and improving capital stock through investment spending is critical in lifting the country's productivity and corporate profitability. This is a similar roadmap that propelled

China's growth over the past several decades. Indian asset prices now have the dual tailwind of a growing domestic investor base (as millions of Indians seek to invest their savings for the first time) and renewed Western interest (looking to diversify away from China and attracted by the diversification opportunities).

India's CAPEX Cycle Kicks Off

Gross Fixed Capital Formation as % of GDP (Rolling 4Q Sum)



Sources: Macrobond, Indian Ministry of Statistics and Programme Implementation, Forstrong Global Asset Management



Super Trend 7

Carbon Transition: It's Complicated

A single piece of Lego has become highly symbolic for the world's energy transition. Two years ago, planet earth's largest toymaker excitedly announced that it was working on a prototype brick made of recycled plastic bottles rather than traditional oil-based ABS used in about 80 per cent of the billions of pieces it makes each year. Yet in September of this year, the Danish company's CEO sheepishly admitted they were not moving ahead with the new material. Using it would have led to higher carbon emissions over the product's lifetime as it would have required new equipment. The company will now instead attempt to improve the carbon footprint of ABS by gradually incorporating more bio-based and recycled material.

Lego's strategy shift is a sign of the complex trade-offs companies face in their search for sustainability. Targets such as eliminating the use of fossil fuels and reducing carbon emissions can come into conflict. Policymakers are also becoming more divided. The COP28 talks in Dubai have highlighted deep international divisions over the future role of fossil fuels. While more than 80 countries claim to be committed to net-zero carbon targets, no clear consensus could be found by the nearly 200 countries involved.

Elsewhere, the steepest borrowing costs in decades are pummeling capital-intensive renewables projects, with key financial players retreating from clean-energy initiatives. Unsurprisingly, the S&P Clean Energy Index is down double digits for 2023 as we write, against a double-digit gain in the S&P 500. Conversely, some banks are now refusing to finance new oil and gas fields or related infrastructure, undoubtedly aware that the first ever industry standard for calculating the carbon footprint of their capital markets units is here (led by the Partnership for Carbon Accounting Financials).

While more than 80 countries claim to be committed to net-zero carbon targets, no clear consensus could be found by the nearly 200 countries involved.

Of course, the carbon transition was always destined to be complicated. The world's energy system remains dominated by fossil fuels. Renewable energy systems will take decades to build up. Still, it is possible that renewables gain some traction. Solar energy provides the best evidence, which became nearly 90% cheaper over the last decade.

Should other green technologies follow the same pattern or provide innovative breakthroughs, higher growth and productivity will follow. India is a case in point, where the low cost of solar energy has allowed the country to meet a key target of its net-zero program a decade early.

Investment Implications

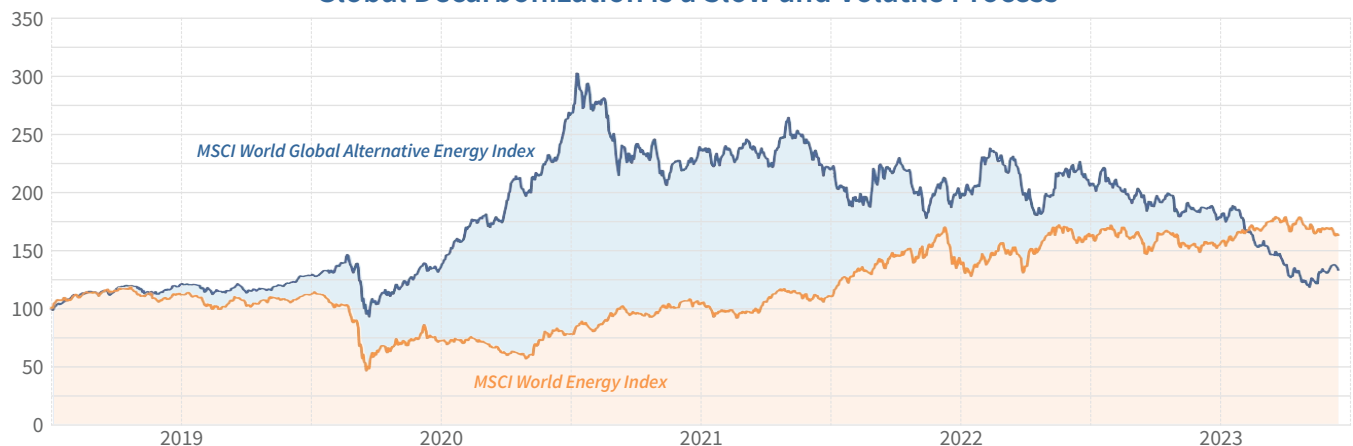
However clunky the transition is, decarbonization will be enormously capital intensive. This will be comparable to the post-WWII reconstruction boom, as infrastructure, transportation networks and technologies require vast amounts of fixed capital investment and demand for industrial commodities like copper.

Yet decarbonization trends will be measured not just over years, but over decades. Given the size and scale of this Super Trend, investors will need to stay focused on actionable investment allocations. In the period directly ahead, traditional energy companies will remain income plays as companies hand cash back to shareholders rather than pursuing aggressive capital expenditures.

These companies themselves are also strategically buying renewable assets, diversifying their asset mix from fossil fuels into renewables.

Moreover, so-called transition fuels like natural gas, with lower carbon intensity compared to oil or coal, are poised to gain market share. Global sentiment toward nuclear power has been improving as the broader global community reassess their stance on nuclear energy and public perception evolves as they become more informed about modern nuclear technologies and safety measures. Increasingly, these energy sources will be considered intermediate steps in the journey towards to a carbon-neutral energy system.

Global Decarbonization is a Slow and Volatile Process



Indices rebased to Jan 1st, 2019
Sources: Macrobond, MSCI, Forstrong Global Asset Management



About Our Investment Team:

Diverse By Design

High-performing teams don't just happen. Rather, they require recruiting the right people, deliberate planning and hardwiring a repeatable investment process that can deliver results throughout different investment regimes.

We are now in the third decade where Forstrong's investment professionals gather regularly to identify the most important market trends and set longer-term portfolio strategy for clients. Today, the philosophical cornerstone of our investment process — globally-diverse perspectives produces better outcomes — is stronger than ever.

This approach has become increasingly relevant in today's investing climate. Consider the setting of each financial crisis over the last few decades. In 2008, the US went through a housing and sub-prime mortgage meltdown. In 2011, a few countries in southern Europe could not pay their debts. In 2013, China's rapid industrialization era came to an end. And, then recently, we had a pandemic. The government response amounted to the largest bailout in financial history.

What do these episodes have in common? Each of them was a localized crisis that went global. Because the world is more connected, national issues no longer remain inside national borders. A trend somewhere is now a trend everywhere. This is, of course, globalization. The ever faster and ever cheaper movement of people, information, and capital. More interconnectivity. Higher correlations. And, digitally-charged.

All of this has taken many by surprise. Yet many are now realizing that more resilience needs to be built into portfolios. That's why Forstrong's investment team is diverse by design. Our colleagues come from a wide background in age, experience, education, and culture. Each of these factors influence the way individuals see the world. It should not be surprising, then, that research repeatedly shows that international teams with multiple perspectives perform better. They are more likely to solve problems from multiple angles, becoming less entrenched in groupthink, leading to more thoroughly vetted decisions and more accurate thinking. Ultimately, results improve. Clients can count on us that a commitment to diversity will continue.

Go further with Forstrong ETFs

Forstrong has developed a suite of actively managed and internationally-focused exchange-traded funds (ETFs) to provide Canadian investors with greater access to the higher income and growth opportunities available outside of North America. We believe active management will be crucial to capture the pockets of opportunities within countries, sectors and themes. These funds have been designed from Forstrong's distinct macro views, inclusive of the above Super Trends, and will invest using the same strategies that have been used by the firm's institutional and high net-worth clients to help them better manage risk and returns.



Global Ex-North America Equity ETF (TSX: FINE)

A top-down, currency managed equity strategy that is designed to complement traditional bottom-up North America focused portfolios.



Emerging Markets Equity ETF (TSX: FEME)

A targeted approach to identifying developing countries with the best combination of demographics, policy, earnings trends and political stability.



Global Income ETF (TSX: FINC)

Designed for investors seeking to grow their capital with an emphasis on receiving income providing better diversification characteristics than portfolios that are focused exclusively on North America.



Global Growth ETF (TSX: FGRW)

Designed for investors seeking to aggressively grow their capital while receiving modest income by providing them access to the highest growing regions of the world.

Commissions, management fees, expenses, and applicable sales taxes all may be associated with an investment in exchange traded products managed by Forstrong Global Asset Management Inc. ("Forstrong") (the "Forstrong ETFs"). The Forstrong ETFs are not guaranteed, their values change frequently, and past performance may not be repeated. **Risks are described in the prospectus. The prospectus contains important detailed information about the Forstrong ETFs. Please read the prospectus before investing or making an investment decision.**

About Forstrong Global Asset Management Inc.

Founded in 2001, Forstrong is a trusted global macro investment manager with specialized international expertise. Their active macro investment process is used by the firm's clients to meet the challenges of today's new economic and geopolitical realities. Forstrong is an independently owned firm with offices in Toronto, Montreal, Calgary, and Kelowna.



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